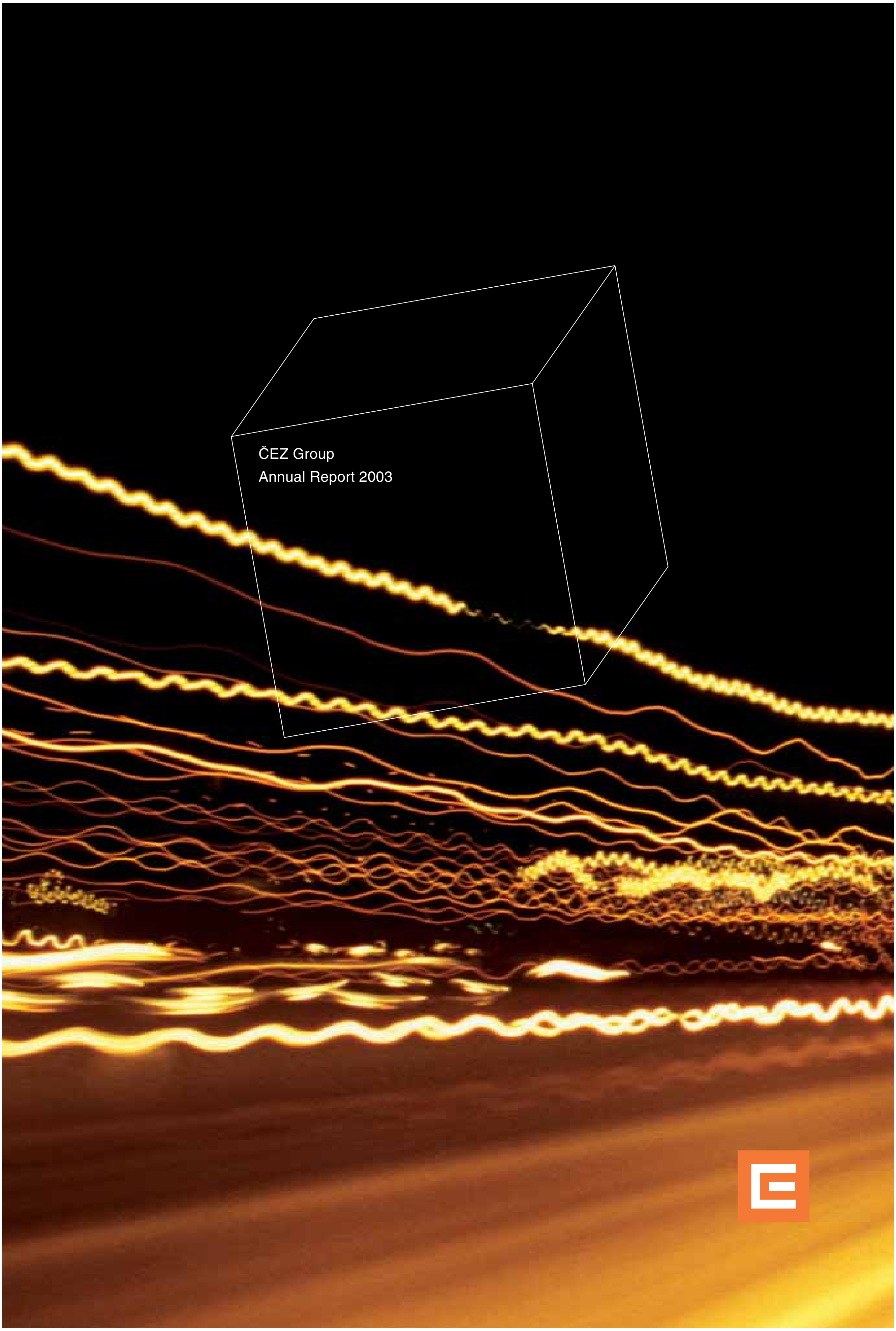
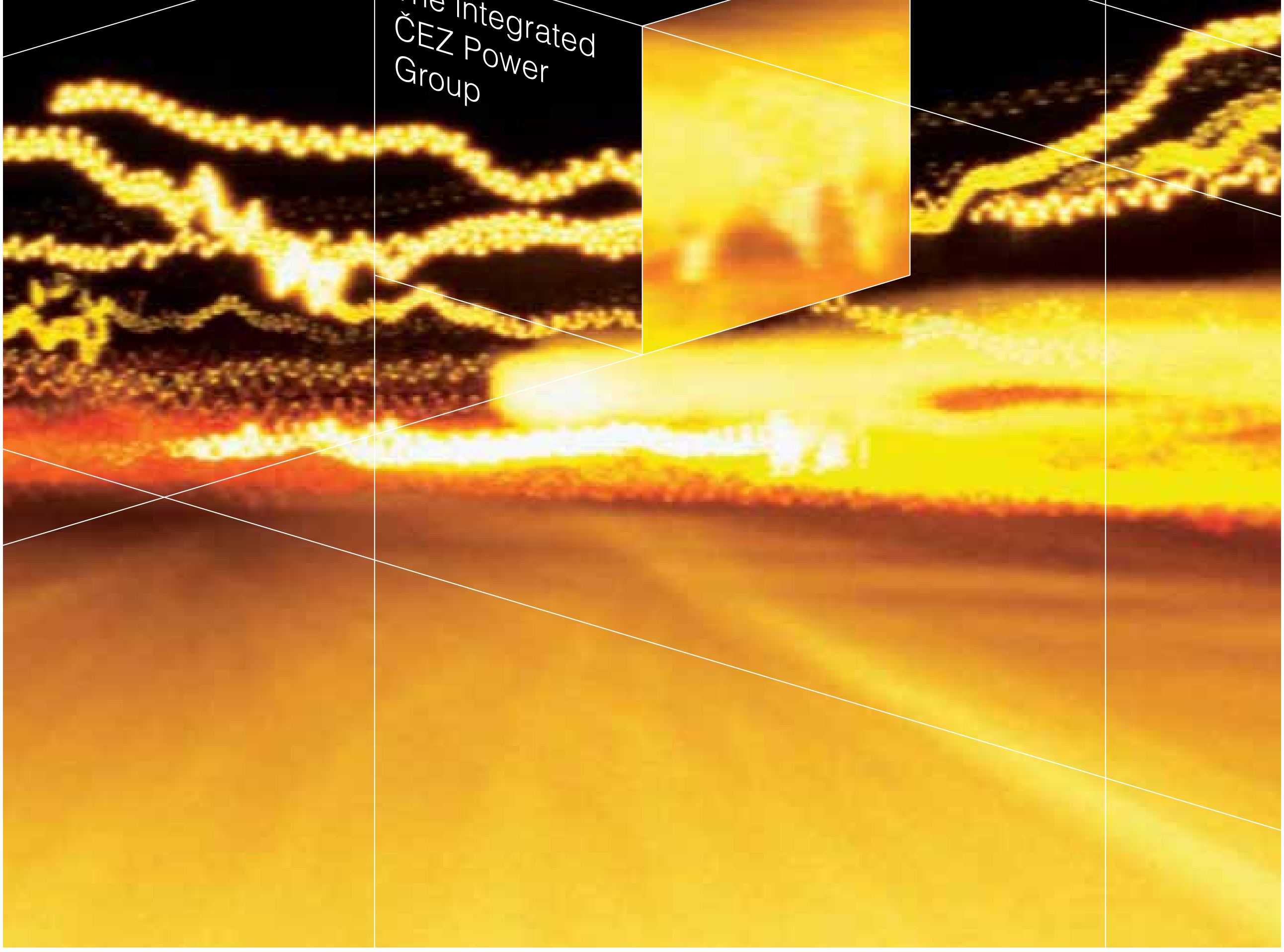

ČEZ Group
Annual Report 2003

ČEZ Group: on the way to becoming a leader in Central Europe.

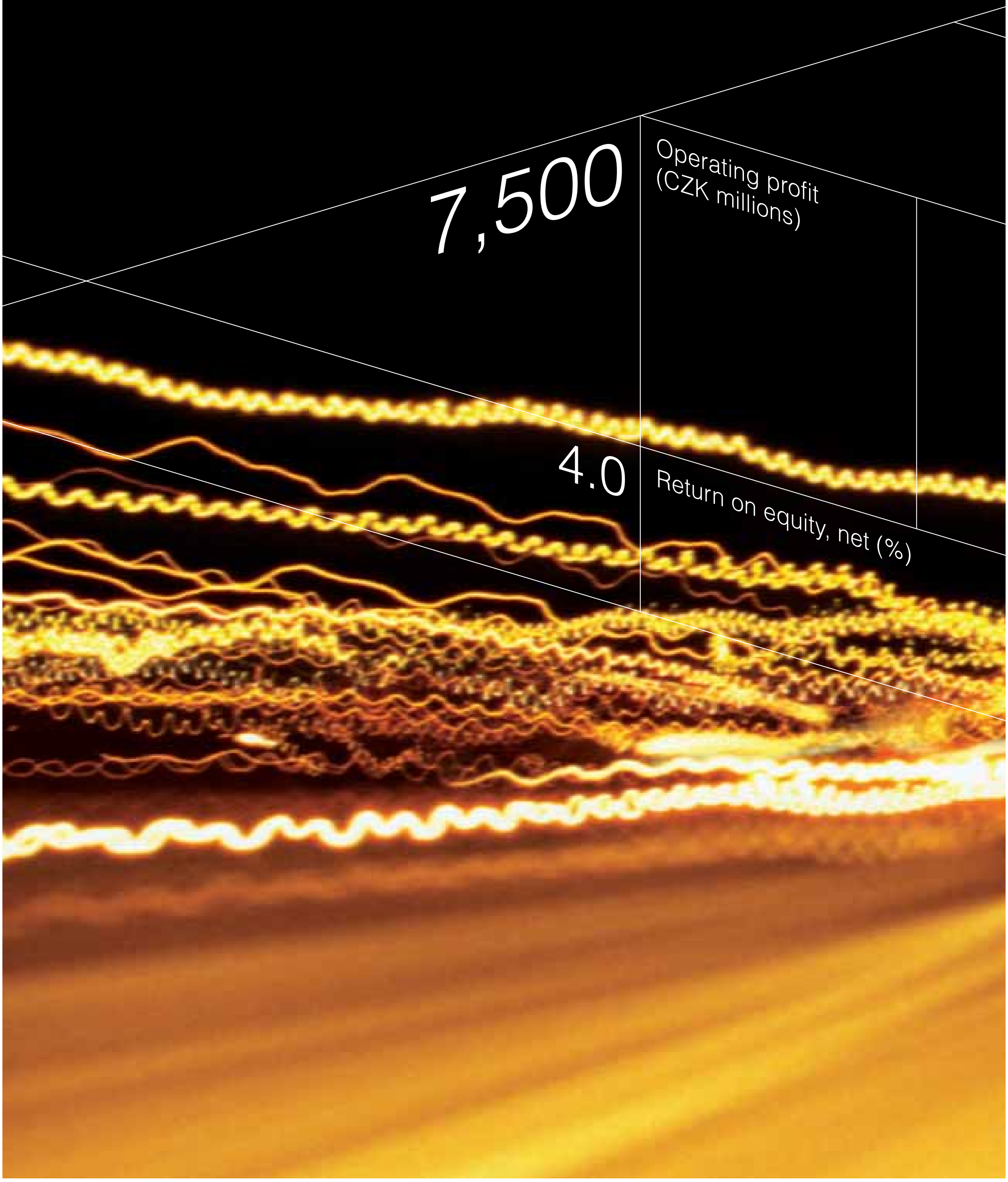
Stronger by uniting

The integrated ČEZ Power Group



The new ČEZ Group logo is a symbol of quality, reliability, environmental stewardship, and prosperity.

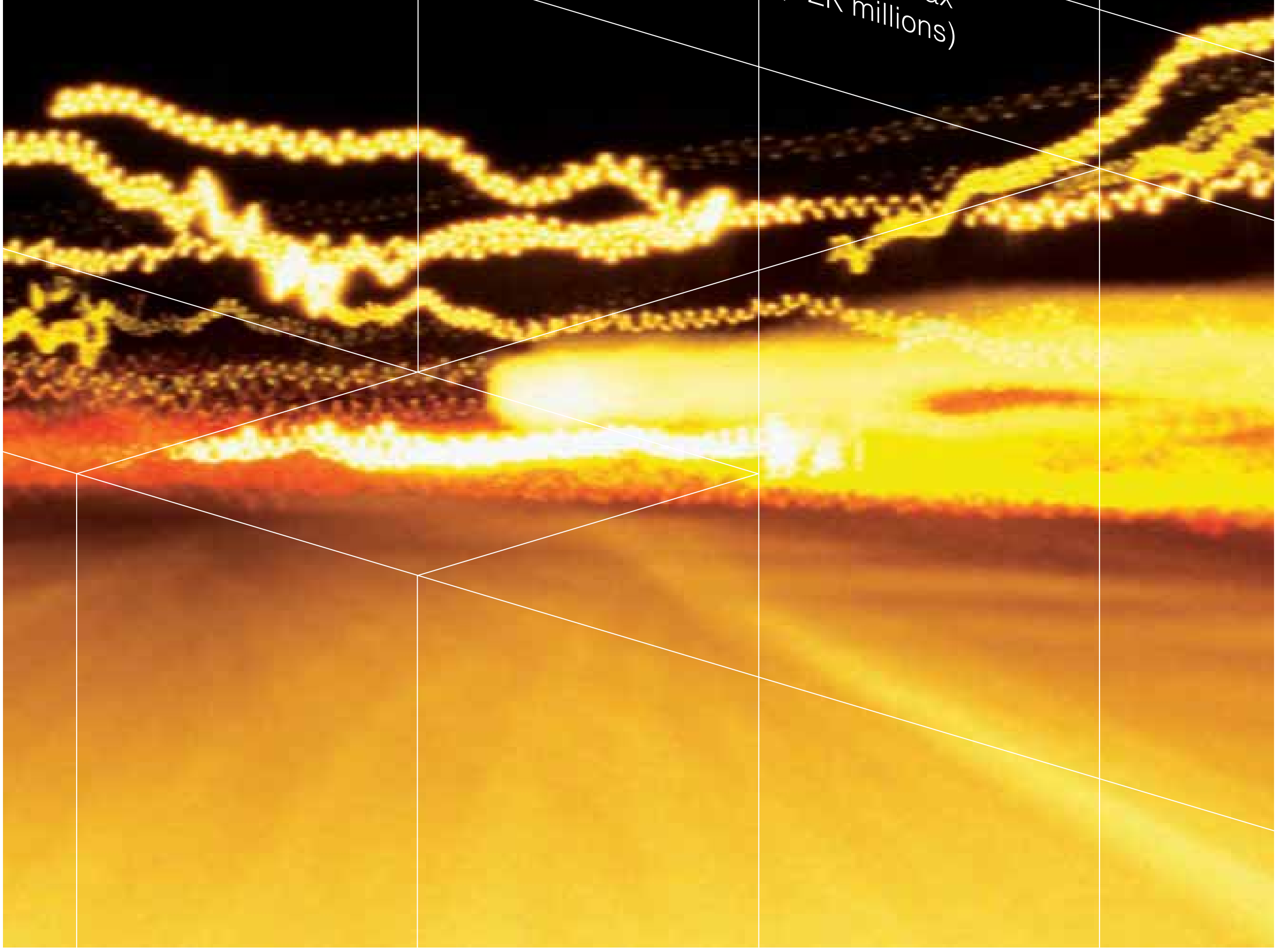
ČEZ Group is your strong, reliable, and stable partner who will help you to fulfill your plans and expectations in the area of energy supplies.



ČEZ Group in 2003

68,110 Electricity sold (GWh)

5,932 Profit after tax (CZK millions)



ČEZ Group is the largest power group in the region of Central and Eastern Europe, one of the top ten power corporations in Europe, and the strongest player in the domestic power market. In its current form, ČEZ Group was created on 1 April 2003, when ČEZ, a. s. acquired majority stakes in five electricity distribution companies (Severočeská energetika, a.s., Severomoravská energetika, a. s., Středočeská energetická a.s., Východočeská energetika, a.s., and Západočeská energetika, a.s.). In addition to the generation and distribution of electricity, significant businesses in ČEZ Group include mining of raw materials, maintenance of power plant and equipment, telecommunication services, and scientific research.

The joint stock company ČEZ ("ČEZ, a. s." or "ČEZ") came into existence on 6 May 1992. The majority owner of ČEZ, a. s. is the National Property Fund of the Czech Republic.

The core business of ČEZ, a. s. is the sale of electricity, most of which it generates in its own facilities, and the related provision of power system ancillary services. The core business also includes the production, distribution and sale of heat. A more detailed description of the core business is set forth in the company's Articles of Association, Article 5.

Contents

Key Figures

Selected Indicators	Unit	1999
CZECH REPUBLIC		
Installed capacity as of December 31	MW	15,216
Peak load	MW	9,926
Date of peak load		1. 2.
Electricity generation	GWh	64,368
ČEZ Group		
Installed capacity as of December 31	MW	10,151
Electricity generation	GWh	45,722
Heat generation	TJ	13,174
Number of employees as of December 31	persons	9,749
Earnings per share (face value CZK 100)	CZK/share	7.3
Current ratio	1	0.92
Debt to equity ratio	1	0.46
Return on equity (net)	%	3.57
Consolidated Balance Sheet		
Assets	CZK millions	211,489
Non current assets	CZK millions	199,131
of which: Net plant in service	CZK millions	94,748
Construction work in progress	CZK millions	91,460
Investment in associates	CZK millions	5,024
Current assets	CZK millions	12,358
of which: Receivables, net	CZK millions	3,503
Shareholders' equity and liabilities	CZK millions	211,489
Shareholders' equity	CZK millions	122,205
Stated capital	CZK millions	59,209
Retained earnings	CZK millions	62,996
Minority interests	CZK millions	–
Long-term liabilities	CZK millions	69,541
of which: Long-term debt, net of current portion	CZK millions	51,084
Accumulated provision for nuclear decommissioning and fuel storage	CZK millions	18,457
Deffered taxes liability	CZK millions	6,265
Current liabilities	CZK millions	13,478
of which: Trade and other payables	CZK millions	4,552
Consolidated Income Statement		
Revenues	CZK millions	53,528
Sales of electricity	CZK millions	50,678
Heat sales and other revenues	CZK millions	2,850
Operating expenses	CZK millions	43,579
of which: Depreciation and amortization	CZK millions	9,039
Income before other expenses (income) and income taxes	CZK millions	9,949
Other expenses (income)	CZK millions	4,740
Income before income taxes	CZK millions	5,209
Income taxes	CZK millions	919
Income after income taxes	CZK millions	4,290
Minority interests	CZK millions	–
Net income	CZK millions	4,290
Consolidated Cash Flow Statement		
Net cash provided by operating activities	CZK millions	20,004
Total cash used in investing activities	CZK millions	(22,701)
Total cash provided by (used in) financing activities	CZK millions	6,307
Net effect of currency translation on cash	CZK millions	(260)
Net increase (decrease) in cash and cash equivalents	**CZK millions**	**3,350**
Cash and cash equivalents at beginning of period	**CZK millions**	**1,007**
Cash and cash equivalents at end of period	**CZK millions**	**4,357**

*) Including effect of change in group structure.

2000	2001	2002	2003	Index 03/02 (%)
15,324	15,443	16,311	17,344	106.3
10,128	10,604	11,205	11,163	99.6
26. 1.	13. 12.	12. 12.	9. 1.	x
73,466	74,647	76,348	83,227	109.0
10,146	10,146	11,146	12,297	110.3
50,842	52,162	54,118	61,399	113.5
12,868	13,978	13,064	14,575	111.6
9,278	8,011	7,677	18,100	235.8
12.2	15.4	14.3	10.0	69.9
0.74	0.64	0.97	0.47	48.5
0.43	0.36	0.28	0.26	92.9
5.75	6.86	6.01	4.04	67.3
222,260	229,027	231,465	274,143	118.4
211,773	217,511	216,204	254,443	117.7
92,953	87,638	138,983	212,739	153.1
103,591	111,929	56,513	10,204	18.1
5,225	5,518	5,880	10,999	187.1
10,487	11,516	15,261	19,700	129.1
3,952	3,827	4,040	7,063	174.8
222,260	229,027	231,465	274,143	118.4
129,442	136,726	143,675	149,687	104.2
59,209	59,050	59,041	59,152	100.2
70,233	77,676	84,634	90,535	107.0
–	–	–	7,893	x
70,606	64,477	59,595	59,486	99.8
49,704	43,081	35,729	30,965	86.7
20,902	21,396	23,866	28,164	118.0
8,057	9,870	12,541	14,721	117.4
14,155	17,954	15,654	42,356	270.6
5,035	8,651	8,934	20,578	230.3
52,431	56,055	55,578	84,816	152.6
49,675	53,300	52,938	79,548	150.3
2,756	2,755	2,640	5,268	199.5
39,711	41,377	44,324	77,316	174.4
9,377	9,366	11,721	17,611	150.3
12,720	14,678	11,254	7,500	66.6
2,119	1,386	(542)	841	x
10,601	13,292	11,796	6,659	56.5
3,364	4,169	3,375	208	6.2
7,237	9,123	8,421	6,451	76.6
–	–	–	519	x
7,237	9,123	8,421	5,932	70.4
21,169	22,205	19,001	35,760	188.2
(21,100)	(16,386)	(9,935)	(30,930)	311.3
(1,490)	(6,372)	(6,902)	(5,148)	74.6
(14)	(89)	(219)	(59)	26.9
(1,435)	**(642)**	**1,945**	**(377)**	**(19.4)**
4,357	**2,922**	**2,280**	**4,391** *)	**192.6**
2,922	**2,280**	**4,225**	**4,014**	**95.0**

Important Events of 2003 and 2004 Up to Annual Report Closing Date

January 2003

- Second wave of the electricity market liberalization process – market is opened up to customers with annual consumption of over 9 GWh.
- Fourteen eligible customers acquired in conjunction with the second wave of market liberalization.

February 2003

- Extraordinary General Meeting of ČEZ, a. s.

March 2003

- Antitrust Office decides on ČEZ, a. s. appeal, setting new conditions for alliance among competitors (ČEZ, a. s. and the eight electricity distribution companies) and terminating public support proceedings.
- Sale of Náchod Heat Plant to Harpen ČR, s.r.o.

April 2003

- Settlement of transfers of shares in the electricity distribution companies and ČEPS, a.s. in accordance with the contracts entered into among ČEZ, a. s., the National Property Fund of the Czech Republic, OSINEK, a.s., the Ministry of Labor and Social Affairs of the Czech Republic, and Česká konsolidační agentura.
- Standard & Poor's reaffirms BBB+ rating with change in outlook from "stable" to "positive".
- Unit Two of Temelín Nuclear Power Station begins commercial operation.
- Signing of a five-year EUR 88 million guarantee for Tranche No. 1 of a loan from the European Investment Bank. Participants in the guarantee include Kreditanstalt für Wiederaufbau, ABN AMRO Bank N.V., Bank Austria Creditanstalt AG, Bayerische Landesbank, Credit Lyonnais S.A., Dresdner Bank AG, Mizino Corporate Bank Ltd., Sanpaolo IMI S.p.a., SMBC, and WestLB AG.

May 2003

- Temelín Nuclear Power Station reaches its full generation capacity of 2 x 1,000 MW.
- Extraordinary General Meetings held in electricity distribution companies in which ČEZ, a. s. acquired majority stakes.
- Consulting firm A.T. Kearney GmbH is chosen to cooperate on creating a new, effective, and dynamic ČEZ Group with extensive leveraging of synergies in its management.
- Professional jury ranks ČEZ, a. s. one of the top ten employers in the Czech Republic for 2003 in a competition organized by Credit Suisse Life & Pensions.

June 2003

- ČEZ, a. s. takes second place in eighth annual Signum Temporis 2002 competition, which ranks players in the Czech capital markets according to their information disclosure policies.
- First of two turbo aggregates at the Štěchovice I Hydro Power Station, damaged by the flood of August 2002, returned to operation.
- Eleventh Annual General Meeting of ČEZ, a. s.
- In a competition organized by the CZECH TOP 100 association, ČEZ, a. s. is declared the top corporation in the Czech Republic for the year 2002 in the category “Generation and Distribution of Electricity, Water, Gas, and Steam”, the number-two corporation overall in terms of earnings and value added, and number three in terms of sales revenues.
- 9^{th} domestic bond issue and early repayment of 5^{th} domestic bond issue.
- The international organization EURELECTRIC holds its annual conference in Prague with ČEZ, a. s. as host corporation.

July 2003

- Late application by ČEZ, a. s. to participate in tender to purchase equity stake in Slovenské elektrárne, a.s. is accepted by Slovak Government.

August 2003

- ČEZ, a. s. takes first place in protection of nuclear power plant employees from radiation. According to results of ISOE program (an NEA project supported by the IAEA), the Czech Republic is far ahead of Germany, France, and Finland.
- Due to wind damage to 400 kV power line support structures (owned by ČEPS, a.s.), the Prunéřov I, Prunéřov II, and Tušimice II Power Stations cannot supply electricity to the grid. Resulting forced shutdown of Prunéřov II lasted from 14 to 29 August. Shutdowns of the other plants lasted only a few hours. This outage did not have any effect on supply of electricity to customers in the Czech Republic.

September 2003

- Change of company logo and unification of visual style among ČEZ, a. s., the electricity distribution companies, and other selected companies of ČEZ Group.
- Sale of electricity for the year 2004 commences. ČEZ, a. s. offers substantially better terms than those seen in power markets abroad.
- Consent granted by State Office for Nuclear Safety allows preparations to be commenced for construction of a spent nuclear fuel storage facility in the Temelín Nuclear Power Station complex.
- Risk inspection of the Temelín Nuclear Power Station conducted by a group of experts from four nuclear insurance pools. In particular, the inspectors underlined the high level of employees’ professional knowledge, the high technical quality of the equipment, nuclear safety, and fire protection, including the program for upgrading Temelín Nuclear Power Station.
- Site audit carried out by IAEA at the Temelín Nuclear Power Station. Audit team consists of experts from USA, Great Britain, Russia, Spain, France, and Malaysia and the purpose of the audit is to inspect newly introduced probability modules for evaluating safety and fulfillment of recommendations from previous inspections carried out in 1995 and 1996. The audit team declared that the vast majority of the recommendations had been fulfilled – the rest are in process.

October 2003

- OSART Follow-up Mission to the Dukovany Nuclear Power Station conducted by the IAEA. The mission found that the power station has either fulfilled or is working on fulfilling all the recommendations from 2001.
- Dukovany Nuclear Power Station defends its “Safe Shop” certification issued by the Czech Work Safety Office.
- Solar power plant is put into operation in the Dukovany Nuclear Power Station complex.
- ČEZ, a. s. wins “Crystal Pen” award at the international festival TECHFILM 2003 for its “Encyclopedia of Energy” educational program.

November 2003

- Deadline for submitting bids in tender for purchase of 49% stake in Slovenské elektrárne, a.s. ČEZ, a. s. expresses interest in including all types of power generation facilities in the stake being sold (i.e. including nuclear facilities).
- Standard & Poor’s reaffirms BBB+ rating with change in outlook from “positive” to “stable”.
- Environmental Management System (EMS) certificate issued by Norwegian company DET NORSKE VERITAS to the Dukovany Nuclear Power Station is reaffirmed.
- ČEZ, a. s. takes first place in the 100 Best Annual Reports competition organized by the CZECH TOP 100 Association. ČEZ, a. s. also received the “Best Annual Report of the Decade” award.
- ČEZ, a. s. is not included on short list of bidders for the State’s interest in Severočeské doly a.s.
- Štěchovice II pumped-storage hydro power station, damaged in flood of August 2002, is returned to operation.

December 2003

- IAEA carries out OSART Follow-up mission to the Temelín Nuclear Power Station. The mission’s findings state that the station’s safety level is high and that recommendations from 2001 are being successfully implemented.
- ČEZ, a. s. hands over documentation to the Bulgarian privatization agency expressing its interest in purchasing a majority stake in one of three groups of Bulgarian distribution companies.
- First of four turbogenerators (no. 3) at the Orlík Hydro Power Station, which sustained heavy damage in the flood of 2002, is returned to operation.

Important Events of 2004 Up to Annual Report Closing Date

January 2004

- Third wave of electricity market liberalization process opens up market to all electricity customers hooked up to the medium voltage grid, whose metering location is equipped with hourly profile metering technology, with a reserved wattage of 250 kW or higher.
- Acquisition of majority stake in engineering company ŠKODA PRAHA a.s., which was the principal supplier of technology for the Temelín Nuclear Power Station.
- Signing of ČEZ, a. s. Collective Agreement for the 2004 – 2006 period.

February 2004

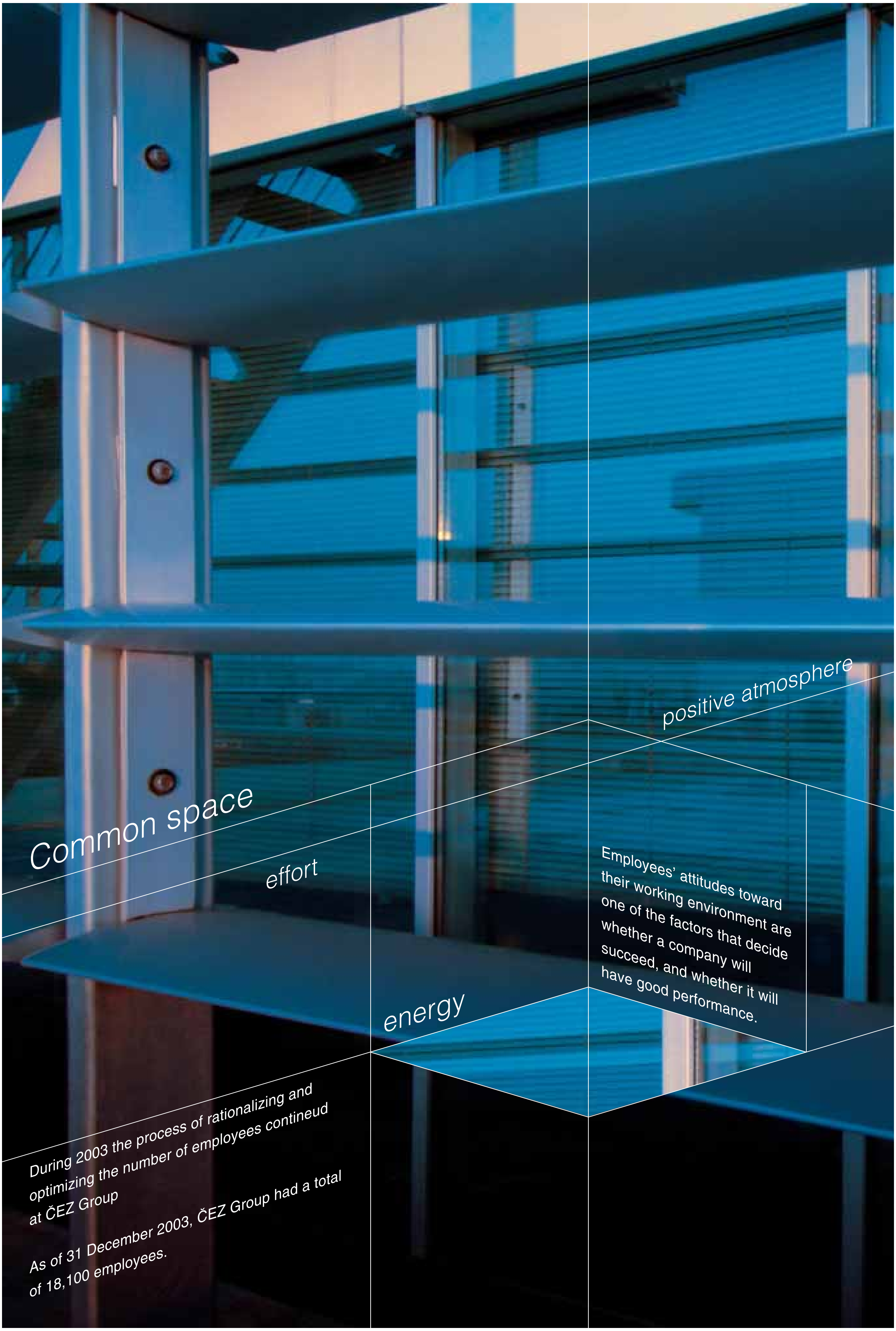
- ČEZ, a. s. receives top corporate governance ranking in the Czech Republic for 2003 from EUROMONEY, the prestigious global banking and capital markets magazine.
- BNP Paribas and Merrill Lynch are named joint lead managers of the new eurobond issue.

March 2004

- ČEZ, a. s. takes third place in the "Most Admired Company of the Czech Republic" competition, up seven rungs from the previous year's ranking.
- ČEZ, a. s. appears on the Forbes list of the 2,000 largest corporations in the world, in 1,125th place – the highest ranking of any Czech corporation. The ranking is based on a compilation of corporations' sales revenues, earnings, assets, and market value.

May 2004

- ČEZ, a. s. is awarded RHODOS 2004 image prize for its grants concerning charity, culture, healthcare, education, regional development and other projects. Judgement is based on independent survey of 2,000 Czech managers.
- ČEZ, a. s. announced its intention to sell its share in the electricity distribution company Pražská energetika, a.s., the main criterion being purchase price. Subsequently, it received 27 requests for detailed information.



Employees' attitudes toward their working environment are one of the factors that decide whether a company will succeed, and whether it will have good performance.

During 2003 the process of rationalizing and optimizing the number of employees contineud at ČEZ Group

As of 31 December 2003, ČEZ Group had a total of 18,100 employees.


fulfillment of plans
creation of values
stakeholders
People – a competitive advantage of ČEZ Group.
ČEZ Group creates job opportunities
for over 100,000 people.
motivation

ČEZ Group has what it takes to become a leader in the Central European electricity market. This is a vision we are capable of turning into a reality.

Introduction by the Chairman of the Board of Directors

How did the Group's financial performance pan out in comparison with 2002?

First of all, I must say that the performance results of ČEZ Group in 2003 were substantially influenced by changes in the Group and therefore it is difficult to make a year-on-year comparison. While in 2003 we consolidated – either fully or by the equity method – a total of 33 companies, in 2002 the consolidated group consisted of just four companies.

In 2003, the expanded ČEZ Group, containing equity interests in the electricity distribution companies, achieved major growth in revenues from sales of electricity (by CZK 26.6 billion, or 50.3%) thanks to the inclusion of sales to final customers by the five electricity distribution companies in ČEZ Group, but also thanks to higher sales of electricity in the liberalized wholesale market. On the other hand, the sale of a 66% ownership interest in ČEPS, a. s. did not have a direct impact on the profit figure, but it did lead to an increase in consolidated shareholders' equity.

Net income did not reach 2002's level (CZK 8.4 billion), and declined to CZK 5.9 billion (down by 29.6%). The principal factors contributing to this decline included changes in the nuclear power plants area – a CZK 2.8 billion increase in depreciation charges related to Temelín Nuclear Power Station and also a CZK 3.5 billion increase in nuclear provisioning.

What, in your opinion, was the company's biggest accomplishment in 2003? What do you appreciate the most and what do you think is the best news for shareholders?

Certainly the acquisition of stakes in the Czech electricity distribution companies – majorities in five cases. Immediately thereafter, an agreement was reached with E.ON, which was formalized upon completion of the already mentioned process of integrating the ČEZ, a. s. production base with the electricity distribution companies. It is a promise for the future that, despite the necessary presence of competition in the electricity market, ČEZ, a. s. will be capable of reaching mutually beneficial agreements with its competitors.

ČEZ Group has set for itself the goal of becoming a leader in the Central and Eastern European electricity market. What steps have you already taken on this road?

At this moment, ČEZ, a. s. is bidding in two tenders – for Slovenské elektrárne, a.s. and the Bulgarian distribution companies. We are also monitoring the situation in Poland, where the privatization of the power industry has yet to move out of the preparation phase. The Hungarian market also holds some potential business opportunities.

How would you describe ČEZ Group's performance in the liberalized electricity market in the Czech Republic? After all, it's been two years since the market was first opened up to competition.

ČEZ Group has done very well to-date, but the market is still not yet completely open, and we still have a long way to go. Often it is more difficult to defend a position than to gain it. But I am convinced that our success will hold as we go forward.

On what areas will the company focus this year and what are your most important near-term goals?

The goal of ČEZ Group will be to continue in its long-term trend of strong financial performance. However, we cannot count on such strong one-off factors such as the proceeds from last year's sale of ČEPS, a.s. Instead, we will have to prepare ourselves well for the full liberalization of the electricity market starting in 2006. The reason: in the past, opening up of markets to competition has had a negative impact on the earnings of most European power companies. Other goals of ČEZ Group are to become a leader in the Central European electricity market through acquisitions in other countries and to create a functional and effective ČEZ Group by completing the integration of the electricity distribution companies.

This year, ČEZ, a. s. is publishing a separate Corporate Responsibility Report. In what way do you see a corporation like ČEZ, a. s. having responsibility for society? Is that in shareholders' interests?

Corporations like ČEZ, a. s. are often referred to as public utilities and that implies a universal role. ČEZ, a. s. is a Czech power company – one of the strongest corporations in the Czech Republic – and it also has responsibility for the development of society in all its forms and aspects, not just in electric power. One aspect of our sponsorship program is guided by the slogan "We help where we operate" and that, I think, speaks for itself. And, certainly, this broader responsibility is in the interests of shareholders, too. Good relations also lead to good results.

In conclusion, allow me to thank the company's employees, shareholders, and business partners for the roles they played in driving the company's solid financial performance in 2003. I am confident that our joint efforts will continue to guide the company in a positive direction in the future, as well.

Martin Roman

Chairman of the Board of Directors and Chief Executive Officer

Interview with Selected Members of the Board of Directors and Executive Management

Petr VOBOŘIL

ČEZ, a. s. wants to become a leader in the Central European electricity market. What territories will it set its sights on?

Neighboring ones, naturally, and that means first and foremost Poland, Slovakia and Hungary. In Poland there will be opportunities to engage in privatization both in distribution and in generation, but as far as generation is concerned, ČEZ's number-one priority is Slovakia. The distribution companies in Hungary and Slovakia have already been privatized, so we can hope that one of the current owners will change its strategy. In addition, we are also looking at Southeast Europe – our current focus there is on distribution in Bulgaria. We have also considered some opportunities in other neighboring countries – Germany and Austria – but for now none of these has been sufficiently attractive for us to act on.

After the year 2010, the fossil power plants of ČEZ, a. s. will begin to reach the end of their useful lifetimes. How do you expect to replace them and over what time period?

To a certain extent, the resolution of issue of finding replacements for our current fossil power stations is dictated by the Energy Policy – a plan drafted by the Ministry of Industry and Trade. The renewal will mostly be based on domestic brown coal. To what extent the renewal will take the form of entirely new facilities, and to what extent retrofits of existing ones, will be determined mainly by a thorough investigation into the potential of coal mining in the post-2020 period. Even today, though, we have enough information to begin preparations for new generating units fired by brown coal. Our principal task now is to decide what capacities will be needed and, subsequently, to determine their locations. The preparation and approval process for such a project will take longer than the actual construction, I'm afraid, and therefore we need to begin work on studies right away.

David SVOJITKA

Does ČEZ, a. s. have enough sources of funding to cover all the planned foreign acquisitions and still keep on raising dividends?

The financial plan for 2004 takes into account the need for funds for a possible foreign acquisition, payment of dividends to shareholders, and accelerated payment of the purchase price for majority stakes in the electricity distribution companies. In order to cover all possible financial needs, in February the Board of Directors approved an issue of eurobonds up to a total volume of EUR 400 million (approximately CZK 13 billion).

Company management supports the payment of dividends, not just for 2003 but for subsequent years as well.

After a long time, the ČEZ share price has increased this past year. In fact, it has increased by over 50%. What do you think drove this growth and what steps is management preparing to take to ensure that the company's shares become even more attractive for more foreign investors?

There are many reasons for the strong growth in ČEZ's shares that we have seen in 2003, so I will only mention the most important ones:

- vertical integration between generation and distribution,
- the company's very strong earnings performance and promising outlook for future years,
- high demand for liquid shares from Central European countries prior to their joining the European Union.

In 2004, we are continuing to put emphasis on good relations with both existing and new investors. We are also meeting with investors, both individually and in groups, to explain the company's growth potential for the years to come.

Alan SVOBODA

Last year, ČEZ, a. s. was successful in foreign markets. What kind of export volumes do you expect to see in future years?

The extraordinary good power export performance in 2003 was the result of a convergence of several factors – very high prices, sufficient free capacity in cross-border profiles, sufficient free generation capacity, and the ability of our traders to make the best out of all of these factors.

Developments since the beginning of 2004, however, indicate a substantial change, especially in terms of a significant reduction in cross-border transmission capacities, by up to 30%. Another negative factor is a less-than-ideal match between free generation capacity and announced free capacity in cross-border profiles.

For these reasons, we expect this year's export volume to be around 16 TWh. I believe this level of exports is sustainable in the next few years as well.

How do you expect electricity prices in the Czech and foreign markets to move in the near term?

The enormous growth in prices that we saw in 2003 was definitely an exception to the rule. In my opinion, it was related to weather factors and anticipations of economic recovery, especially in Germany, France, and Italy.

However, this recovery is not yet happening and, as a result, prices have been flat or even declining.

In the lead-up to 2004, the Czech Republic market experienced substantially slower price growth than was seen in European markets. Because the difference between European prices and those on the Czech market is too large, there is room in the domestic market for further rises in wholesale prices.

Pavel KLIKA

In the past few years, generation volume in fossil plants has reached record levels. Won't this have an impact on future necessary investments in facility maintenance?

Over the past few years we have exceeded plan generation numbers by a large measure. We have also cut maintenance costs, and it is true that to a certain extent this has exhausted the technical condition of our conventional generating units. Overhauls of these units have an enormous impact on their condition in terms of capability to meet design parameters. Overhauls will be planned and executed in order to ensure the units are in optimal condition for meeting our needs in the period between now and when they are retrofitted or shut down and replaced with new equipment.

How is the project of combined combustion of biomass with coal in certain fossil plant boilers progressing? What could the weighting of this renewable source of energy be in, say, five years?

The development of generation from renewable sources of energy at ČEZ, a. s. has been accelerated thanks to price support from the Energy Regulatory Authority and the preparation of new legislation in this area. Our technical equipment in general, and our fluidized-bed boilers in particular, are capable of burning biomass. After the necessary permits are obtained and operational testing is completed, this year we will be increasing our utilization of this fuel. An approximately 15-fold increase over the previous year will put biomass generation volume at the level of 125 GWh.

If the approach of the Energy Regulatory Authority and legislation is sufficiently stable over time, we can expect to see increased offerings from biomass suppliers. With regard for technical restrictions, we estimate that ČEZ Group has the potential to reach annual biomass power generation of at least 450 GWh within the next five years.

Zdeněk LINHART

Last year, one of your most important tasks was the formation of the Nuclear Power Division. The Division was formed – how do you evaluate this step?

Yes, the target organization structure of the Nuclear Power Division was formed effective 1 January 2004. This was the culmination of two years of preparations and organization changes. Except for generation (i.e. safe operation of nuclear power plant facilities, which is performed by the Dukovany Nuclear Power Station Generation Section and by the Temelín Nuclear Power Station Generation Section), each function is run directly by the joint Division management. The entire division is structured using a by-process management model covering two locations. The advantage of this model lies in clear assignment of accountability and authority in all processes. This accelerates know-how transfer between the two nuclear facilities. Now we are moving into a period of stabilizing the system and evaluating its functionality.

One of the goals of the Nuclear Power Division is to reduce nuclear power plant generation costs. Won't that be at the expense of safety?

It is a very demanding task, which we are preparing for in the change project. Unit generation costs are influenced by a large number of factors and we are analyzing them all to find out the potential cost savings and formulating specific project tasks. Measures include minimizing unplanned outages, complying with the timeline of planned shutdowns, completing the process of optimizing the number of employees, and reducing equipment maintenance costs, to name a few. The difficulty of the task lies mainly in the necessity of keeping nuclear power station operational safety at the required level, and that is the responsibility of the section managers.

Henning PROBST

What benefits has the electricity distribution companies integration project already brought? Can you name any specific ČEZ Group-wide cost savings or is it still too early?

The main benefit this joint project has brought is transparency, which has revealed both strong and weak points of individual electricity distribution companies. That has enabled us to quickly approach best practice results in those areas of the business that are not linked to complicated and sensitive processes. In this manner, we were able to make significant gains quickly, even before the end of 2003, even though the project itself commenced only in July.

This effect allowed us to reverse negative development trends in certain financial indicators that often appear in the early phases of electricity market liberalization, and more positive results are expected in 2004. The main goal of the project is to stabilize and reinforce this trend. Therefore, we need to continue to implement best practices in a many processes as possible, which will also help to make us more competitive.

Has the ongoing integration project cast light on any particular strong point of the new Group that had not been noticed before?

The main accomplishment, which is sometimes underappreciated, is the fact that we managed to reorganize all five electricity distribution companies so that they have a unified organization structure as of 1 January 2004. This unified organization is very beneficial not just for our internal communication. It was the right step at the right time to prepare the electricity distribution companies for the upcoming requirement of unbundling in accordance with the latest European Union directives. Here, we succeeded in defining the correct intermediate links for the future business structure.

Directors and Officers

In accordance with the Articles of Association of ČEZ, a. s., the General Meeting elects and removes members of the Supervisory Board. The Supervisory Board elects and removes members of the Board of Directors. The Board of Directors, in turn, elects and removes the Chief Executive Officer (CEO) and other executives that report directly to the CEO.

Board of Directors

Since 2000, ČEZ has used the "German model" of corporate governance, in which members of the Board of Directors generally also serve as members of executive management. Currently, a single person serves as both the Chairman of the Board of Directors and the Chief Executive Officer. This combination is a tool for effective communication within the company, in view of the company's size and the distances between various organizational units, and it facilitates finding faster, more practical solutions to problems concerning company management.

The Board of Directors is the company's statutory body, which directs the company's operations and acts on its behalf. The powers and responsibilities of the Board of Directors are set forth in detail in the Articles of Association of ČEZ, a. s., which are available for shareholders to inspect at the General Meeting and which are archived in the Collection of Documents of the Commercial Register maintained by the Prague Municipal Court. The Board of Directors determines the company's strategy, plans for major investments, and its policy toward risk.

Members of the Board of Directors are selected professionals who possess the necessary qualifications for the job and whose expertise contributes to the overall knowledge base of the Board. The Board of Directors includes both people with many years of knowledge and experience from within the company as well as people with experience from other sectors, who bring a new and unbiased view of the company's management and operations.

The Board of Directors is obligated to meet at least once a month. As a rule, however, meetings are held weekly. The total number of meetings held in 2003 was 58.

The Secretary of the Board of Directors attends the meetings and keeps minutes.

For effective management of inspection and audit processes, the Board of Directors has set up an Audit Committee consisting of two members of the Supervisory Board, two members of the Board of Directors and the head of the Internal Audit department. The Audit Committee met six times in 2003 and six meetings are planned in 2004. Its key activity is to oversee the independence of the internal and external auditors and to discuss matters relating to internal and external audits. It assesses the effectiveness and efficiency of the company's system of internal checks and balances based on information and reports from the internal and external auditors as well as information provided by company executives.

In order to provide a systematic solution to filling seats in the company's Board of Directors, the Supervisory Board set up a Personnel Committee in 2003. The Personnel Committee's four members are elected from among the members of the Supervisory Board.

ČEZ, a. s. also has committees for strategy, sales, growth management and facility renewal, as well as a Risk Committee and a Nuclear Energy Safety Committee, which deal with specific issues relating to their respective areas, take positions on them, and submit recommendations to the Chief Executive Officer or the Board of Directors. In accordance with the Articles of Association, the Supervisory Board is regularly briefed on selected matters.

The list of ČEZ, a. s. employees with access to classified material is on file at the National Security Office.

Members of the Board of Directors

Martin ROMAN	(* 1969)	Chairman of the Board of Directors since 23 February 2004

Graduate of the Charles University Law Faculty in Prague, one-year scholarship at the Economics Faculty of the University of St. Gallen (Switzerland), and a one-year study stay at Karl-Ruprechtsuniversität Heidelberg (Germany). From 1 April 2000 to 31 March 2004 he was Chief Executive Officer of ŠKODA HOLDING a.s.

Alan SVOBODA	(* 1972)	Vice Chairman of the Board of Directors since 3 May 2004

Holds an MBA in finance and an MA in economics from the University of Missouri in Kansas City (USA). Also a graduate of the University of West Bohemia, Plzeň, where he specialized in information and financial management. Mr. Svoboda has been certified as a Chartered Financial Analyst (CFA) by the international Association for Investment Management and Research (AIMR).

David SVOJITKA	(* 1961)	Member of the Board of Directors since 24 February 2003

Graduate of the National Economy Faculty of the Julius-Maximilians-Universität in Würzburg (Germany), where he specialized in monetary policy and public finance.

Jiří VÁGNER	(* 1956)	Member of the Board of Directors since 31 October 2003

Graduate of the Electrical Engineering Faculty of the Czech Technical University, Prague, Electric Machinery Department, as well as the Mechanical Engineering Faculty of the Brno University of Technology, where he specialized in nuclear power plant operation and management.

Petr VOBOŘIL	(* 1950)	Member of the Board of Directors since 6 November 2002; Chairman of the Board of Directors from 3 November 2003 to 23 February 2004; Vice Chairman of the Board of Directors from 24 February 2003 to 3 November 2003

A graduate of the Mechanical Engineering Faculty of the Czech Technical University, Prague, where he specialized in environmental technology, and a postgraduate course of study in heat supply development. In 1997, he completed the InterManager European standard management skills course. Member of the Supervisory Board of Středočeská energetická a.s. since May 2003.

List of former members of the ČEZ Board of Directors whose tenure ended in 2003 or by the Annual Report closing date:

Pavel Hejkal	(* 1958)	Member of the Board of Directors from 4 July 2000 to 19 February 2004,
František Hezoučký	(* 1942)	Vice Chairman of the Board of Directors from 5 January 1999 to 24 February 2003,
Jaroslav Míl	(* 1958)	Chairman of the Board of Directors from 4 July 2000 to 23 October 2003,
Josef Sedlák	(* 1959)	Vice Chairman of the Board of Directors from 3 November 2003 to 26 April 2004.

Executive Management

Martin ROMAN (* 1969) Chief Executive Officer since 1 April 2004

For personal data, see his entry in the Board of Directors, above.

Petr VOBOŘIL (* 1950) Chief Strategic Development Officer since 1 October 2002;
Deputy Chief Executive Officer since 3 May 2004;
acting Chief Executive Officer from 10 November 2003 to 31 March 2004

For personal data, see his entry in the Board of Directors, above.

Pavel KLIKA (* 1953) Chief Conventional Power Officer since 1 November 2000

A graduate of the Czech Technical University's Faculty of Electrical Engineering in Prague, where he majored in Power Industry Economics and Management. In January 2001 he completed a Master of Business Administration (MBA) at the Prague International Business School. He is Chairman of the Board of Directors of CEZTel, a.s., Chairman of the Supervisory Board of ČEZnet, a.s., a member of the Supervisory Board of GAPROM, s.r.o. (in liquidation) and Chairman of the Supervisory Board of Severomoravská energetika, a. s.

Zdeněk LINHART (* 1953) Chief Nuclear Power Officer since 1 January 2003

A graduate of the Mechanical Engineering Faculty of the Czech Technical University, Prague, specialization Nuclear Power Facilities. Member of the Supervisory Board of JVCD, a.s. since August 2000.

Henning PROBST (* 1957) Chief Distribution Officer since 1 January 2003

A graduate of the Business School at the Braunschweig Technical University and the University of Hamburg (Germany). In 1983 – 1984 he studied in Boston and Washington, USA. Member of the Supervisory Board of Východočeská energetika, a.s. since May 2003.

Alan SVOBODA (* 1972) Chief Sales Officer since 1 April 2004

For personal data, see his entry in the Board of Directors, above.

David SVOJITKA (* 1961) Chief Finance and Administration Officer since 1 October 2002

For personal data, see his entry in the Board of Directors, above.

List of former members of the company's executive management whose tenure ended in 2003 or by the Annual Report closing date:

Pavel Hejkal	(* 1958)	Chief Sales Officer from 16 September 2000 to 31 March 2004,
Jaroslav Míl	(* 1958)	Chief Executive Officer from 4 July 2000 to 24 October 2003.

Supervisory Board

The Supervisory Board consists of twelve members, eight of which are elected and removed by the General Meeting, and four (František Haman, Václav Krejčí, Jan Ševr, Zdeněk Židlický) are elected by the employees, in accordance with the provisions of Section 200 of Act 513/1991 Sb., as amended, and are themselves employees of ČEZ, a. s. Two members of the Supervisory Board (Stanislav Kázecký, Jan Demjanovič) serve in companies that are commercially connected with ČEZ, a. s.
The Supervisory Board's powers include the power to elect members of the Board of Directors, to supervise the Board of Directors' exercise of its powers and responsibilities and the company's business activities, to inquire into company financial matters, to review the Report on Relations Among Affiliated Entities, to review the year-end financial statements, including profit allocation proposals, and to grant prior consent for key decisions of the Board of Directors.
In accordance with the company's Articles of Association, the Supervisory Board meets at least once a month. 20 meetings were held in 2003. Depending on the character of matters on the agenda, meetings are attended by members of the Board of Directors or company employees who present verbal reports on the matters at hand.
The secretary of the Supervisory Board attends all Supervisory Board meetings and keeps minutes.

Members of the Supervisory Board

Stanislav KÁZECKÝ (* 1948) Chairman of the Supervisory Board since 24 February 2003
A graduate of the Production Economics Faculty of the University of Economics, Prague, specialization in Economics and Industrial Management. From 1994 to August 2003, he served as Chairman of the Board of Directors and CEO of ZVVZ a. s., where he is now employed as a consultant. He is a member of the Supervisory Board of EKOKLIMA akciová společnost.

Zdeněk HRUBÝ (* 1956) Vice Chairman of the Supervisory Board since 24 February 2003
A graduate of the Czech Technical University's Faculty of Electrical Engineering in Prague, where he majored in cybernetics, Mr. Hrubý holds a postgraduate degree in economics and is currently a Deputy Minister of Finance. He is Vice Chairman of the Presidium of the National Property Fund of the Czech Republic, a member of the Board of Directors of Sokolovská uhelná, a. s., Vice Chairman of the Supervisory Board of ČESKÝ TELECOM, a.s., and a member of the Supervisory Board of České aerolinie a.s.

Václav KREJČÍ (* 1953) Vice Chairman of the Supervisory Board since 20 June 2002;
Member of the Supervisory Board re-elected by the employees since 13 June 2002
A graduate of the Secondary Industrial School of Chemical Technology, Mr. Krejčí is currently head of the department of human resources development and internal communications at the Nuclear Power Division.

Jan DEMJANOVIČ (* 1953) Member of the Supervisory Board since 24 February 2003
A graduate of the Mechanical Engineering Faculty of the Institute of Mechanical and Textile Engineering in Liberec. Currently, Mr. Demjanovič is Sales Director and member of the Board of Directors of Severočeské doly a.s. He is Vice Chairman of the Board of Directors of Coal Energy, a.s., a member of the Board of Directors of Teplárna Ústí nad Labem, a.s., Vice Chairman of the Supervisory Board of SD - Kolejová doprava, a.s.

František HAMAN (* 1958) Member of the Supervisory Board elected by employees since 9 November 2000
A graduate of the Secondary Industry School of Building Construction. Since 1992 he is on leave in order to act as Chairman of the Basic Labor Organization at Temelín Nuclear Power Station.

Jan JUCHELKA (* 1971) Member of the Supervisory Board since 11 June 2002
A graduate of the Karviná Faculty of Business and Trade of the Silesian University in Opava. Since 1 November 2002, he has been Chairman of the Executive Committee of the National Property Fund of the Czech Republic. He is a member of the Supervisory Boards of ČESKÝ TELECOM, a.s. and Komerční banka, a.s.

Jaroslav KOŠUT (* 1960) Member of the Supervisory Board since 24 February 2003

A graduate of the Faculty of Mathematics and Physics of the Charles University, Prague. In 1994, he studied economics as part of an MBA program at the U.S. Business School, Prague. He is Chairman of the Board of Directors of ZVI a.s. He is partner and company executive in the companies Via Net, s.r.o. and Brouk a Babka, s.r.o.

Martin PECINA (* 1968) Member of the Supervisory Board since 17 June 2003

A graduate of the Ostrava Mining University with a specialization in manufacturing systems with industrial robots and manipulators, the Masaryk Institute of Higher Studies in Prague, and the Sheffield Business School, Mr. Pecina holds an MBA degree and CIME qualification. He has been a Deputy Minister of Industry and Trade since February, 2003.

Václav SRBA (* 1941) Member of the Supervisory Board since 11 June 2002

A graduate of the University of Economics, Prague. Since July 2002, he has been a Deputy Minister of Industry and Trade. He is Chairman of the Czech Government's Investment Council, a member of the Presidium of the National Property Fund of the Czech Republic, Vice Chairman of the Board of Directors of AERO Vodochody a.s., a member of the Board of Directors of THERMAL-F, a.s., Chairman of the Supervisory Board of UNIPETROL, a.s., and a member of the Supervisory Boards of Severočeská energetika, a.s. and ČEPS, a.s. As of December 2003, he is also a member of the Administrative Board of the "Duhová energie" Foundation.

Pavel SUCHÝ (* 1954) Member of the Supervisory Board since 24 February 2003

A graduate of the University of Economics, Prague, where he majored in Financial Reporting and Auditing. He has been a member of the Executive Committee of the National Property Fund of the Czech Republic since 1994. In November 2002 he was appointed First Vice Chairman of the Executive Committee of the National Property Fund of the Czech Republic. He is a member of the Boards of Directors of UNIPETROL, a.s. and Konpo,s.r.o. He has been a member of the Supervisory Board of České aerolinie a.s. since June 2003.

Jan ŠEVR (* 1947) Member of the Supervisory Board elected by the employees since 9 November 2000

A graduate of the Secondary Industrial School of Mechanical Engineering, Mr. Ševr works at the Mělník Power Station, where he heads up the shift operations management department. He is Chairman of the Mělník Power Station Labor Organization.

Zdeněk ŽIDLICKÝ (* 1947) Member of the Supervisory Board elected by the employees since 13 June 2002

A graduate of the Secondary Industrial School of Mechanical Engineering. Since 1993, he has been on leave to act as Chairman of the Prunéřov Power Station Labor Organization. He represents the Czech Labor Union of Northwest Power Workers in the association of North Bohemian Labor Organizations and in the Inter-regional Labor Council. He is the central labor federation's representative for power sector issues in the Economic and Social Alliance Council, where he is a member of the task force for economic policy.

List of members of the ČEZ, a. s. Supervisory Board whose tenure ended in 2003:

Josef Flekal	(* 1945)	removed at the extraordinary General Meeting of 24 February 2003,
Olga Horáková	(* 1964)	removed at the extraordinary General Meeting of 24 February 2003,
Vratislav Vajnar	(* 1944)	removed at the extraordinary General Meeting of 24 February 2003,
Milada Vlasáková	(* 1944)	removed at the extraordinary General Meeting of 24 February 2003,
Oldřich Vojíř	(* 1961)	removed at the extraordinary General Meeting of 24 February 2003,
Zdeněk Vorlíček	(* 1941)	removed at the Annual General Meeting of 17 June 2003.

ČEZ Group

Summary of ČEZ Group Businesses

The new ČEZ Group, which was formed on 1 April 2003, consisted of a total of 94 companies as of 31 December 2003. The core business of ČEZ Group is the generation, distribution, and sale of electricity generated in the Group's own facilities, and related provision of power grid ancillary services. In addition to electricity generation and distribution, material businesses of individual ČEZ Group companies include the generation and sale of heat, mining of raw materials, telecommunications, scientific research, as well as engineering and execution activities in the construction, maintenance, and upgrading of power plants.

The Czech electric power industry as it is currently organized – with the bulk of domestic generation facilities joined together with distribution and with power transmission separate – is fully in line with the terms of electricity market liberalization set by the European Commission. The integration of the electricity distribution companies (Severočeská energetika, a.s., Severomoravská energetika, a. s., Středočeská energetická a.s., Východočeská energetika, a.s., and Západočeská energetika, a.s.) into the Group is a process that addresses developments in the liberalized market. With this step, the structure of the Czech power industry has come closer to the structures commonly seen in the power utility companies of Western Europe.

In addition to ČEZ, a. s. and the electricity distribution companies, ČEZ Group includes the following other companies that engage in electricity trading and sale: rpg Energiehandel GmbH (based in Germany), Coal Energy, a.s., and První energetická a.s.

ČEZ Group companies engaged in mining and processing of raw materials include: LOMY MOŘINA spol. s r.o., KOTOUČ ŠTRAMBERK, spol. s r. o., and Severočeské doly a.s. The principal business of the first two companies mentioned is the mining and sale of limestone and lime, which is used at power plants in flue-gas desulfurization processes. Severočeské doly a.s. is engaged in the mining of brown coal and is the largest supplier of this commodity to the fossil power plants of ČEZ, a. s.

In the area of installation and maintenance, ČEZ Group is represented principally by the companies ČEZ ENERGOSERVIS spol. s r.o., Energetické opravny, a.s., I & C ENERGO s.r.o., SIGMA - ENERGO s.r.o., and ŠKODA PRAHA a.s. These companies focus mainly on providing comprehensive services in the area of machinery maintenance and repairs, refurbishment, and maintenance of power engineering equipment. In addition to these activities, ŠKODA PRAHA a.s. engages in engineering and execution of power plant construction and upgrade projects.

The telecommunications area is represented by the companies ČEZnet, a.s., CEZTel, a.s., and Aliatel a.s.

ČEZ Group engages in nuclear research and design of power equipment through its subsidiary, Ústav jaderného výzkumu Řež a.s.

A more detailed description of ČEZ Group and a chart showing the ownership links are presented in the chapter "ČEZ Group Organization Chart", on page 110.

ČEZ Group Restructuring

In March 2002, the Government of the Czech Republic set framework rules for restructuring the power industry, and these were further clarified in May and June, 2002. These plans were approved by the 10th Annual General Meeting of ČEZ, a. s. on 11 June 2002.

All necessary agreements were signed in June – August 2002:

- purchase agreement of 28 June 2002 between the National Property Fund of the Czech Republic and ČEZ, a. s. concerning the purchase of equity stakes in the eight electricity distribution companies,
- purchase agreement of 22 July 2002 between the Česká konsolidační agentura and ČEZ, a. s. concerning the purchase of a 1.98% equity stake in Západočeská energetika, a.s.,
- purchase agreement of 28 June 2002 between OSINEK, a.s. and ČEZ, a. s. concerning the sale of a 51% stake in ČEPS, a.s.,
- purchase agreement of 19 August 2002 between the Czech Republic – Ministry of Labor and Social Affairs and ČEZ, a. s. concerning the sale of a 15% equity stake in ČEPS, a.s.

In January 2003, lending banks granted their consent to the proposed reintegration on the grounds that it strengthened the position of ČEZ, a. s.

On 8 July 2002, the Antitrust Office commenced proceedings on permitting the reintegration of the Czech power industry. In conjunction with ČEZ, a. s., the proceedings concerned:

a) permit for competitors ČEZ, a. s. and the eight electricity distribution companies to join

On 10 December 2002, the Antitrust Office made a decision permitting the competitors to join, to which it attached strict restrictive conditions.

ČEZ, a. s. appealed the decision.

Based on new proceedings, the Antitrust Office issued a decision on 18 March 2003 in which it stipulated a new set of conditions:

1. ČEZ, a. s. must sell the remaining 34% stake in ČEPS, a.s.,
2. ČEZ, a. s. must sell all minority stakes, i.e. the stakes in the companies Jihočeská energetika, a.s., Jihomoravská energetika, a.s., and Pražská energetika, a.s.,
3. ČEZ, a. s. must sell one majority stake in an electricity distribution company of its choice.

The deadlines for the sales of stakes according to points 1 – 3, above, were not made public.

The Board of Directors of ČEZ, a. s. resolved not to take any more steps against the Antitrust Office's new decision, and thereby opened up the way for the transaction to be executed.

b) exemption from ban on public support

A decision of the Antitrust Office dated 17 March 2003 definitively terminated the proceedings and pronounced that the restructuring of the electric power industry does not constitute public support.

When the above decisions entered into legal force on 1 April 2003, ČEZ, a. s. became a joint owner of all the Czech electricity distribution companies. In May, extraordinary General Meetings were held by those electricity distribution companies in which ČEZ gained majority stakes in order to commence cooperation and leverage synergies within the entire ČEZ Group. In July, a project designed to facilitate the effective operation of ČEZ Group as a whole was commenced with the support of the consulting company A.T. Kearney GmbH, which was chosen in a tender.

In May, ČEZ presented the procedure and priorities for meeting the conditions stipulated by the Antitrust Office, including mutual consolidation of equity stakes in the electricity distribution companies with other co-owners. In June, an agreement was reached with the E.ON group and on 4 July 2003, transaction documents were signed, on the basis of which ČEZ gained E.ON's stakes in Západočeská energetika, a.s. and Východočeská energetika, a.s. in exchange for its minority stakes in Jihočeská energetika, a.s. and Jihomoravská energetika, a.s. The deal also includes a call/put option on E.ON's shares in Severomoravská energetika, a. s. and Severočeská energetika, a.s., which can be exercised during 2004. The option, if exercised, would increase ČEZ's stake in Severočeská energetika, a.s. by 5.93% to 56.93% and its stake in Severomoravská energetika, a. s. by 30.28% to 89.36%.

The acquisition of shares as of 1 April 2003 gave ČEZ the obligation to offer to buy out minority shareholders of Západočeská energetika, a.s. and Středočeská energetická a.s. The share price offered in the buyout was based on an expert appraisal and the buyout offer was approved by the Securities Commission. The buyout took place between the 2nd and the 30th of June, 2003, and the resulting trades were settled in the months of July and August. The mandatory buyout offer for Středočeská energetická a.s. was accepted by that company's significant minority shareholder RWE (34.98%), and the buyout offer for Západočeská energetika, a.s. was accepted by the minority shareholder Energie AG Oberösterreich (11.18%).

In conjunction with the acquisition of stakes from E.ON, ČEZ was required to make a public takeover offer. Buyouts of shares in Západočeská energetika, a.s. took place from 3 September to 1 October 2003, and shares of Východočeská energetika, a.s. were purchased from 15 September – 13 October 2003. Because the price offered by ČEZ for shares of Západočeská energetika, a.s. was greater than the price offered in June 2003, the difference in the price was paid out to all shareholders who sold their shares in the first buyout round.

The execution of the transactions described above will make it possible to increase the effectiveness and flexibility of management in the new ČEZ Group and to strengthen its position in the liberalized markets of the Central Europe region.

In accordance with a contractual obligation concerning a new expert appraisal of shares in ČEPS, a.s. being transferred by ČEZ, said shares were newly appraised (at CZK 15.224 billion), on the basis of which OSINEK, a.s. and the Ministry of Labor and Social Affairs were paid the differences as follows: ČEZ, a. s. paid the difference in the stake's appraisal to the Ministry of Labor and Social Affairs and, at the same time, the amounts on the bills of exchange which ČEZ will use to pay for the acquired stakes were reduced.

Of the total amount of CZK 32.140 billion, ČEZ, a. s. paid CZK 1.505 billion to the National Property Fund of the Czech Republic and CZK 0.196 billion to the Česká konsolidační agentura at the time the shares were transferred. In June 2003, the company paid another CZK 0.274 billion due to a decline in the price of the stake in ČEPS, a.s. acquired by the Ministry of Labor and Social Affairs. The remaining amount to be paid was divided into four CZK 3.735 billion installments. Two installments were paid in 2003, the third was paid in May 2004, and the last installment will be paid by the end of June 2004. The difference between the prices of the exchanged stakes was paid to E.ON following the settlement of the transaction on 30 September 2003.

ČEZ, a. s. Stakes in the Electricity Distribution Companies in 2003 (%)

Company	at 30 June 2003	at 31 December 2003
Severočeská energetika, a.s.	51.00	51.00
Severomoravská energetika, a. s.	59.08	59.08
Středočeská energetická a.s.	58.30	97.72
Východočeská energetika, a.s.	50.07	98.83
Západočeská energetika, a.s.	50.26	99.13
Jihočeská energetika, a.s.	34.01	0.00
Jihomoravská energetika, a.s.	35.21	1.71
Pražská energetika, a.s.	34.00	34.00

On 14 January 2004, ČEZ, a. s. increased its stake in engineering company ŠKODA PRAHA a.s. by CZK 700 million from 29.8% to 68.88% by a monetary contribution that was settled by capitalizing a receivable owed to ČEZ, a. s. by said company, under signed Settlement Agreement.

Consolidation of ČEZ Group Accounting Results

In accordance with the acquisition of shares in the electricity distribution companies, it was decided effective 1 April 2003 to carry out a fundamental expansion of the previous consolidation group, to include not just the new direct and indirect acquisitions, but also other subsidiaries and affiliates whose shares were owned by the company as of 31 December 2002, but had not yet been made part of the consolidation group. The consolidation group was structured with regard for the significance of the individual subsidiaries and affiliates using data on their shareholders' equity, total assets, total sales and earnings results. Shares in companies classified as available-for-sale investments and companies in bankruptcy or liquidation were not included in the consolidation group. Other companies not included are not significant, representing less than one percent of the hypothetical consolidation group that would arise were these subsidiaries and affiliates to be included. The consolidation group as of 31 December 2003 consisted of a total of 33 companies: the parent company, 22 subsidiaries (full consolidation) and 10 associates (equity method consolidation).

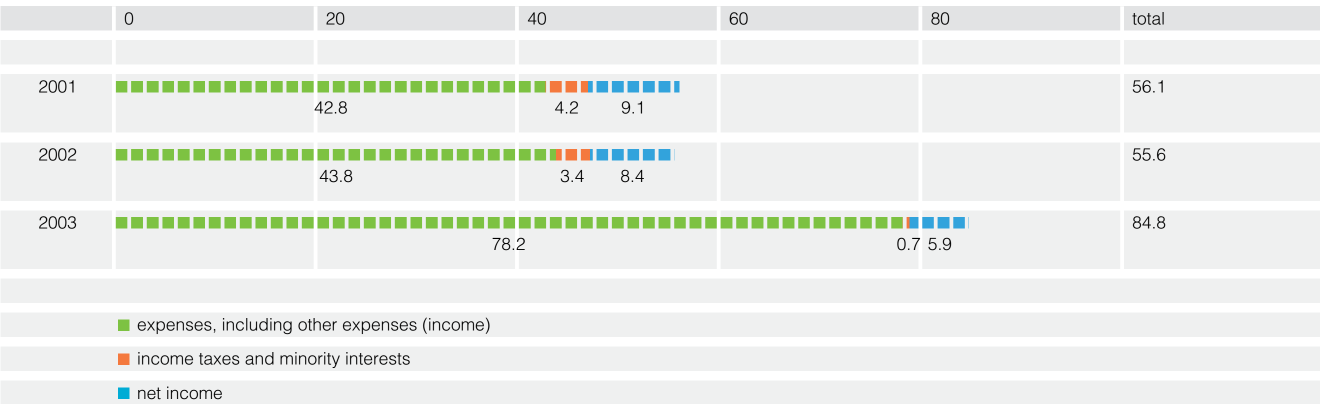
The first consolidation of the accounting results of the new consolidation group was conducted as of 30 June 2003. Consolidation rules and a unified structure of input data were drawn up far enough in advance to allow for the compilation of consolidated financial statements according to International Financial Reporting Standards and the consolidation of other data set forth in the Notes to Financial Statements. For consolidation purposes, a specialized software was implemented based on a tender. This software, which is administered by the parent company, allows direct entry of data by subsidiaries using a special Internet application.

Financial Performance

Revenues, Costs, and Earnings

The financial performance results of ČEZ Group for the year 2003 were significantly impacted by changes in Group structure; effective 1 April 2003, five electricity distribution companies in which ČEZ, a. s. acquired majority equity stakes became members of the consolidation group. As of the same date, a majority stake in ČEPS, a.s. was sold, and therefore the method used to consolidate the accounting results of this company changed from full consolidation to the equity method. Since in 2002 the consolidation group contained only two subsidiaries and one associate, the ČEZ Group financial performance results for 2003 are difficult to compare to those of past years.
The decline in ČEZ Group net income from CZK 8.4 billion to CZK 5.9 billion (down by CZK 2.5 billion, or 29.6%) was caused by a CZK 3.8 billion drop in operating profits, a CZK 1.4 billion increase in the excess of other costs over other income, and newly reported minority interests (CZK 0.5 billion) – all of which adds up to CZK 5.7 billion – and was partially compensated for by a CZK 3.2 billion decrease in income tax expense.

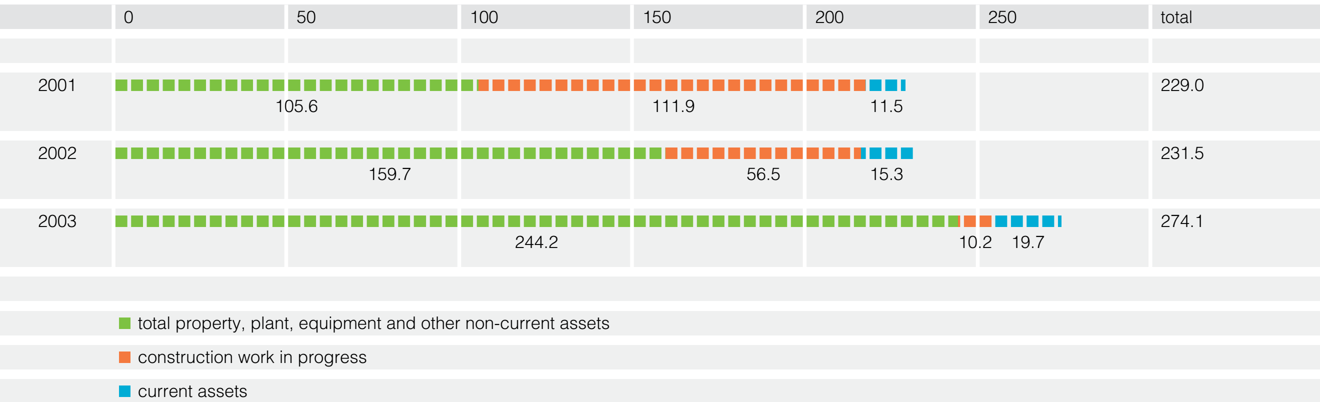
Formation of Profit (CZK billions)



The main reason for the growth in ČEZ Group operating revenues to CZK 84.8 billion (up 52.6%) was the Group's expansion. Revenues from sales of electricity grew by CZK 26.6 billion (50.3%) to reach CZK 79.5 billion. Other revenues grew by nearly 100% (up CZK 2.6 billion) as a result of activities of new ČEZ Group members.
Operating costs reached CZK 77.3 billion. This represents growth of CZK 33 billion (74.4%) over the previous year's figure and, like in revenues, the biggest factor here was the expansion of ČEZ Group, resulting in a CZK 13.8 billion (188%) increase in energy purchasing, CZK 4.1 billion (107%) growth in personnel expenses, and growth in a significant portion of depreciation and amortization, which rose by a total of CZK 5.9 billion (50.3%). In addition to the expansion of ČEZ Group, other factors contributing to the increase in operating costs included changes in the nuclear power plants area – the commissioning of both generating units for commercial operation at the Temelín Nuclear Power Station (causing depreciation charges to rise by CZK 2.8 billion, or nearly half of the overall increase) and the extension of nuclear power plant operating periods from 30 to 40 years. As a result of this step, as well as an update of the estimated amount and timeline of costs for decommissioning nuclear facilities, nuclear provisioning was up CZK 3.5 billion in 2003. Impairment provisions for financial investments were also higher (by CZK 1.5 billion).
In other expenses (income), income from associates (i.e. the Group's share in the net income of associates) grew by CZK 0.6 billion (114%) and other financial expenses fell, also by CZK 0.6 billion. On the other hand, due to lower capitalization of interest in conjunction with the commissioning of Temelín Nuclear Power Station for commercial operation, interest costs rose by CZK 1.2 billion. According to International Financial Reporting Standards (IFRS), the sale of the ownership interest in ČEPS, a.s. did not have a direct impact on ČEZ Group net income. Because the sale was to an entity under common control, the profit, including the related income tax, was reported as a direct increase of consolidated shareholders' equity.
ČEZ Group corporate income tax, at CZK 0.2 billion (down CZK 3.2 billion year-on-year), resulted – aside from the lower gross income – significantly from a reduction in deferred tax liability, which was itself due mainly to a change in the tax rates expected to apply in future years.

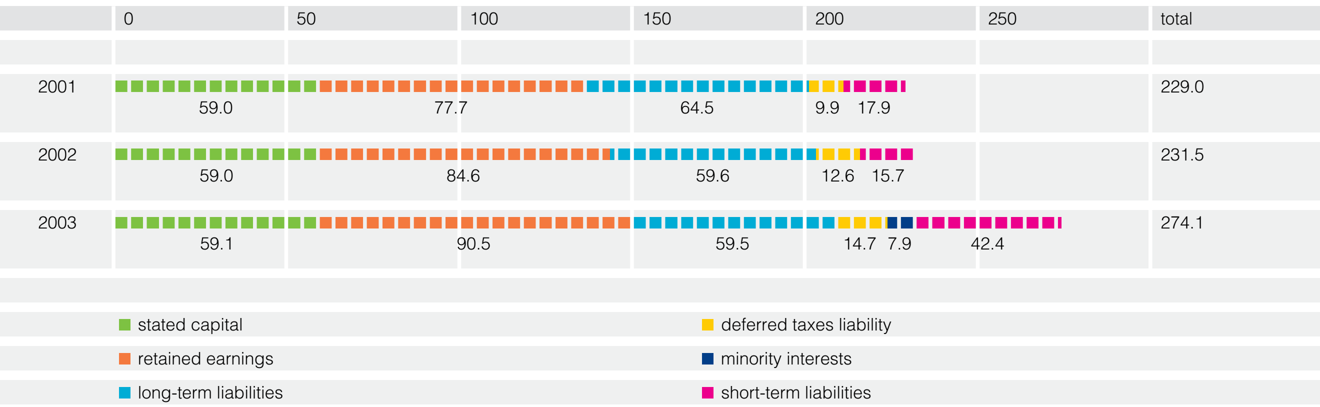
The total assets figure for ČEZ Group reached CZK 274.1 billion. This represents year-on-year growth of only 18%, which is given by the fact that ČEZ's fixed (predominantly generation) assets have relatively higher value than the fixed assets of the electricity distribution companies. In particular, in conjunction with the commissioning of Unit Two of Temelín Nuclear Power Station, construction work in progress fell from CZK 56.5 billion to CZK 10.2 billion (decline of 81.9%). Investment in associates (expressing the valuation of affiliates included in the consolidation group) grew by CZK 5.1 billion to CZK 11.0 billion. Investments and other financial assets, at CZK 8.6 billion, were up CZK 2.9 billion. In current assets, the expansion of ČEZ Group to include the electricity distribution companies led to a CZK 3 billion increase in receivables – to a level of CZK 7.1 billion.

Structure of Assets as of 31. 12. (CZK billions)



The shareholders' equity of ČEZ Group grew by CZK 6.0 billion to a level of CZK 149.7 billion. Ownership transfers affected the shareholders' equity as follows: the sale of the stake in ČEPS, a.s. caused equity to grow by CZK 7.2 billion and the purchase of stakes in the electricity distribution companies from the National Property Fund and Česká konsolidační agentura reduced equity by CZK 5.0 billion. Equity was further increased by the 2003 net income and reduced by the dividend paid for 2002.

Structure of Equity and Liabilities as of 31. 12. (CZK billions)



Long-term liabilities remained practically unchanged, since the CZK 4.3 billion growth in nuclear provisioning and the CZK 0.4 billion increase in other long-term liabilities were offset by a CZK 4.8 billion reduction in loans and bonds. However, ČEZ Group current liabilities grew substantially – by CZK 26.7 billion to a total of CZK 42.4 billion. This increase was caused in particular by bills of exchange issued by ČEZ, a. s. to finance the purchase of equity stakes (CZK 7.5 billion), and an increase in liabilities toward suppliers and payments received on account. Accrued liabilities grew by CZK 8.3 billion – due mostly to deferred income carried by the electricity distribution companies in their balance sheets.

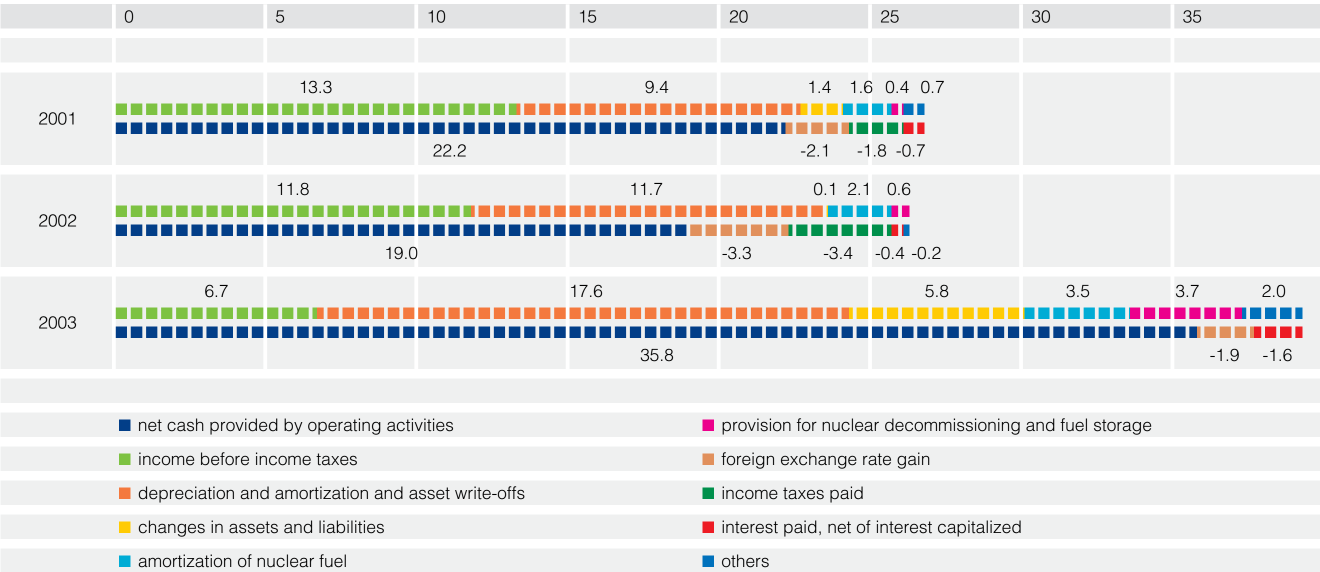
Cash Flows

Operating cash flow grew from CZK 19.0 billion to CZK 35.8 billion. The most important factors here were the adjustment of income before income tax for non-cash transactions, primarily the CZK 5.9 billion increase in depreciation and amortization and the CZK 3 billion increase in the balance of nuclear provisions. Further, operating cash flow was increased year-on-year by a CZK 5.7 billion change in the balance of current assets and liabilities and a CZK 3.4 billion decline in corporate income taxes paid.

The amount of cash used in investing activities tripled – from CZK 9.9 billion to CZK 30.9 billion. Outlays to acquire five majority stakes in electricity distribution companies reached CZK 28.4 billion, outlays to acquire tangible and intangible fixed assets and investments (in particular the three minority stakes in electricity distribution companies) reached a total of CZK 23.9 billion. Two of these three stakes have already been sold and they constitute a substantial portion of proceeds from sale of fixed assets, at CZK 9.6 billion. Proceeds from the sale of the majority stake in ČEPS, a.s. reached CZK 12.2 billion.

Net cash flows from financing activities, at CZK 5.1 billion, can be broken down as follows: installments on borrowed capital exceeded new borrowing by CZK 2.5 billion and a CZK 2.6 billion dividend was paid.

Structure of Operating Cash Flow (CZK billions)



Bank and Other Loans and Maturity Thereof

ČEZ Group Long-term Loans, Including Current Portion (CZK millions)

Creditor	Currency	Maximum Loan Amount in Given Currency	Balance at 31. 12. 2003	Matures	Collateral
Bank Austria	EUR	20	113	2005	
Citibank International	USD	317	2,660	2007 – 2008	State guarantee, foreign currency hedging of 78% of principal
Česká spořitelna	CZK	50	40	2007	mortgage
Česká spořitelna	CZK	360	43	2006	
ČSOB	EUR	35	43	2004	State guarantee, foreign currency hedging of 100% of principal and interest
ČSOB	CZK	169	144	31. 12. 2007	
ČSOB	CZK	100	25	31. 12. 2004	
Deutsche Bank	CZK	250	257	1. 9. 2004	
Erste Bank	EUR	20	172	2004 – 2006	
European Investment Bank	USD	55	1,085	2013	foreign currency hedging of 24% of principal and interest up until 2005
European Investment Bank	EUR	44	1,117	2013	
European Investment Bank	CZK	3,441	2,647	2012 – 2013	interest rate hedged up until 15. 3. 2007 for 89% of principal
Fortis Bank	USD	55	616	2008 – 2009	State guarantee
HVB Bank	CZK	261.5	267	10. 6. 2004	mortgage loan
IBRD	USD	246	1,709	2007	State guarantee, foreign currency hedging of 17% of principal
ING Bank	CZK	48	2	2005	declaration of credit assistance from SME *)
ING Bank	EUR	27	152	2005	
Komerční banka	CZK	30	30	January 2004	
Komerční banka	CZK	300	171	January 2006	bill of exchange accepted by SME *)
Komerční banka	CZK	71	28	2007	SME *) declaration of patronage
Nordic Investment Bank	USD	50	1,283	2007	
Živnostenská banka	CZK	51	3	2005	SME *) declaration of patronage
Total			12,607		
Current portion payable within 1 year			2,691		
Long-term Bank Loans (maturing in 2005 or later)			9,916		

*) SME – Severomoravská energetika, a. s.

ČEZ Group Short-term Bank Loans and Overdraft Facilities (CZK millions)

Creditor	Currency	Balance at 31. 12. 2003
ABN AMRO Bank	CZK	150
Česká spořitelna	CZK	1,000
Česká spořitelna	CZK	180
Česká spořitelna	CZK	8
ČSOB	CZK	48
ČSOB	CZK	0.5
Deutsche Bank	CZK	19
ING Bank	CZK	14
Komerční banka	CZK	850
Komerční banka	CZK	22
Komerční banka	CZK	8.5
Živnostenská banka	CZK	12
Other	CZK	8
Total		**2,320**
Current portion of long-term loans maturing in 2004		2,691
Total Loans Maturing in 2004		**5,011**

In April 2003, ČEZ entered into a five-year guarantee for the 1st tranche of a loan from the European Investment Bank in an amount of EUR 88 million. This was a renewal of the original seven-year guarantee for the 1st tranche of EUR 100 million, which was entered into in 1996. The lead arranger of the transaction is Sumitomo Mitsui Banking Corporation Europe Limited, and the arranger is Kreditanstalt für Wiederaufbau.

In June 2003, ČEZ issued the first issue of bonds out of a total of nine issues planned in its new bond program. The first issue, with a total volume of CZK 3 billion, bears interest at 3.35% p.a. and matures in 2008. The issue was sold for 100.05% of face value. The arranger and lead manager of the issue is Československá obchodní banka, a. s.

The proceeds from this issue were used to finance early repayment of the 5th domestic bond issue of 1996. By replacing this older bond issue, ČEZ achieved a significant reduction in interest costs.

During 2003, ČEZ renewed agreements with banks on the provision of short-term back-up credit lines in conjunction with the bill of exchange program. This took the volume of short-term binding credit lines to CZK 6 billion.

ČEZ and the electricity distribution companies in which ČEZ holds majority equity stakes entered into a virtual cash-pool agreement with Komerční banka, a.s., under which electricity distribution companies who are members of the new ČEZ Group gained access to better interest rates on current account balances and overdraft facilities. At the same time, Komerční banka, a.s. entered into bilateral agreements with the individual electricity distribution companies which brought the terms applied to their payment transactions into line with those negotiated by ČEZ.

In 2003, ČEZ continued to duly repay loans that it took out to finance supplies from Westinghouse for the Temelín Nuclear Power Station. USD 23.8 million was repaid on a loan provided by a syndicate of banks led by London-based Citibank and USD 4.7 million was repaid on a loan from a consortium led by Brussels-based Fortis Bank. Both of these repayment amounts corresponded to a tranche that was used to finance instrumentation and control systems for units one and two of this power station.

Financial indicators

	Units	2001	2002	2003
Profitability				
Return on equity (ROE) gross	%	10.0	8.4	4.5
Return on equity (ROE) net	%	6.9	6.0	4.0
Return on total assets (ROA) net	%	4.0	3.7	2.3
Return on capital employed (ROCE) net	%	5.1	4.7	3.3
Sales margin	%	23.7	21.2	7.9
Working ratio	%	56.9	58.7	57.4
maximum level – WB, EIB	%	60.0	60.0	60.0
Indebtedness				
Debt to equity ratio	1	0.36	0.28	0.26
Total indebtedness (provisions excluded)	%	29.8	26.7	28.4
maximum level – EIB, Eurobonds	%	50.0	50.0	50.0
Long-term indebtedness	%	18.8	15.4	11.3
Debt service ratio	1	2.2	2.9	3.4
minimum level – WB	1	2.2	2.2	2.2
minimum level – EIB	1	1.65	1.65	1.65
Liquidity				
Current ratio	1	0.64	0.97	0.47
Operational cash flow to liabilities ratio	%	24.1	21.6	30.7
Total assets turnover	1	0.25	0.24	0.34
Cash generation ratio	%	90.6	144.1	41.0
minimum level – WB	%	40.0	40.0	40.0
Fixed Assets				
Coverage of fixed assets	%	92.5	94.0	82.2
Extent of depreciation	%	51	43	41
Capital Market				
Earnings per CZK 100 share	CZK/share	15.4	14.3	10.0
Dividend share of profit	%	16.2	31.6	n.a.
Price/earnings ratio	1	5.0	6.5	14.5

ČEZ Group successfully managed its expansion, as demonstrated by the continued positive trend in financial performance indicators and strengthening in ČEZ Group's position in the Central European power market.

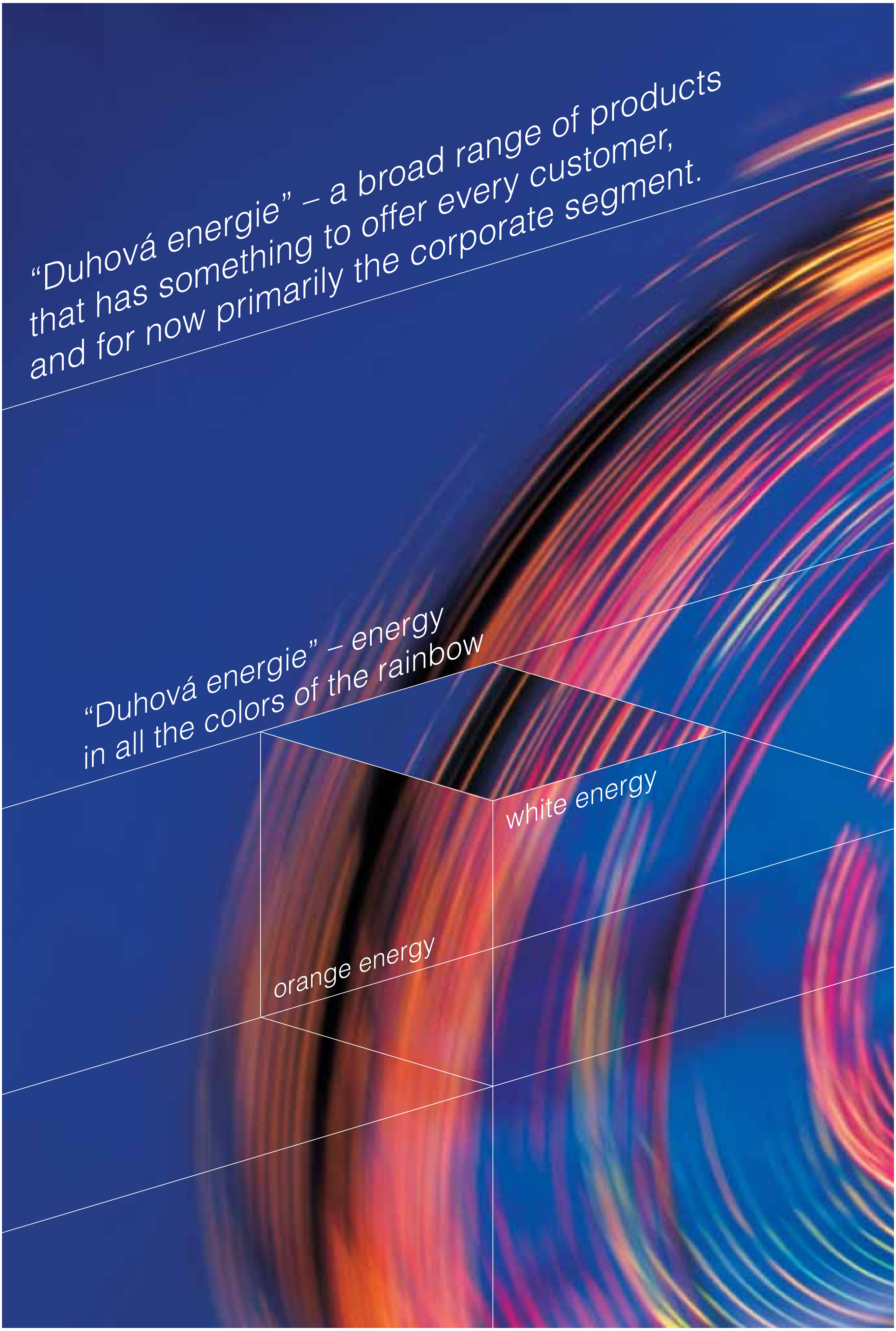
Profitability indicators faltered slightly, mainly as a result of the decline in operating profit described above.

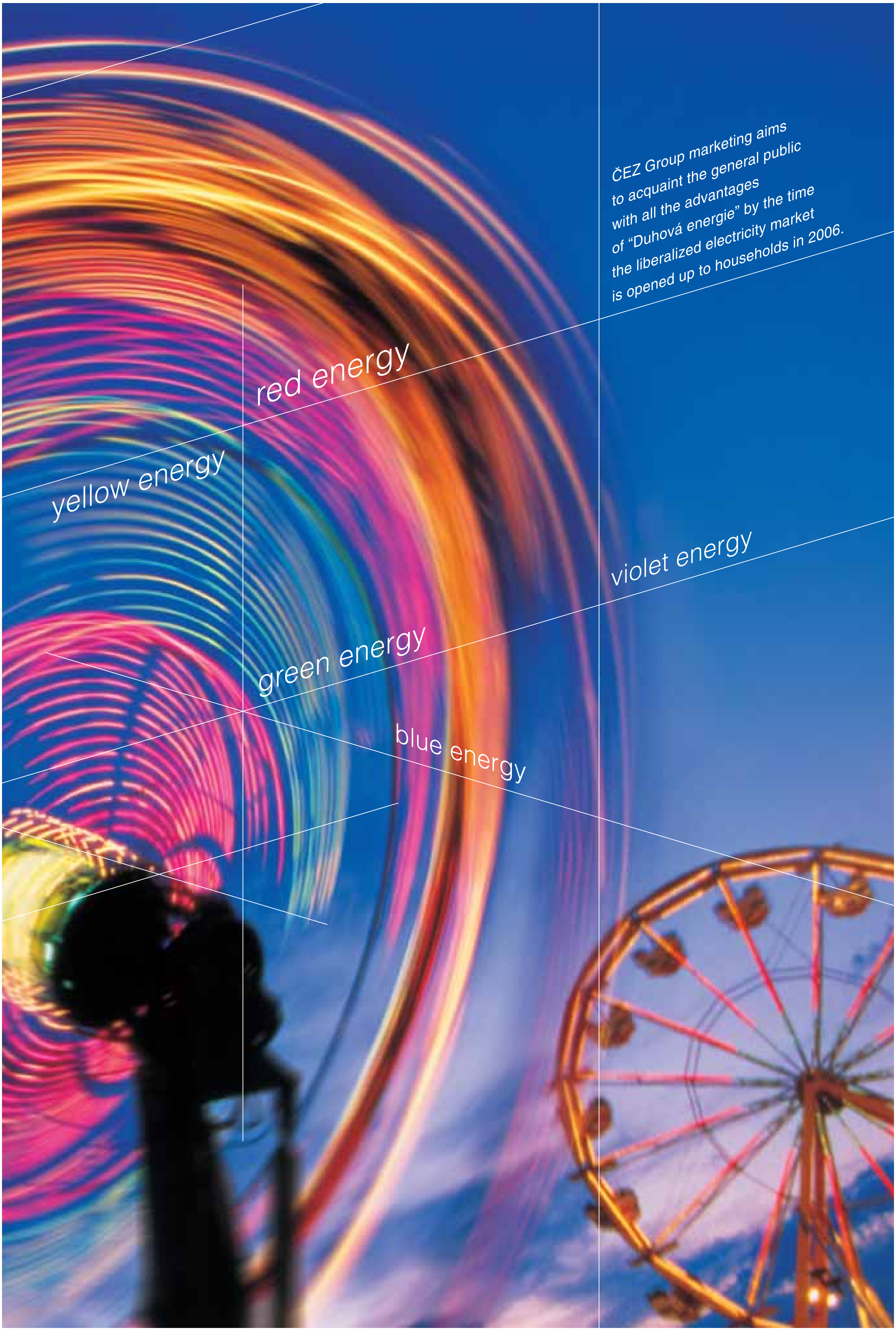
Total indebtedness rose by a small margin, mostly due to the higher level of current liabilities brought by the new ČEZ Group members. On the other hand, the weighting of long-term debt fell. The reasons for this are repayment by ČEZ, a. s. and the fact that the new Group members operate with a relatively low level of debt.

Liquidity fell in conjunction with the fact that current liabilities grew faster than current assets. However, growth in operating cash flow outweighed this factor by a large measure, so ČEZ Group companies have sufficient cash to finance their activities. The assets turnover ratio grew significantly, due to the fact that the new ČEZ Group members have relatively less capital tied up in fixed assets. The distribution segment and other segments do not need as much fixed assets per unit of revenues as the power generation segment does.

The ratio expressing the extent to which fixed assets are covered by long-term capital declined as a result of the growth in fixed assets, part of which was covered by short-term sources of capital – bills of exchange in particular. The "Extent of depreciation" indicator continues to decline, primarily in connection with the commissioning of Unit Two of Temelín Nuclear Power Station for commercial operation.

Although earnings per share declined, the capital market reacted positively to the expansion of ČEZ Group, sending the market value of the Group's parent company, ČEZ, a. s., up substantially.


“Duhová energie” – a broad range of products
that has something to offer every customer,
and for now primarily the corporate segment.
“Duhová energie” – energy
in all the colors of the rainbow
white energy
orange energy



ČEZ Group marketing aims to acquaint the general public with all the advantages of “Duhová energie” by the time the liberalized electricity market is opened up to households in 2006.

Shareholders and Securities in Issue

Development of the Shareholder Structure

The total amount of ČEZ's stated capital recorded in the Commercial Register at the end of 2003 was CZK 59,221,084,300. The number of ČEZ, a. s. shareholders at 31 December 2003 was 126,807, which represents a year-on-year decrease of 2,944 shareholders. Of the latter number, 2,886 were private individuals (though the aggregate number of shares held by individuals increased by 3,991,000 over the same period) and 58 were legal entities. The number of shares held by asset managers declined by 23,105,000 and the number of shares held by the National Property Fund of the Czech Republic and other legal entities grew by 19,237,000 shares.

Shareholder Structure (%)

	at 31. 12. 2001	at 31. 12. 2002	at 31. 12. 2003
Legal Entities Total	97.02	95.71	95.04
National Property Fund of the Czech Republic	67.61	67.61	67.61
Other legal entities	16.77	18.71	21.95
of which: domestic	5.52	7.35	6.52
foreign	11.25	11.36	15.43
Asset managers	12.64	9.39	5.48
Private Individuals Total	2.98	4.29	4.96
of which: domestic	2.81	4.13	4.78
foreign	0.17	0.16	0.18

Using a list of the company's shareholders as of 31 December 2003 produced by the Securities Center, it was determined that no other entity besides the National Property Fund of the Czech Republic has a share of over 10% in the equity of ČEZ, a. s. Likewise, aside from the National Property Fund of the Czech Republic, no other shareholder was known to hold a share exceeding 5% of the voting rights at the end of 2003.

The asset manager Československá obchodní banka, a. s. administers securities for 84 shareholders with a total face value of CZK 3.2 billion and the asset manager Citibank a.s. administers the securities of three shareholders in a total face value of CZK 14.3 million.

Foreign entities (legal entities and private individuals) held 15.6% of ČEZ's stated capital directly at 31 December 2003. ČEZ is not able to determine whether any of the securities that are managed by asset managers are owned by foreign entities.

Structure of Shareholders (Including Asset Managers) by Number of Shares Held

	at 31. 12. 2001	at 31. 12. 2002	at 31. 12. 2003
1 – 100,000	132,979	129,581	126,634
100,001 – 500,000	109	110	102
500,001 – 1,000,000	24	30	35
1,000,001 – 10,000,000	30	28	34
over 10 million	4	2	2
Total	133,146	129,751	126,807

Shareholder Structure by Participation in Stated Capital

	at 31. 12. 2001	at 31. 12. 2002	at 31. 12. 2003
up to 1%	133,141	129,743	126,799
1% – 5%	4	7	7
5% – 10%	0	0	0
over 10%	1	1	1
Total	133,146	129,751	126,807

Shareholder and Investor Relations

Companies of ČEZ Group convene and run their General Meetings in accordance with applicable legislation and see to it that General Meeting resolutions are implemented in full. ČEZ Group complies with disclosure requirements towards shareholders and ensures that all shareholders are treated equally. In particular, the company takes care that shareholders are kept well informed through the Prague Stock Exchange, the press, and Group websites concerning General Meeting scheduling and resolutions, as well as dividend payment. Shareholders also have access to ČEZ Group quarterly performance reports, lists of dates when earnings announcements will be made, and securities prospectuses. When new members of the Supervisory Board are elected, the basic biographical data on the candidates are disclosed to the shareholders attending the General Meeting prior to the actual election. At General Meetings, shareholders have an opportunity to ask questions and make proposals and counterproposals. ČEZ Group also puts emphasis on effective communication with investors and Group websites are an important tool in this regard. The company's senior management takes questions from professional circles at regular press conferences and conducts road shows for foreign investors as needed, as well as giving interviews in the mass media (television, radio, newspapers). The fundamental rules that guide ČEZ Group in disclosing information to investors are credibility, consistency, coherence, and timeliness.

Shareholder and investor relations, as well as corporate governance in general, are based on the recommendations codified in the Corporate Governance Code, on the drafting of which at the national level ČEZ Group is playing a leading role.

In February 2004, ČEZ, a. s. was ranked number one in the Czech Republic in the corporate governance category by EUROMONEY, the prestigious global banking and capital markets magazine.

The payment of a dividend by ČEZ, a. s. for the year 2000 in a total amount of CZK 1.184 billion (approximately 21% of the reported net income – CZK 2/share) is taking place from 1 August 2001 to 31 July 2006. Payment of the 2001 dividend totaling CZK 1.480 billion (approximately 23% of the reported net income – CZK 2.50/share) is taking place from 1 August 2002 to 31 July 2007 and payment of the 2002 dividend totaling CZK 2.657 billion (approximately 40% of the reported net income – CZK 4.50/share) is taking place from 1 August 2003 to 31 July 2008 at all branches of the payment administrator, Česká spořitelna, a.s.

An extraordinary General Meeting of ČEZ, a. s. was held on 24 February 2003, which:

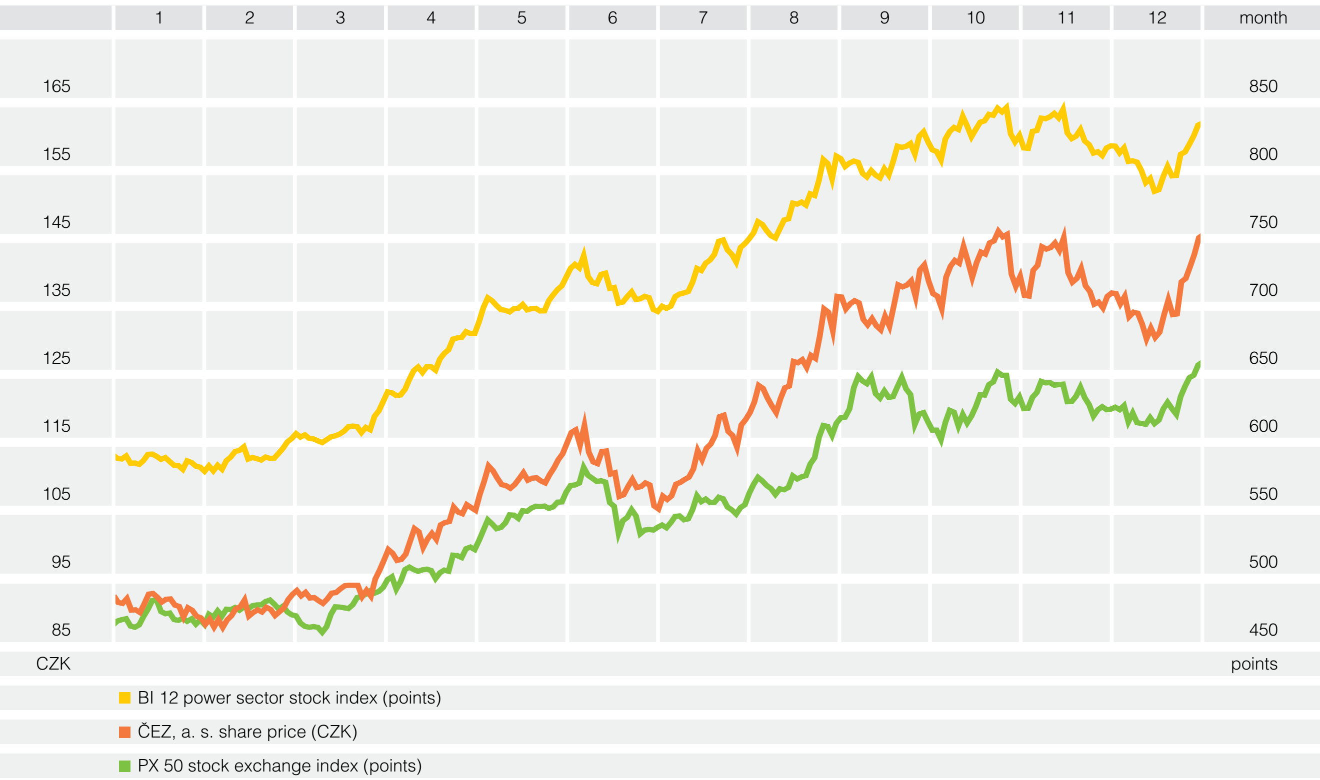
- approved a draft agreement on sale of the Náchod Heat Plant enterprise; on the basis of a tender that was organized through the agency C.S. commerce service, a.s., the buyer chosen was Harpen ČR, s.r.o.,
- removed and elected members of the Supervisory Board. The following were removed: Josef Flekal, Olga Horáková, Vratislav Vajnar, Milada Vlasáková and Oldřich Vojíř; Elected were: Jan Demjanovič, Zdeněk Hrubý, Stanislav Kázecký, Jaroslav Košut and Pavel Suchý; at a subsequent Supervisory Board meeting, Stanislav Kázecký was elected Chairman of the Supervisory Board, Zdeněk Hrubý was elected Vice Chairman, and Vice Chairman Václav Krejčí was re-elected for another term,
- added a resolution on item No. 15 passed at the Annual General Meeting in June 2001, concerning the incentive program of company share options.

The Annual General Meeting held on 17 June 2003 approved:

- the financial statements of ČEZ, a. s. and the ČEZ Group consolidated financial statements for the year ended 31 December 2002,
- allocation of profits, including payment of dividends (CZK 4.50/share, gross) and board member bonuses for the year 2002,
- amendment to the Articles of Association,
- donations budget of CZK 70 million, part of which is to be drawn down in 2003 and the remainder in 2004 by the date of the Annual General Meeting,
- update of the company's stock option program,
- remuneration of members of the company's statutory and supervisory boards; shareholders approved the Board of Directors' proposal not to increase said remuneration and leave it at the level approved by the Annual General Meeting in 2002,
- removal of Supervisory Board member Zdeněk Vorlíček and election of Martin Pecina to take his place.

89 shareholders and authorized shareholder representatives were in attendance at the Annual General Meeting. The shareholders present or duly represented at the General Meeting held shares in an aggregate nominal value of CZK 41.675 billion, or 70.4% of the company's stated capital.

ČEZ Share Price in 2003 and Comparison with PX 50 and BI 12 Indexes



Companies in ČEZ Group that are listed on the Prague Stock Exchange and the RM-System (off-exchange securities market) are, in addition to the parent company ČEZ, a. s. itself, the following: Severočeská energetika, a.s., Středočeská energetická a.s., Severomoravská energetika, a. s., Východočeská energetika, a.s., Západočeská energetika, a.s., Severočeské doly a.s., and ŠKODA PRAHA a.s.

The company's Eurobonds are listed on the Luxembourg Stock Exchange and its Yankee Bonds are registered with the U.S. Securities and Exchange Commission. The issuer of bonds denominated in foreign currency is Amsterdam-based CEZ FINANCE B. V.

Litigation

ČEZ, a. s. was not involved in any litigation that could have a material impact on earnings.

Despite the rejection of a number of previous constitutional complaints against ČEZ's actions in the matter of an ownership participation in KOTOUČ ŠTRAMBERK, spol. s r. o., the complainant filed another constitutional complaint against the Arbitration Court's decision that the complainant's withdrawal from the agreement on the sale of its equity interest in KOTOUČ ŠTRAMBERK, spol. s r. o. is null and void. During the reporting period, the complainant, despite the above mentioned Arbitration Court decision, withdrew from the original agreement again, resulting in the commencement of a new proceeding before the Arbitration Court.

A proceeding before the Constitutional Court is pending in the matter of a constitutional complaint filed by a regional association against the České Budějovice Regional Court, which reviewed an administrative body's decision on an appeal relating to the Temelín Nuclear Power Station.

As a result of a decision of the Supreme Court in Vienna, which partially acknowledged Austrian courts' jurisdiction over disputes the subject matter of which is ownership rights to real property, the Regional Court in Linz began hearings on the substance of a suit filed by the Province of Upper Austria against ČEZ, a. s. seeking for the court to order the cessation, to the degree compatible with the recognized state of the technology, of the effects of ionizing radiation originating from the Temelín Nuclear Power Station that reach land owned by the complainant. At the same court, a parallel suit is underway which was brought by two private individuals against ČEZ, a. s. and Westinghouse as supplier of the instrumentation and control system for the Temelín Nuclear Power Station. As of the Annual Report closing date, the suit had not yet been duly served.

Credit Rating

The parent company, ČEZ, a. s., received a long-term rating of BBB+ with a stable outlook from Standard & Poor's. During 2003, the agency first increased the outlook to positive in conjunction with the acquisition from the State of interests in the eight electricity distribution companies, and later returned it to stable in respect of ČEZ's interest in participating in privatization processes in countries of Central and Eastern Europe.

In January 2002, Moody's reaffirmed the Baa1 rating with stable outlook, and that remains in effect until now.

Of the subsidiaries, Standard & Poor's rated two companies in April 2003. The agency reaffirmed Západočeská energetika's long-term A- rating with stable outlook and gave it a short-term rating of A-2. Severomoravská energetika's long-term BBB rating was reaffirmed, but with a change in outlook from stable to positive, and its short-term rating was set at A-2.

In March 2004, both companies asked Standard & Poor's to cease rating them on the grounds that both companies had been integrated into ČEZ Group. From now on, both Standard & Poor's and Moody's will rate ČEZ Group as a single unit.

Types and Volumes of Securities

a) ČEZ, a. s.

Security	ISIN	Issue date	Interest	Maturity	Form	Face Value
1st share issue [1]	CS0008441952	6. 5. 1992	x	x	booked to owner	CZK 1,100
2nd share issue [2]	CZ0005104950	8. 8. 1994	x	x	booked to owner	CZK 1,000
share split [3]	CZ0005112300	15. 2. 1999	x	x	booked to owner	CZK 100
5th bond issue	CZ0003500662	27. 6. 1996	11 1/16%	2008	booked to owner	CZK 10,000
6th bond issue	CZ0003501066	26. 1. 1999	zero coupon [4]	2009	booked to owner	CZK 1,000,000
7th bond issue	CZ0003501058	26. 1. 1999	9.22% [5]	2014	booked to owner	CZK 1,000,000
8th bond issue	CZ0003501090	7. 6. 1999	8 3/4%	2004	booked to owner	CZK 10,000
9th bond issue [6]	CZ0003501348	23. 6. 2003	3.35% [7]	2008	booked to bearer	CZK 10,000
1st Eurobond issue	[8]	15. 12. 1994	8 7/8%	1999	booked to owner	USD 10,000
2nd Eurobond issue	[8]	20. 10. 1999	7.25%	2006	booked to owner	EUR 1,000 EUR 10,000 EUR 100,000
3rd Eurobond issue	[8] [11]	8. 6. 2004	4 5/8%	2011	booked to owner	EUR 1,000 EUR 10,000 EUR 100,000
Yankee bonds	[8]	17. 7. 1997	7 1/8%	2007	booked to owner	USD 1,000

[1] Face value at time of issue CZK 1,000, by decision of the General Meeting of 20 September 1993 raised to CZK 1,100.
Number of shares issued: 51,731,161.
[2] The number of shares issued before and after the registration of Privatization Project supplements was 2,290,665 and 2,304,569, respectively.
[3] As of 15 February 1999, the first and second share issues were split into shares with face value of CZK 100.
Number of shares outstanding: 591,949,421; after stated capital increase: 592,088,461.
[4] Yield is the difference between value of bond at issue (CZK 1,862,905,005) and face value (CZK 4.5 billion).
[5] Starting in 2006, the bonds will bear interest at a variable rate defined as CPI + 4.2%.
[6] Bond program with maximum volume of outstanding bonds CZK 30 billion – program duration 10 years.
[7] Offering price: 100.05%.
[8] Issued by CEZ FINANCE B. V.
[9] USD 22 million bought back by issuer in first half of 1998.
[10] Offering price: 99.602%.
[11] Closing date is of 8 June 2004.

Amount of share capital remaining to be paid in: 0.
The company has not issued any convertible bonds.
According to the issue conditions, the bonds are not guaranteed by the State or by any bank.

b) Other ČEZ Group Members

Security	ISIN	Issue Date	Interest	Maturity	Form	Face Value
bonds	CZ0003500993	5. 3. 1998	6M PRIBOR + 0.4%	2005	booked to bearer	CZK 10,000
bonds [*]	CZ0003700544	9. 2. 2000	6M PRIBOR + 1.3%	2005	booked to owner	CZK 10,000

[*] Secured by an irrevocable guarantee.

Volume	Manager	Administrator	Early Repayment
CZK 56.9 billion	x	x	x
CZK 2.3 billion	x	x	x
CZK 59.2 billion	x	x	x
CZK 3.0 billion	Česká spořitelna, Komerční banka, ING Barings Capital Markets	Česká spořitelna	27. 6. 2003
CZK 4.5 billion	ING Barings Capital Markets	Citibank	x
CZK 2.5 billion	ING Barings Capital Markets	Citibank	x
CZK 3.0 billion	Česká spořitelna	Česká spořitelna	x
CZK 3.0 billion [7)]	ČSOB	ČSOB	x
USD 150 million	J.P. Morgan	Citibank	x
EUR 200 million	Credit Suisse First Boston	Chase Manhattan Trustees Limited	x
EUR 400 million [10)]	BNP Paribas, Merrill Lynch	J.P. Morgan Chase Bank	x
USD 200 million [9)]	J.P. Morgan, Merrill Lynch, Salomon Brothers	The Chase Manhattan Bank	x

Volume	Manager	Administrator	Early Repayment
CZK 1.0 billion	ING Barings Capital Markets	Credit Lyonnais Bank	x
CZK 0.5 billion	Conseq Finance	Raiffeisenbank	x

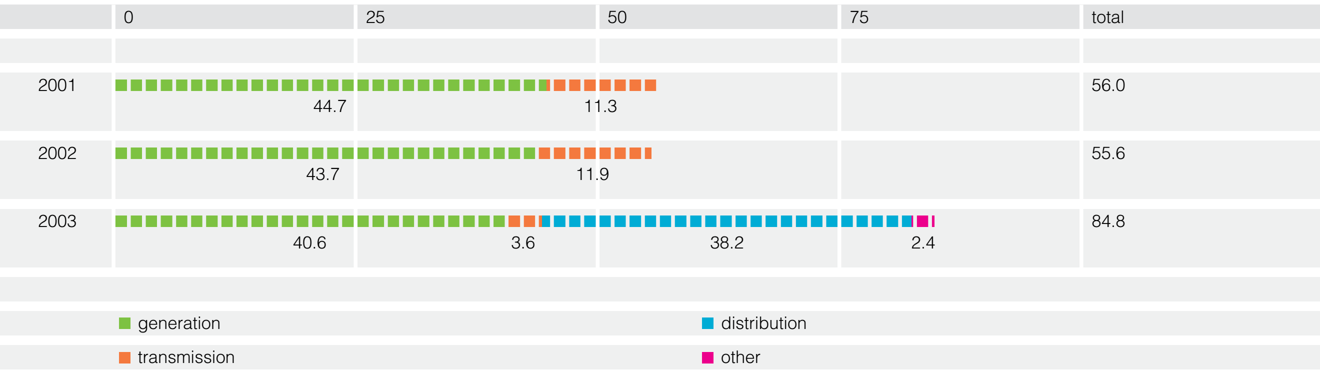
Sales of Electricity, Heat, and Distribution Services

ČEZ Group companies are engaged in a number of businesses: generation and sale of electricity; generation, distribution, and sale of heat; sale of ancillary services; mining of raw materials; maintenance of power plant and equipment; telecommunications services; research; design of power plant and equipment, etc.

The earnings results of individual Group companies are broken down into four main segments – generation, distribution, transmission, and other – and each company is assigned to a segment based on its core business. Costs and revenues of each company are assigned only to one segment. The assignment of companies to particular segments is shown in the ČEZ Group Organization Chart on page 111.

Up to 1 April 2003, ČEZ Group covered only two segments – power generation and transmission. On 1 April 2003, ČEZ, a. s. sold a majority interest in ČEPS, a.s. – the transmission grid operator – and, at the same time, acquired majority interests in five electricity distribution companies, thereby adding a new, “distribution” segment to the Group segment structure.

ČEZ Group Sales Revenues, by Segment (CZK billions)



Conditions in the Electricity Market

The legal framework for the process of opening up the Czech Republic electricity market to competition is given by Act No. 278/2003 Sb., which is an amendment to Act No. 458/2000 Sb., on Conditions for Business and State Administration in the Energy Sectors (the “Energy Act”) and the implementing regulation on said act. The rules governing the organization of the Czech Republic electricity market are set by Decree of the Energy Regulatory Authority (ERA) no. 373/2001 Sb., which stipulates rules for organization of the electricity market and principles for determining prices applicable to activities of the market operator, as amended.

Market players include electricity producers and, partially, the transmission grid operator, the distribution grid operators, traders, final customers, and the electricity market operator. The bulk of electricity trading takes place on the basis of bilateral contracts. The volumes traded on the spot market organized by the Electricity Market Operator (OTE) are small in comparison and they serve to “top up” trading diagrams. Trade orders are filled in terms of a set supply diagram (consisting of defined, fixed supply amounts for each hour) under the “Take or Pay” principle. The OTE also provides for the evaluation, clearing, and settlement of deviations between the amounts of electricity actually supplied and delivered and the contracted-for amounts. Since 2002, the domestic market trading system also includes a commodities exchange and, starting in 2004, there will also be the option of using the intraday electricity market and the “buffering” market for regulation energy.

2003 was the second year of the Czech Republic's electricity market liberalization process, which began on 1 January 2002. The process is based on the principle of regulated third-party grid access (both to the transmission grid and the distribution grids). While in 2002, eligible customer status (i.e. the ability to choose one's electricity supplier) was limited to customers with annual consumption higher than 40 GWh, starting on 1 January 2003 the eligible customer group was expanded to include all electricity customers with an annual consumption of 9 GWh or more, corresponding to approximately 28% of the market.

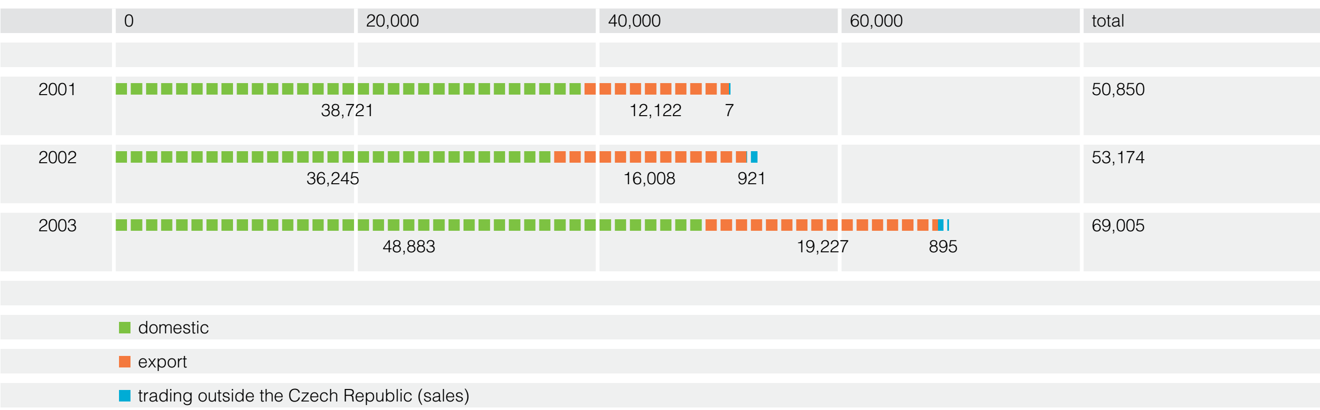
In order to accelerate the electricity market liberalization process, legislation was passed to revise the process timeline. Under the new timeline, as of 1 January 2004 all electricity customers hooked up to the medium voltage grid, whose metering location is equipped with hourly profile metering technology, with a reserved wattage of 250 kW or higher have the right to choose their electricity supplier. As a result, in 2004 the Czech electricity market is 50% open to final customers. Starting in 2005, all remaining customers except households will gain the right to choose their suppliers, and as of January 2006 the market will be opened up completely – to all electricity customers including households.

All electricity producers in the Czech Republic, including those in ČEZ Group, have been fully exposed to competition, including the opening of the market to electricity imports, since the beginning of 2002. For this reason, the price of electricity in the domestic market is influenced by price movements in neighboring countries – especially the liquid German market.

The prices for which ČEZ, a. s. sells electricity are set by contract (starting in 2002, they are no longer subject to government regulation). The distribution companies, on the other hand, sell some electricity at market prices and the rest at government-regulated prices. However, the weight of eligible customers (who choose their electricity supplier and negotiate the price at which they purchase electricity on an individual basis) in the customer portfolio is growing, and this is putting more demands on the distribution companies to deepen their customer focus and take a more flexible approach to sales.

The State also regulates prices charged for transmission of electricity, for system services (the prices charged by grid monopolies), and prices set by the State as part of its policy of supporting electricity generated from renewable sources of energy and from combined generation of power and heat.

ČEZ Group Electricity Sales, by Territory (GWh)



Electricity Sales

1) ČEZ, a. s.

In the new conditions applying to electricity trading in the domestic market, ČEZ, a. s. offers and sells electricity in the form of standardized products which it launched on the liberalized market under the brand name "Duhová energie". The offering for 2003 contained a total of eleven products – ten "time-band" products, i.e. supplies with a constant hourly wattage at various times of the day, allowing the customer to combine them together to cover the bulk of its anticipated purchasing diagram, and one flexible product with variable, customer-determined hourly supply values.

ČEZ's strategy for selling electricity in the domestic market in 2003 was as follows:

- to sell most electricity in advance, even before the year started, by actively offering it to customers,
- to prepare a transparent offering that does not discriminate against any qualified bidders for electricity supplies in the domestic market – an offering that is capable of standing up in competition against electricity imports from abroad,
- to communicate the offering to all domestic potential bidders who are permitted to purchase electricity from ČEZ. The strategy chosen to accomplish this consisted of limited-time offers published by ČEZ, a. s. in the form of a print advertisement – with a reference to the ČEZ website for details (descriptions, prices and supply terms for individual products).

Within the main "Duhová energie" domestic market 2003 sales campaign, which was launched in August 2002, approximately 92% of the prepared offering for 2003 was sold by 31 December 2002.

During 2003, ČEZ, a. s. made use of its free generation capacity by selling it both on the Czech Republic spot market, organized by the OTE, and through bilateral spot contracts.

ČEZ's biggest domestic electricity customers are the electricity distribution companies, which are required by law to supply electricity to protected customers (those who for the time being cannot choose their electricity supplier). Sales to the electricity distribution companies account for approximately 89.5% of overall ČEZ, a. s. domestic market sales.

In 2003, eligible customers also purchased electricity directly from ČEZ, a. s. Their share of overall ČEZ, a. s. domestic electricity sales was approximately 4.2%.

Electricity exports were another significant component of ČEZ, a. s. sales activities, having an impact on the overall amount of electricity sold in 2003. ČEZ, a. s. reinforced its position as the second largest electricity exporter in Europe. Through its Munich-based subsidiary, rpg Energiehandel GmbH, ČEZ also began to sell electricity to medium-sized final customers in the German market as well as through the power exchange in Leipzig.

In response to customer demand, ČEZ, a. s. expanded the line-up of "Duhová energie" products for 2004 to include four modifications of the time-band products (two quarterly products and two long peak business day products) to a total of 15 products offered.

Approximately 96% of the anticipated total volume of "Duhová energie" sales in the domestic market in 2004 had already been sold as of 31 December 2003.

2) Other Members of ČEZ Group

In addition to ČEZ, a. s., electricity is sold by other members of ČEZ Group as well: the electricity distribution companies and První energetická, which operates a grid control facility. Unlike ČEZ, a. s., the electricity distribution companies operate partially in the regulated segment and partially in the liberalized market.

In the regulated segment, they sell electricity to protected customers for the prices set by the Energy Regulatory Authority. To better serve this segment, the distribution companies are building out modern communications channels in the form of call centers and successfully engaging in communications through the Internet and electronic mail. Starting in October 2003, household electricity prices in selected distribution service areas were lowered to below the maximum prices set by the Energy Regulatory Authority.

In the liberalized market, the electricity distribution companies supply electricity to the ever expanding group of eligible customers. Starting in 2003, the electricity distribution companies can acquire eligible customers using the “Duhová energie” brand and its strong marketing support, in addition to their own brands.

Environmental issues and responsibility for the environment are not omitted in trading. Ever since 2001, customers in one of the distribution service areas have been offered a “Green Electricity” product (generated from renewable sources of energy), which is helping to do away with the myth that the electric power industry’s impact on the environment is always and necessarily negative.

As part of the ČEZ Group project “Vision 2008”, which is currently being launched, certain sales operations will be consolidated with the objective of ensuring that they are as effective as possible and to offer customers the best possible sales terms. The plan also includes introducing a customer loyalty program with a number of benefits for participating customers. Also in preparation are program packages for specific customer groups.

The expansion of ČEZ Group to include the electricity distribution companies also resulted in a huge year-on-year increase in ČEZ Group’s share of the overall supply of electricity to final customers to cover domestic demand for electricity – from 1.4% to 57.5%.

ČEZ Group Electricity Procurement and Supply (GWh)

	2001	2002	2003	Index 03/02 (%)
Procurement:				
Generated in-house (gross)	52,162	54,118	61,399	113.5
Purchased from other producers	3,274	2,018	10,701	> 200.0
Purchased from OTE – deviations		881	1,002	113.7
Purchased from OTE – organized spot trading		19	7	36.8
Purchased to cover own consumption	17	18	21	116.7
Purchased outside the Czech Republic	688	1,338	919	68.7
Purchased from electricity distribution companies			47	
Purchased from traders			3,235	
Total	56,141	58,392	77,331	132.4
Supply:				
Sold in the domestic market	38,721	36,245	48,883	134.9
Sold to electricity distribution companies	36,942	31,466	14,107	44.8
Sold to OTE – positive regulation work		1,356	576	42.5
Sold to OTE – negative regulation work		(385)	(481)	124.9
Sold to OTE – deviations		137	809	> 200.0
Sold to OTE – organized spot trading		225	169	75.1
Sold to eligible customers		69	9,467	> 200.0
Sold to protected customers			21,259	
Sold to traders		2,593	1,935	74.6
Sold to ČEPS, a.s. to cover losses	1,393	598	719	120.2
Other domestic sales	386	186	324	174.2
Export	12,122	16,008	19,227	120.1
Trading outside the Czech Republic (sales)	7	921	895	97.2
Total Sales	50,850	53,174	69,005	129.8
Other ČEZ Group consumption	5,231	5,218	5,665	108.6
Losses	60		2,661	
Total	56,141	58,392	77,331	132.4

Distribution Services

ČEZ Group electricity distribution companies distribute and supply electricity to a substantial portion of the protected customer market in the Czech Republic. In 2003, they distributed a total of 43,488 GWh of electricity using a grid with an extended length of 149,774 km and 3,408,995 metering locations. ČEZ Group member distribution companies purchased a total of 20,951 GWh of electricity from ČEZ, a. s.

ČEZ Group sold 21,259 GWh of electricity to protected customers and 9,467 GWh to eligible customers in 2003.

To ensure optimum flows of electricity and reliability of supply in their distribution service areas, the electricity distribution companies also own and operate grid control facilities.

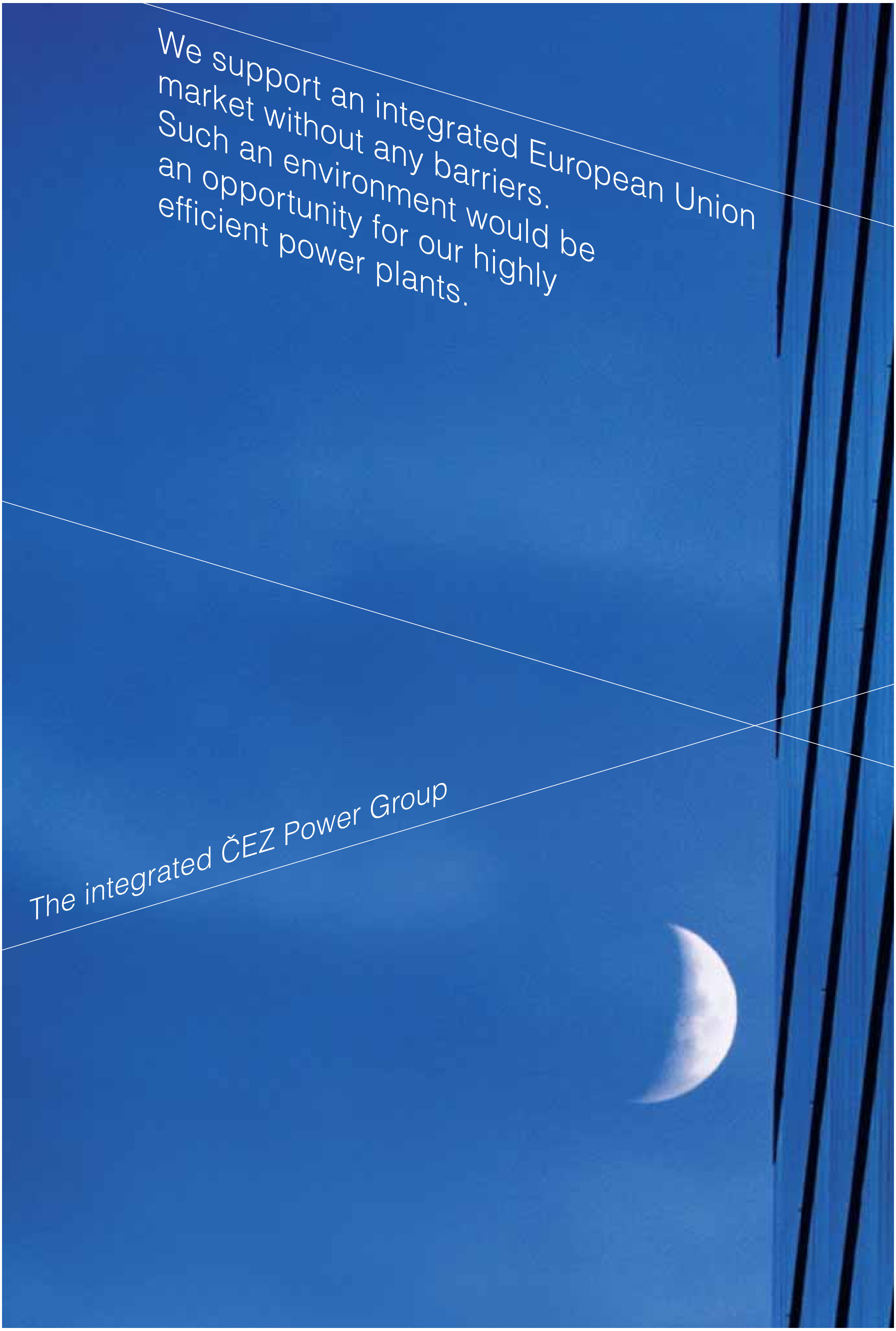
Heat Trade

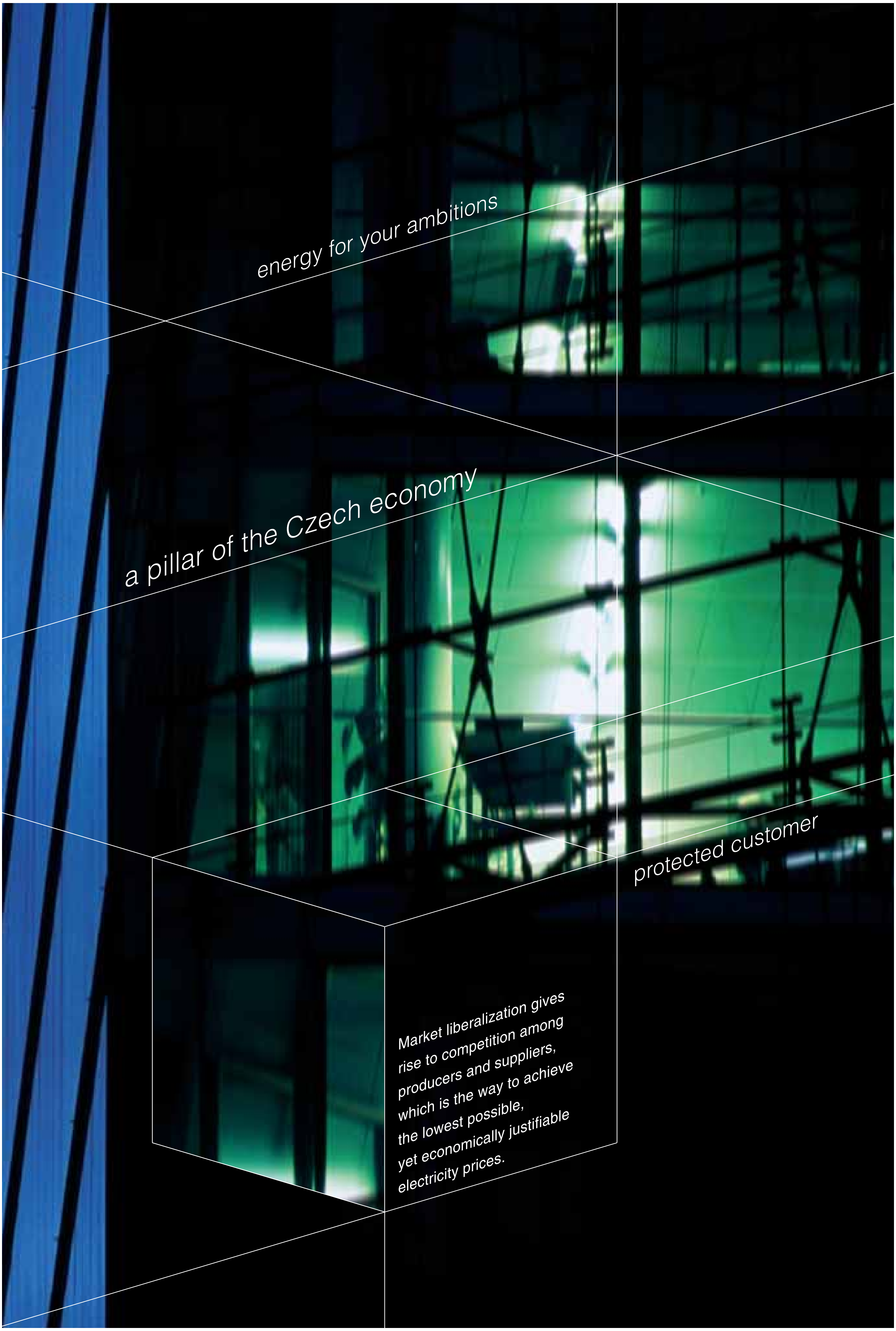
ČEZ Group is one of the three largest producers of heat in the Czech Republic. Nearly all Group heat supplies are based on combined generation of power and heat.

During 2003, ČEZ, a. s. sold the Náchod Heat Plant. Nevertheless, supplies of heat by ČEZ Group to customers increased in year-on-year terms by 14.6%, mostly as a result of Group enlargement. However, the declining trend in heat demand seen in previous years continued, driven in particular by improvements in building insulation.

ČEZ Group Heat Procurement and Supply (TJ)

ČEZ Group	2001	2002	2003	Index 03/02 (%)
Procurement:				
Generated in-house	13,978	13,064	14,575	111.6
Purchased from other producers	4	2	20	> 200.0
Total	**13,982**	**13,066**	**14,595**	**111.7**
Supply:				
Heat plant operators	3,725	3,199	3,005	93.9
Heat distributors	1,632	1,509	2,009	133.1
Other customers	4,963	4,699	5,788	123.2
Export	153	143	140	97.9
Total Sales	**10,473**	**9,550**	**10,942**	**114.6**
In-house consumption of heat generated in heat plants	2,154	2,162	2,140	99.0
ČEZ Group Useful Supply	**12,627**	**11,712**	**13,082**	**111.7**
Losses in ČEZ Group heat supply systems	1,355	1,354	1,119	82.7
Total	**13,982**	**13,066**	**14,595**	**111.7**


We support an integrated European Union market without any barriers. Such an environment would be an opportunity for our highly efficient power plants.
The integrated ČEZ Power Group

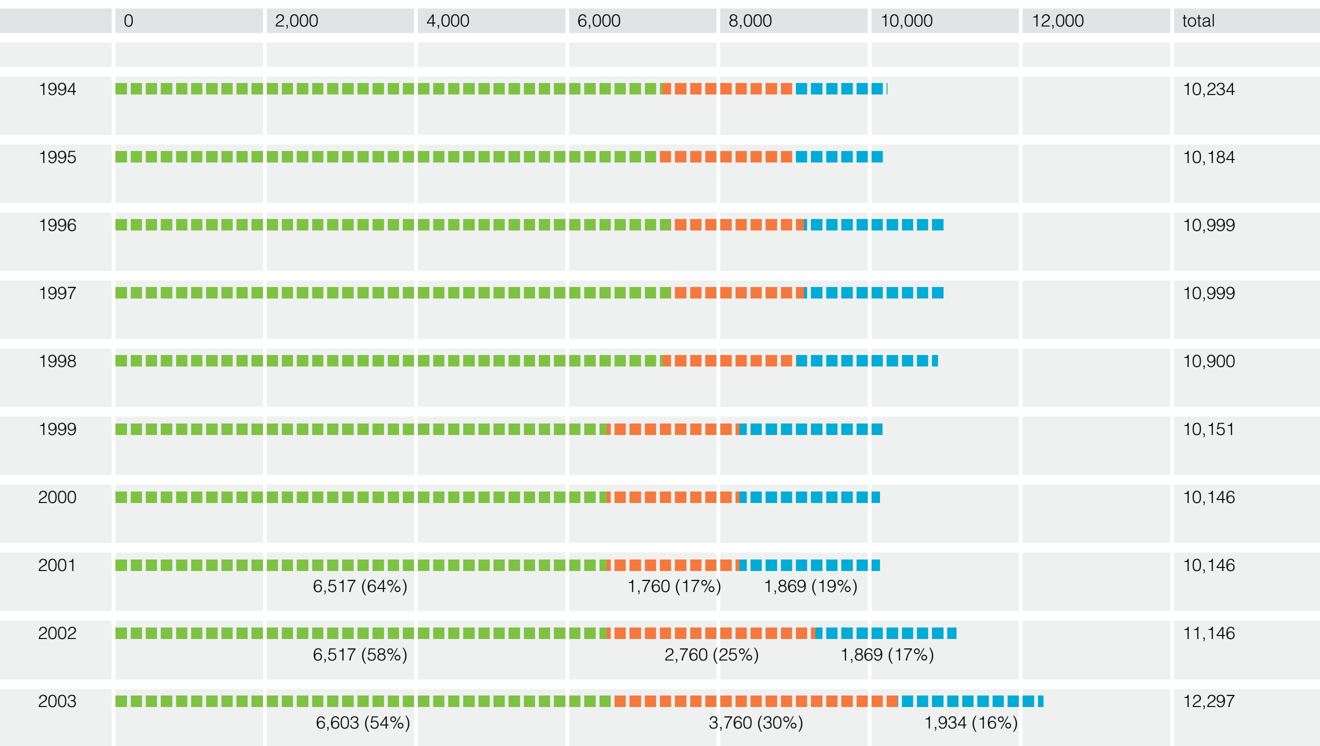

energy for your ambitions
a pillar of the Czech economy
protected customer
Market liberalization gives rise to competition among producers and suppliers, which is the way to achieve the lowest possible, yet economically justifiable electricity prices.

Generation and Supply of Electricity

Production Base

Locations of ČEZ Group Production Facilities as of 31 December 2003

ČEZ Group Installed Generating Capacity by Facility Type, as of 31 December (MW)



- fossil plants
- nuclear plants
- hydro, solar, and wind plants

Fossil Plants (as of 31 December 2003)

Plant Name	Fuel Type	Installed Capacity (MW)	Year Commissioned	Desulfurized Since
Mělník II	brown coal	2 x 110	1971	1998
Mělník III	brown coal	1 x 500	1981	1998
Tisová I	brown coal	3 x 57; 1 x 12.8	1959 – 1960	1996 – 1997
Tisová II	brown coal	1 x 112	1961	1997
Poříčí II	black coal; brown coal	3 x 55	1957 – 1958	1996; 1998
Dvůr Králové *) **)	brown coal	1 x 6.3; 1 x 12	1955; 1963	1997
Dětmarovice	black coal	4 x 200	1975 – 1976	1998
Chvaletice	brown coal	4 x 200	1977 – 1978	1997; 1998
Ledvice II	brown coal	2 x 110	1966	1996
Ledvice III	brown coal	1 x 110	1968	1998
Tušimice II	brown coal	4 x 200	1974 – 1975	1997
Počerady	brown coal	5 x 200	1970 – 1971; 1977	1994; 1996
Hodonín	lignite	1 x 50; 1 x 55	1954 – 1958	1996 – 1997
Prunéřov I	brown coal	4 x 110	1967 – 1968	1995
Prunéřov II	brown coal	5 x 210	1981 – 1982	1996
Ostrava – Vítkovice *)	black coal	2 x 16; 1 x 25; 1 x 22	1995	1996
Fossil Plants Total	x	6,603	x	x

*) Compliance with emissions limits is ensured by using low-sulfur fuel and supplementing it with natural gas.
**) Heat plant is part of the Poříčí Power Stations organizational unit.

Nuclear Plants (as of 31 December 2003)

Nuclear Plants in Operation	Installed Capacity (MW)	Year Commissioned
Dukovany	4 x 440	1985 – 1987
Temelín	2 x 1,000	2002 – 2003
Nuclear Plants in Operation, Total	3,760	x

Hydro Plants (as of 31 December 2003)

Accumulation and Run-of-river Plants	Installed Capacity (MW)	Year Commissioned
Lipno I	2 x 60	1959
Orlík	4 x 91	1961 – 1962
Kamýk	4 x 10	1961
Slapy	3 x 48	1954 – 1955
Štěchovice I	2 x 11.25	1943 – 1944
Vrané	2 x 6.94	1936
Střekov	3 x 6.5	1936
Total	724	x
Small-scale Hydro Plants	**Installed Capacity (MW)**	**Year Commissioned**
Lipno II	1 x 1.5	1957
Hněvkovice	2 x 4.8	1992
Kořensko I	2 x 1.9	1992
Mohelno	1 x 1.2; 1 x 0.56	1977; 1999
Dlouhé Stráně II	1 x 0.16	2000
Kořensko II	1 x 0.94	2000
Želina	2 x 0.315	1994
Přelouč	1 x 0.28; 3 x 0.49	1927
Spálov	2 x 1.2	1926
Hradec Králové	3 x 0.25	1926
Práčov	1 x 9.75	1953
Jaroměř	1 x 0.104	1908
Pastviny	1 x 3	1938
Vydra	2 x 3.2	1939
Hracholusky	1 x 2.55	1964
Čeňkova Pila	1 x 0.09	1912
Obříství	2 x 1.679	1995
Les Království	2 x 0.6	1923
Předměřice nad Labem	1 x 2.1	1953
Pardubice	1 x 1.96	1978
Spytihněv	2 x 1.3	1951
Brno – Kníničky	1 x 3.1	1941
Veselí nad Moravou	1 x 0.12; 1 x 0.15	1914; 1923
Brno – Komín	2 x 0.106	1923
Total	60	x
Pumped Storage Hydro Plants	**Installed Capacity (MW)**	**Year Commissioned**
Štěchovice II	1 x 45	1947 – 1949, refurbished 1996
Dalešice	4 x 112.5	1978
Dlouhé Stráně I	2 x 325	1996
Černé jezero	1 x 1.5	1930
Total	1,147	x
Hydro Plants Total	1,931	x

Wind Power Plants (as of 31 December 2003)

	Installed Capacity (MW)	Year Commissioned
Mravenečník (Jeseníky Mountains)	1 x 0.220	1998
	1 x 0.315	
	1 x 0.630	
Nový Hrádek	4 x 0.4	2002
Wind Power Plants Total	2.765	x

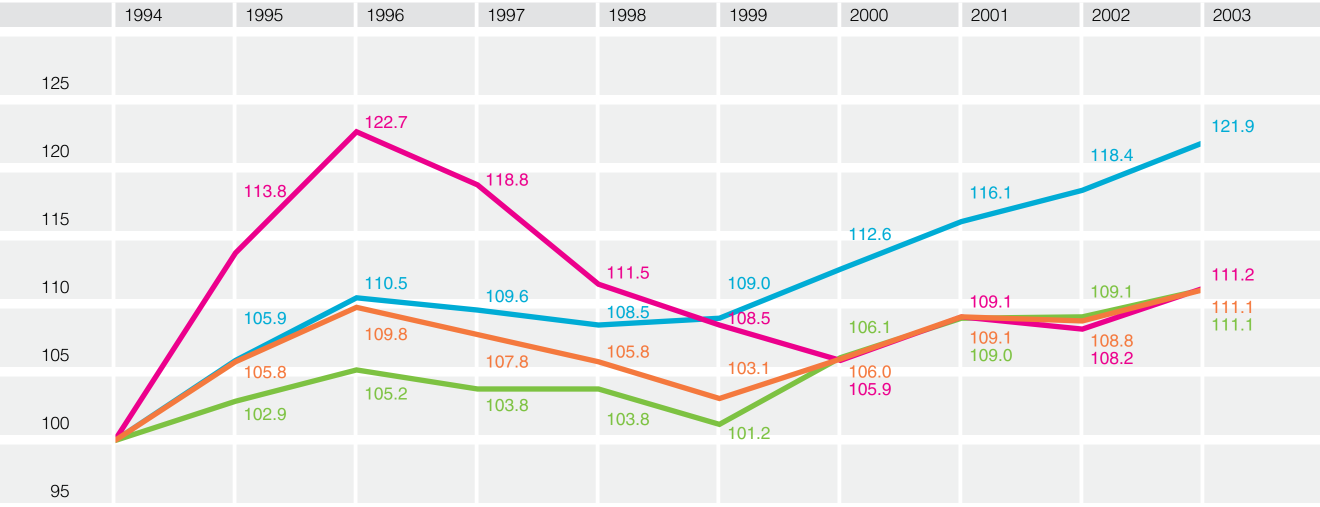
Solar Power Plants (as of 31 December 2003)

	Installed Capacity (MW)	Year Commissioned
Dukovany *)	0.01	1998; 2003
Solar Power Plants Total	0.01	x

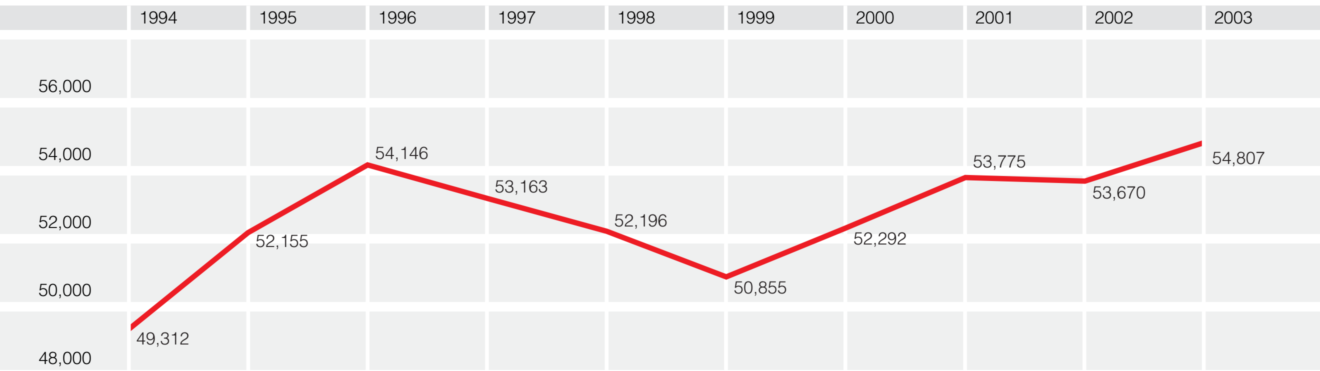
*) Originally located in Mravenečník (Jeseníky Mountains), moved to the Dukovany Nuclear Power Station complex in 2003.

Czech Republic Electricity Demand

Comparison of Czech Republic GDP and Electricity Demand, Over Time (%)



Czech Republic Electricity Demand, Over Time (GWh)



In 2003, demand for electricity in the Czech Republic rose by 1,137 GWh, or 2.1%, compared to 2002 and reached a level of 54,807 GWh. The increase in demand was driven by:

- higher industrial consumption (wholesale customers, consumption by power producers and electricity consumed inside generation facility compounds, including those run by industrial companies, but not including electricity used for pumping in pumped-storage hydro plants) by 503 GWh (1.6%),
- increased household consumption – up by 386 GWh (2.7%),
- increased retail business consumption – up by 248 GWh (3.3%).

The growth in retail consumption is related primarily to meteorological conditions. The average temperature for January – April 2003, when overall electricity consumption figures are impacted by the use of electricity for heating purposes, was 0.1 °C under the long-term average and 2.2 °C less than the actual figure for 2002. On the other hand, 2003 had a very hot summer with record high temperatures, and that caused higher electricity consumption due to the operation of air conditioning and cooling systems. The average temperatures for the months of June and August were high above the long-term sliding average (+3.8 °C in each case). However, when the year’s consumption is adjusted to the long-term temperature average, demand growth is only 1.7%.

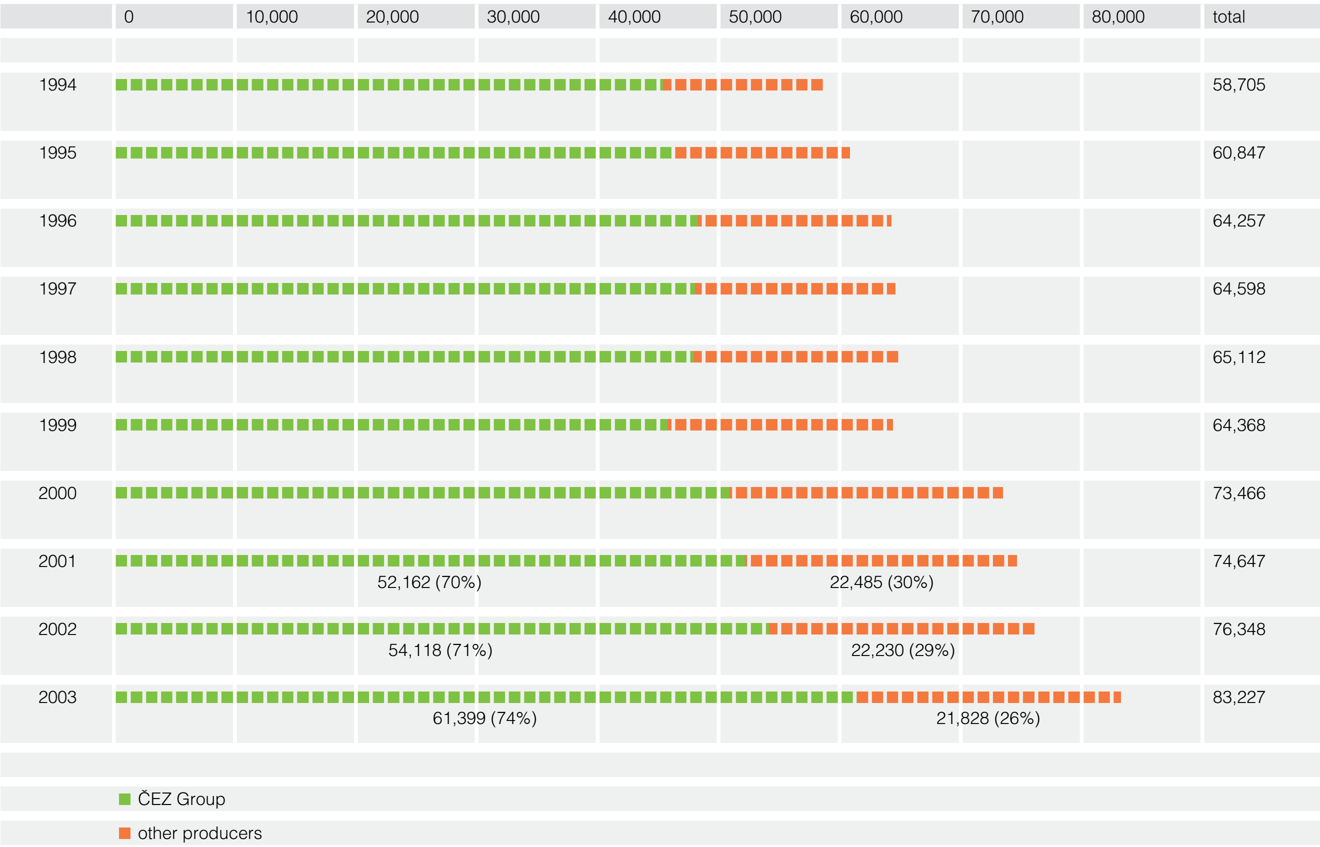
Electricity Demand and Generation (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Year-on-year electricity demand index	103.2	105.8	103.8	98.2	98.2	97.4	102.8	102.8	99.8	102.1
Year-on-year electricity generation index:										
– Czech Republic	99.7	103.6	105.6	100.5	100.8	98.8	114.1	101.6	102.3	109.0
– ČEZ Group	97.7	102.2	104.1	99.5	99.8	95.5	111.2	102.6	103.7	113.5

Czech Republic – Electricity Imports and Exports (GWh)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Index 03/02 (%)
Imports	1,593	2,539	3,090	2,565	2,069	2,431	2,415	2,641	5,193	4,095	78.9
Exports	2,038	2,121	3,093	3,753	4,530	5,707	12,432	12,180	16,580	20,308	122.5
Balance	(445)	418	(3)	(1,188)	(2,461)	(3,276)	(10,017)	(9,539)	(11,387)	(16,213)	142.4

Electricity Generation in the Czech Republic (GWh)



Electricity Generation

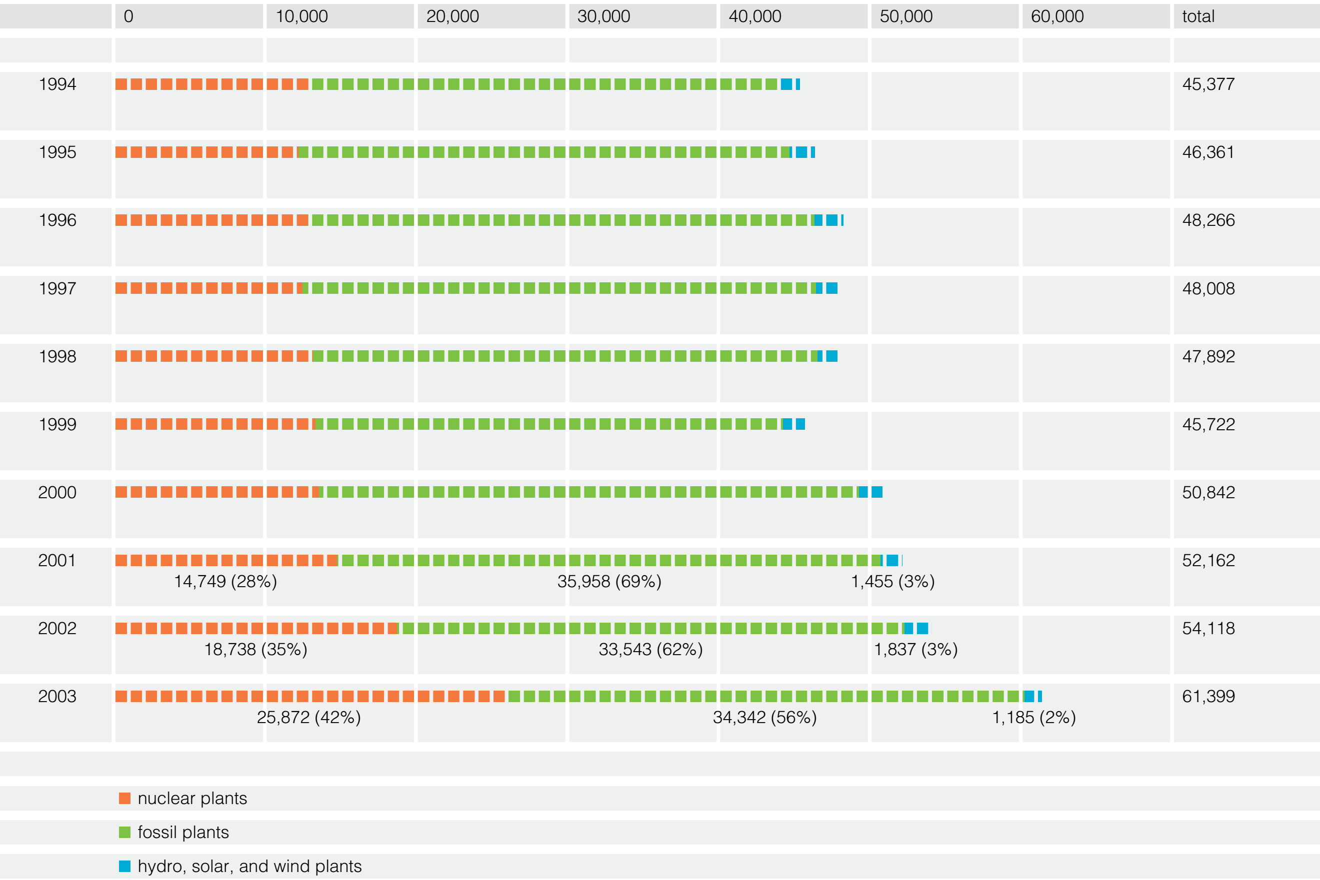
For the first time in history, generation of electricity in ČEZ Group facilities passed 60 TWh in 2003, reaching 61.4 TWh, up 7,281 GWh (13.5%) from the previous year.

In nuclear power plants, a year-on-year increase in power generation of 7,134 GWh (38.1%) was achieved, in particular by the commissioning of Unit Two of the Temelín Nuclear Power Station for commercial operation in April 2003. Both units generated a total of 12,117 GWh of electricity, which is 6,677 GWh (122.7%) more than in 2002. The full capacity of Temelín Nuclear Power Station, 2 x 1,000 MW, is now utilized for base load coverage and the facility is exhibiting a high degree of reliability. The Dukovany Nuclear Power Station also improved its performance, generating 457 GWh (3.4%) more than in the previous year for its highest annual generation volume ever – 13,755 GWh.

Generation in fossil power stations grew by 799 GWh (2.4%).

Hydro power plants, on the other hand, produced less power. Their generation volume fell by 652 GWh (35.5%) to the lowest value ever in ČEZ Group history. This was caused by poor hydrological conditions, especially in the summer period, combined with the shutdown of the hydro power stations Orlík, Štěchovice I and II, which sustained heavy damage in the flood of August 2002. In June, we managed to return one turbo aggregate in the Štěchovice I Power Station to operation following repair, in November the Štěchovice II pumped-storage power station came back on-stream, and by year end the first of four turbo aggregates at the Orlík Power Station had also been repaired and was back in operation.

ČEZ Group Electricity Generation (GWh)



Capital Investments

Investment, Upgrade, and Development Policy Objectives

The main focus in capital investment was put on the nuclear power in 2003. In April, Unit Two of the Temelín Nuclear Power Station was put into commercial operation. The implementation of the program to bring the Dukovany Nuclear Power Station (especially the renovation of the instrumentation and control system) into line with operational practice of nuclear power plants in the European Union, is creating conditions for that facility's long-term safe and environmentally viable operation. Preparations are also underway for construction of spent nuclear fuel storage facilities in the compounds of both nuclear stations.

In conventional power, capital investment is focused on revamping equipment, ensuring that existing generation facilities are reliable and safe with the objective of their optimal utilization and efforts to further rationalize operations, automate them and make them more environmentally friendly. The innovation policy is focused in particular on creating conditions for reliable facilities operation and further improvements in operating economy. For the coming period, preparations are underway to enable biomass to be burned in a mixture with coal in fluidized-bed, grate, and selected powder boilers. Another significant area is improving conditions for utilization of power generation by-products to produce construction materials and in reclamation of fly-ash disposal sites.

ČEZ Group Additions to Property, Plant and Equipment and Other Non-current Assets, incl. Capitalized Interest (CZK millions)

	1999	2000	2001	2002	2003
Additions to tangible fixed assets	21,301	20,637	14,275	10,025	11,794
of which, e.g.: Purchase of nuclear fuel	2,188	4,243	3,400	1,997	2,220
Additions to intangible fixed assets	164	403	401	339	880
Additions to financial investments	1,261	581	642	(34)	12,997
Change in payables from fixed assets acquisitions	256	(275)	388	89	(1,729)
Total	22,982	21,346	15,706	10,419	23,942

Company Policy Towards Stakeholders

Plans for new construction projects are discussed in accordance with Act 50/1976 Sb. on Zoning and Construction Rules (the Construction Act), as amended, and Act 100/2001 Sb. on Assessing Environmental Impacts and on Amendments to Certain Related Acts. These laws require the plans to be discussed with local government authorities, central government authorities, and citizens' groups. Although not required to by law, ČEZ, a. s. presents planned projects at public meetings in the affected regions.

Investments in Nuclear Power

Temelín Nuclear Power Station

The biggest event of 2003 was the successful completion of comprehensive testing on Unit Two of the Temelín Nuclear Power Station and its commissioning for commercial operation on 19 April 2003, after all necessary tests were completed. Today, Temelín Nuclear Power Station is up to its full installed capacity of 2 x 1,000 MW, making it – together with Dukovany Nuclear Power Station – a major supplier of safe, reliable, clean, and inexpensive energy to the power system. Temelín Nuclear Power Station is the newest and, currently, the most modern nuclear power plant in Europe.

Though brand new, the power station is already dealing with the issue of the operating periods of its generating units, and therefore great emphasis is placed on the program of controlled aging of their key components such as the reactor vessel, the steam generators, and primary circulation pumps. In 2003, work began on upgrading the simulator (a replica of the Unit One control room) used for operator training. The goal is to bring the simulator into a state that fully reflects all experience gained to-date in the operation of both units. The systems of radiation monitoring of the surrounding area and personal dosimeter checking are in the process of being modernized. Another major project is the demolition and cleanup of special-purpose construction site buildings and the subsequent reclamation of land that was used in the course of construction. Before this project was started, the Temelínec Dump was commissioned, and it is currently in full operation as a safe facility for disposing of waste from the demolished buildings.

Dukovany Nuclear Power Station

Capital investment projects carried out in 2003 were focused primarily on increasing efficiency and the quality of electricity generation, in accordance with technological progress and internationally recognized practices.

The biggest investment was in revamping the instrumentation and control system on Unit Three. Other major projects were the renovation of the back-up power source – a 110 kV substation to provide power to Unit One, the installation and commissioning of a solar power plant (moved to the Dukovany Nuclear Power Station compound from the Mravenečník site), the completion of the project for revitalizing protection systems in the nuclear power station's buildings, and the establishment of a back-up control center (in accordance with international recommendations and recommendations of the State Office for Nuclear Safety), technical modifications allowing for the certification of ancillary services in accordance with the Transmission Grid Code, and modifications to the all-purpose simulator.

In 2003, fundamental steps were taken to prepare for key strategic capital investment projects: replacement of low-pressure flow-through turbine components (contract signed), renovation of instrumentation and control systems – Phase Two (addendum to project plan approved), utilization of generating unit reserve capacity and disposal of sorbents and sludges (optimum technique chosen – enabling the volume of stored radioactive waste to be reduced to one third of its previous level).

Further, the following projects were prepared for realization in future years: installation of new diagnostic systems (reactors, primary circulation pumps, and turbines), innovation of the radiation control information system, refurbishing of generating unit electrical protection systems, innovation of the 220 MW generators automatic activation system, making buildings and equipment more robust for qualification purposes, and modification of spring-based pipe mountings in the primary and secondary cycles.

Spent Nuclear Fuel Storage

Spent Fuel Storage Facility at Dukovany Nuclear Power Station

May 2003 saw the issuance of a building permit that, due to an appeal filed by certain participants in the building permit proceedings, did not enter into legal force until after the appeal body, the Vysočina Region Governor's Office, decided on the appeal in November 2003. Subsequently, based on a contract previously entered into between ČEZ, a. s. and HOCHTIEF VSB a.s., construction was begun.

Spent Fuel Storage Facility at Temelín Nuclear Power Station

Preparation of the construction project continued with work on documentation for zoning proceedings, a safety report for the tender, and, in particular, materials for the Environmental Impact Assessment (EIA) process and documents for the tender to select a supplier of the containers that will be used to hold spent nuclear fuel. The first, fact-finding, phase began in July with the submission of a Notice of Intent to the Ministry of Environment. Upon receipt of the conclusions of the fact-finding phase from said Ministry, drafting of EIA documentation began in December.

Spent Fuel Storage Facility at the Skalka Site

Activities necessary for the possible renewal of preparations for a spent fuel storage facility at the Skalka site, as a fall-back solution, are ongoing in accordance with a decision of ČEZ, a. s.

Investments in Conventional Power

Environmental Investments

2003 saw work continue on technical and biological reclamation of ash settling pits at most of the company's brown coal-fired power stations. The objective of this work is to return the land in question back to the surrounding ecosystems.

At the Tušimice, Ledvice, and Mělník Power Stations, the first phase of documentation preparation for the "Slag Removal and Dewatering" environmental projects was completed and preparation work leading to the selection of future construction contractors was begun.

Other Investments

At most fossil and hydro power stations, 2003 saw either the continuation or commencement of capital investment projects focused, among other things, on renewing and ensuring the reliability of installed plant and equipment that was damaged by the flood of 2002.

Capital Investment in the Electricity Distribution Companies

Capital investment activities in all ČEZ Group electricity distribution companies are focused primarily on the distribution grid. The objective is to continue increasing reliability and operational safety, improve availability parameters and ensure a high standard of quality in supplies to customers.

This objective determines the structure of the construction program, which is focused on investments in construction and renovation of the high, medium, and low voltage grids and on renovations of high/medium voltage substations. The principal purposes of these investments are development, renewal, and upgrading – with the use of environmentally friendly technologies that increase the grid's reliability and require only minimal maintenance.

Among the factors helping to fulfill this objective are the development and application of new work techniques and procedures such as work on energized power lines.

Like in past years, information technologies were another major investment area, helping to facilitate active customer communications. This area included Call Centers development, Customer Relationship Management (CRM) projects, and e-Commerce. The renewal of a portion of the information system through implementation of SAP modules also played an important role; in the future, the information system will become the standard solution for ČEZ Group unified information support.


"Duhová energie" Foundation
support for public-benefit projects
Our energy influences our common space
intellectual development
talent development

We feel responsibility for developing the Czech society as a whole, in all of its forms and aspects, and the specific steps we have taken demonstrate this. ČEZ, a. s. has given nearly CZK 2 billion in donations alone since 1992.

healthy lifestyle

charity and humanitarian aid

Currently, the most significant nationwide project of the "Duhová energie" Foundation is the construction of "Duhová" Playgrounds, which will give kids positive ways to spend their free time. The Foundation provided CZK 5.8 million in funding for this project in 2003.

protection of the environment

support for healthcare

social and legal protection of children

Management of Selected Processes

Safety, Environmental, and Quality Management Systems

Through long-term, strict compliance with legal and other regulations, ČEZ has been creating conditions to prevent situations that could result in damage such as injuries, illnesses, property damage, accidents, damage to the environment, etc.
A recognized title in this area is the “Safe Shop” certificate, which is awarded by the Czech Work Safety Office, and which is based on principles set by the International Labor Organization and by the OH SAS 18001 systems standard.
Dukovany Nuclear Power Station has been a participant in this program since 1999, when it first obtained the certification, and it was last recertified in October 2003. Temelín Nuclear Power Station has begun preparation work and plans to obtain this certificate in 2005.

The Conventional Power Division is on track to obtain “Safe Shop” certification in the fourth quarter of 2004. Realistically, this will contribute toward:
- minimizing the risk of employee health damage and loss of life,
- strict compliance with the requirements of Czech Republic legislation based on European Union directives,
- increased trust in the company on the part of business partners,
- better work culture, improved labor conditions and social comfort,
- creation of conditions for the future implementation of an integrated safety, quality, and environmental management system,
- minimizing company losses by restricting the potential for extraordinary events to occur.

Risk Management Policy

Financial Risk Management
On the basis of the risk management policy, part of the foreign currency financial portfolio is hedged against financial risk with the objective of limiting the potential impact of unfavorable developments in the financial markets. ČEZ, a. s. risk exposure is assessed on the basis of analyses of the portfolio of income and expense streams and related forecasts.
In the past few years, electricity export income that ČEZ, a. s. receives directly in foreign currencies has led to a decline in currency risk. In 2003, revenues denominated in foreign currencies accounted for over 24% of overall revenues from the sale of goods and services.
The development of risk exposure, market risks, and credit risks is monitored by the Risk Committee, which also determines the methods used to measure risk.
ČEZ, a. s. risk exposure was monitored through predictions of the company’s future income and expenses with regard to market developments. Standard methods are used (such as Value at Risk and stress tests) as an integrated part of the liquidity and risk management system. In managing risk, the company utilizes an on-line risk module, which is one of the important components of this treasury system.
Financial market transactions conducted during 2003 were mainly conversion transactions to manage liquidity and short-term currency hedging linked to planned future payments in foreign currencies. In the long-term hedging area, the structure of interest-rate hedging of certain trades underwent a partial modification.
Financial risk management in the individual electricity distribution companies of ČEZ Group is not yet centralized, but it does use a centrally defined methodology. In 2003, the liquidity risk management and foreign currency risk management functions were unified, yielding a consistent, analytical view of the risk exposures of both individual companies and ČEZ Group as a whole.

Management of Electricity Trading Risk

The electricity market liberalization process caused an increase in market (price, volume) and credit risk, which ČEZ, a. s. addressed by launching a new system, entitled “KW3000”, to support trading activities and risk management. The system was put into routine operation in 2002. It covers all electricity transactions to meet record-keeping, audit, risk assessment, position management, and invoicing needs.

As part of the process of unifying financial and trading risk management procedures, internal directives defining categories of trading risks and describing processes for managing and dealing with them were updated in July. The aim is to put in place a unified, effective system for protecting the company against the risk of losses relating to sales of electrical energy generated in-house and with other trading transactions involving electrical energy in markets in the Czech Republic and abroad.

Electricity trading risk management is a high-priority area for the electricity distribution companies of ČEZ Group. In view of the character of this activity, it was decided that the first step should be to unify credit risk management procedures. During 2003, unified procedures for evaluating customer credit and defining payment terms were drafted, approved, and implemented. Market risk is managed on a non-centralized basis using methodologies developed individually by the companies. Procedures in this area will be unified in 2004.

Insurance of Property and Casualty Risks

Natural hazard and machine risks in the fossil and hydro power stations are covered by a contract with a consortium of five major domestic insurers. The lead insurer on the contract is Kooperativa, pojišťovna, a.s.

The insurer of property contracts concerning ČEZ, a. s. nuclear power stations is the Czech Nuclear Pool.

Insurance of nuclear liability complies with the applicable provisions of the Nuclear Act. ČEZ’s statutory obligation as operator of nuclear facilities is fulfilled by insurance contracts covering liability arising out of the operation of the Dukovany and Temelín Nuclear Power Stations. Both contracts are entered into for the statutory liability limit of CZK 1.5 billion. The company also carries insurance against liability for nuclear damage arising in the course of transport of new nuclear fuel to the Temelín and Dukovany Nuclear Power Stations.

Other important insurance contracts include a third-party liability policy covering the generation, transmission, transit, import and export of electricity and the generation, distribution and sale of heat. Also of significance is liability insurance covering damage caused by members of the Board of Directors, Supervisory Board and by managing directors, which also covers governance bodies of the company’s subsidiaries.

Late 2003 saw the completion of the insurance adjustment process concerning property damage caused by the flood of August 2002 at the seven hydro power plants and the Mělník fossil power plant. The overall recognized damage amount (after deductibles) was CZK 716 million and most of it has already been paid by the insurance companies.

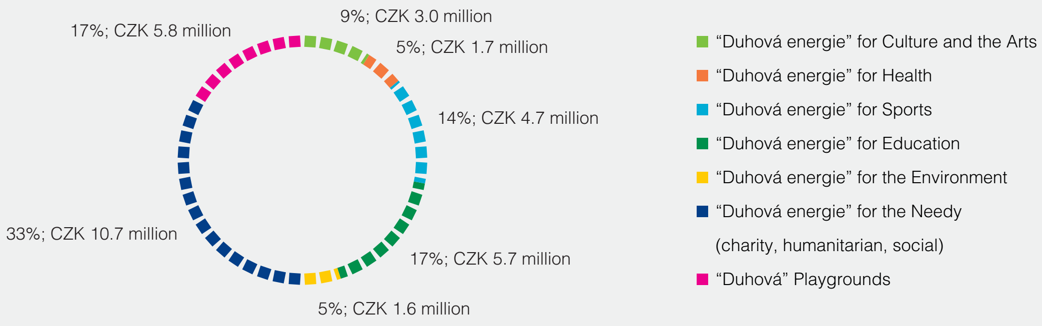
In conjunction with ČEZ’s acquisition of the electricity distribution companies, activities were commenced to support unified management of property and casualty risk insurance within ČEZ Group. Insurance contracts for immovable and movable property and grid property, plant and equipment for the year 2004 were entered into by the electricity distribution companies based on the results of a public tender organized by ČEZ, a. s. Also coordinated within ČEZ Group was the negotiation of insurance against liability for damage caused by individual electricity distribution companies and motor vehicles insurance for 2004.

Sponsorship Program

In July 2002, ČEZ Group established the “Duhová energie” Foundation, which commenced operating in February 2003. The Foundation is ČEZ Group’s partner in the area of sponsorship donations, most of which it distributed in the framework of the “Duhová energie” for Regions program, which is focused on regions where ČEZ Group power stations are located.
The Foundation’s bodies are as follows: Supervisory Board (3 members), Administrative Board (9 members, 3 of which represent the State, and 1 of them at the same time represents the Supervisory Board of ČEZ, a. s., 3 are representatives of local and regional government representatives, 1 is a public relations expert, 1 is a representative of ČEZ, a. s. and 1 post is temporarily vacant), Grant Committee (11 members – representing the ČEZ and the electricity distribution companies).
In 2003, ČEZ Group provided the “Duhová energie” Foundation with CZK 73.3 million in funding.
In addition to the “Duhová energie” Foundation, ČEZ Group donated CZK 1.5 million to the Jan and Meda Mládek Foundation, with which it has a five-year donation agreement signed in 2000. Since 2000, ČEZ Group has donated a total of CZK 14.05 million to finance the renovation of Sovovy mlýny and the Kampa Museum.
In addition to the “Duhová energie” Foundation, the other members of ČEZ Group gave sponsorship donations mainly to projects in the following areas: social causes, sports, regional development, healthcare, the environment, education, and culture and the arts.

List of Most Important Projects
The total amount of donations distributed by the “Duhová energie” Foundation in 2003 reached CZK 33.2 million.
The Foundation donated nearly CZK 11 million to charity, humanitarian and social projects. Of this amount, CZK 2.5 million was contributed toward the operation of several charity groups such as “Helping Paws” near Plzeň (training of guide dogs for the blind), “Hope for Handicapped Children” (assistance in equipping protected workshops in homes and day centers in the Zlín region) and “Handbike for Handicapped Children” (for the purchase of two handbikes for the Association of Parents and Friends of Handicapped Children in Louny).
In the education area, the Foundation built on ČEZ’s cooperation with technical institutes and universities, to which it donated CZK 5.7 million. The Foundation was also active in culture and the arts. Here, it distributed over CZK 3 million among a total of 23 projects. In healthcare, the Foundation supported three hospitals – two in Prague and one in North Bohemia – with donations totaling of CZK 1.7 million.
The Foundation’s most significant nationwide program is the “Duhová” Playgrounds program, which is focused on providing positive ways for children and youth to spend their free time. The Foundation expended a total of CZK 5.8 million on this program in 2003.
The balance on the Foundation’s bank account as of 31 December 2003 was CZK 40.1 million.

“Duhová energie” Foundation – Distribution of Sponsorship Donations in 2003



Total sponsorship donations in 2003: CZK 33.2 million

Advertising Projects

In conjunction with the purchase of previously state-owned equity shares in the electricity distribution companies, we decided to support activities in the regions as a way to get closer to our customers. For this reason, ČEZ Group has become a major advertising partner of the following projects:

- East Bohemia Region – “Duhová” Arena, Pardubice
- North Bohemia Region – “Duhová energie” Autodrome, Most
- West Bohemia Region – Karlovy Vary International Film Festival
- North Moravia Region – ČEZ Arena, Vítkovice

In addition to regional projects, ČEZ Group also sponsors major nationwide projects such as the Czech National Ice-hockey Team and the Czech Olympic Team.

Relation to the Environment

Air Protection

Over the past decade, ČEZ Group has achieved major reductions in emissions of the principal air pollutants. During this period, it not only brought itself into compliance with the Clean Air Act of 1991 within the stipulated time periods, but also contributed significantly to the overall improvement of air quality in the Czech Republic and to the fulfillment of the Czech Republic's international clean air obligations.

Data concerning emissions from ČEZ Group fossil plants and purity of the air in their surroundings are under constant scrutiny. Effective since late 2003, emissions and ground-level concentration measurements and calculated shares of fossil plants in overall air pollution in the surrounding area are accessible on ČEZ's website.

Since 2002, air protection in the Czech Republic is governed by new legislation that meets protection requirements of the European Union. So, for example, ČEZ Group has begun to prepare for regulation of sulfur dioxide emissions in the European Union pursuant to Directive 2003/87/EC.

ČEZ Group Reduction of Emissions, Absolute and Relative to Units of Production, Achieved between 1993 and 2003

	Unit	Solid Pollutants	Sulfur Dioxide	Nitrogen Oxides	Carbon Monoxide
1993	t	55,764	724,052	124,633	17,497
2003	t	2,849	60,782	63,077	3,842
Reduction	%	94.9	91.6	49.4	78.0
1993	kg/GJ *)	0.1763	2.2887	0.3940	0.0553
2003	kg/GJ *)	0.0090	0.1925	0.1997	0.0122
Reduction	%	94.9	91.6	49.3	78.0

*) These emissions figures are expressed as per GJ of heat produced in the boiler room.

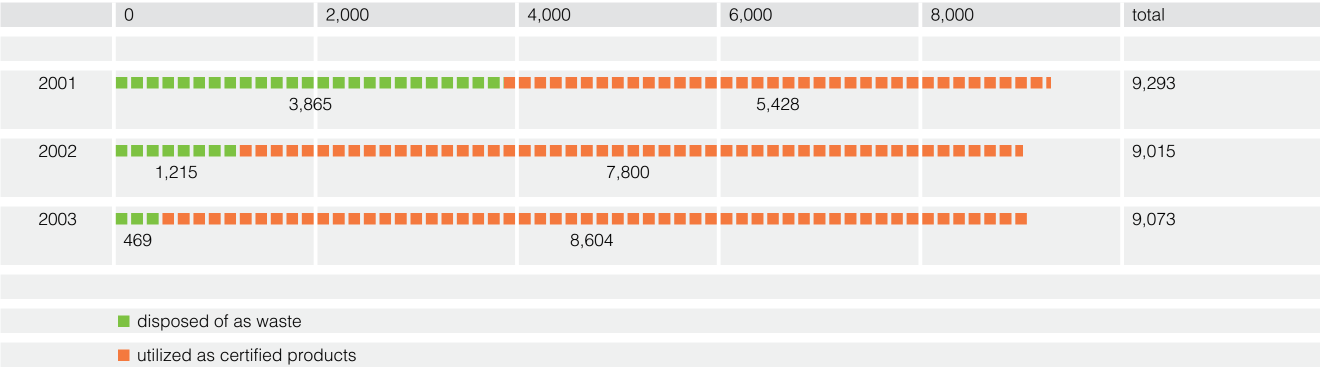
Utilization of Power Generation By-Products

2003 saw a continuation of the positive trend in utilization of power generation by-products. In the generation of electricity and heat in 2003, ČEZ Group produced a total of 9.1 million tons of the following by-products: ash, semidry flue gas desulfurization product, and industrial gypsum from the wet limestone scrubbing flue-gas desulfurization technique.

Of this total amount of power generation by-products, 8.6 million tons (94.8%) were utilized as certified products. Ash matter, modified into “additive granulate” is used to clean-up and reclaim mines. The ability to process wastewater from the desulfurization process and from chemical wastewater treatment plants into granulate form is very useful. Additive granulate remains an inert material, meaning that it is entirely harmless to the environment. Certain ash components are used in the production of cement, concrete mixes, and asphalt waterproofing materials. Specially modified ash serves as a structural and sealing material. When desulfurization facilities were under construction, a joint venture enterprise, KNAUF POČERADY, spol. s r.o., was built in the immediate vicinity of the Počerady Power Station. This enterprise, which makes gypsum drywall sheets out of the waste product generated by the desulfurization process – industrial gypsum – which is modified by calcination into plaster, has been in full operation since February 1995. Surplus industrial gypsum is converted into briquettes and supplied to cement plants, where it serves as a substitute for natural gypsum in regulating cement drying time.

The 0.5 million tons of power generation by-products (5.2%) that remained unutilized were disposed of safely at ČEZ Group dump facilities in accordance with the Waste Act.

ČEZ Group Handling of Power Generation By-Products, 2001 – 2003 (thousands of tons)



Support for Power Generation from Renewable Sources of Energy

The Czech Republic's joining the European Union will lead to increased activities in this area, centered around Directive of the European Parliament and Council 2001/77/EC on the promotion of the electricity produced from renewable energy sources in the internal electricity market.

Initiatives by ČEZ Group members in this area continued to focus on the utilization of hydro and wind energy, photovoltaic conversion of solar energy, and further intensification of the utilization of energy from biomass. At the same time, developments in new fuel cell technologies and forms of energy storage and conversion were monitored. Currently we are preparing technological modifications of the processes used to burn biomass-coal mixtures in fluidized-bed, grate, and selected powder boilers (biomass originating from wood, wheat bran, and from “energy herbs” in various concentrations).

ČEZ Group operates two windmill farms. The Mravenečník windmill farm, owned by ČEZ, a. s., is located near the Dlouhé Stráně pumped-storage hydro power station in demanding, mountainous terrain in the Hrubý Jeseník Mountains characterized by a high degree of fluctuation in meteorological conditions. The farm consists of three units with a total capacity of 1,165 kW and it generated 235 MWh of power in 2003. The second windmill farm, Nový Hrádek, belongs to Východočeská energetika, a.s., and features a total installed capacity of 1,600 kW (4 x 400 kW) and has been under repair since its acquisition in 2003. Currently, preparations are underway to upgrade the facility by replacing the four existing 400 kW units with three 660 kW machines.

Until October 2002, the Mravenečník complex also included a solar power plant with 10 kW of installed capacity. After being moved to the Dukovany Nuclear Power Plant compound, it was put into permanent operation in October 2003. By the end of 2003 it had generated 840 kWh of electricity and it gives visitors to the power station an opportunity to get first-hand knowledge of how this promising and practically inexhaustible source of energy – the Sun – can be utilized.

ČEZ Group is the largest producer of environmentally friendly electricity from hydro energy in the Czech Republic. ČEZ Group hydro plants are concentrated mainly along the Vltava, Elbe, Dyje and Morava rivers. Due to damage sustained during the catastrophic flood of 2002, however, certain hydro power plant aggregates owned by ČEZ, a. s. remained out of order even in 2003. The hydro plants of the Vltava Cascade (Orlík, Kamýk, Štěchovice) are now being gradually brought back into operation after extensive repairs. Additionally, hydro power plant output in 2003 was negatively impacted by the fact that 2003 was an extraordinarily dry year. All told, ČEZ Group hydro plants, including the pumped-storage variety, generated a total of 1,185 GWh of electricity. Of this amount, run-of-river and accumulation hydro plants (which are classified as renewable sources of energy) generated 773 GWh.

ČEZ Group's 24 small-scale hydro power plants (defined as facilities with up to 10 MW of installed capacity per location) owned by ČEZ, a. s., HYDROČEZ,a.s., VČE - elektrárny s.r.o., and Západočeská energetika, a.s. generated a total of 153 GWh of electricity. Out of the ČEZ Group aggregate hydro power stations total installed capacity of 1,931 MW, the small-scale hydro plant category accounted for 60 MW. Preparations are underway for the construction of more of these facilities.

One major renewable source of energy is biomass, which is considered neutral in terms of greenhouse gases. ČEZ Group burns a mixture of coal with biomass in the form of wood chips or wheat bran in fluidized-bed boilers at the Hodonín and Poříčí power stations and in grate boilers in the Dvůr Králové Heat Plant. In 2003, biomass testing took place in the Tisová and Ledvice Power Stations and sawdust was burned experimentally in powder boilers at the Chvaletice Power Station. Similar tests are being prepared at the Dětmarovice Power Station as well. A total of 9,400 tons of biomass was burned in these facilities in 2003.

ČEZ Group includes certain companies that are engaged, as their core business, in the effective utilization of energy and support for renewable sources of energy. Their integration into the Group will make it possible to develop their specialization and their customer focus.

ČEZ Group Electricity Generation from Renewable Sources of Energy, 2003

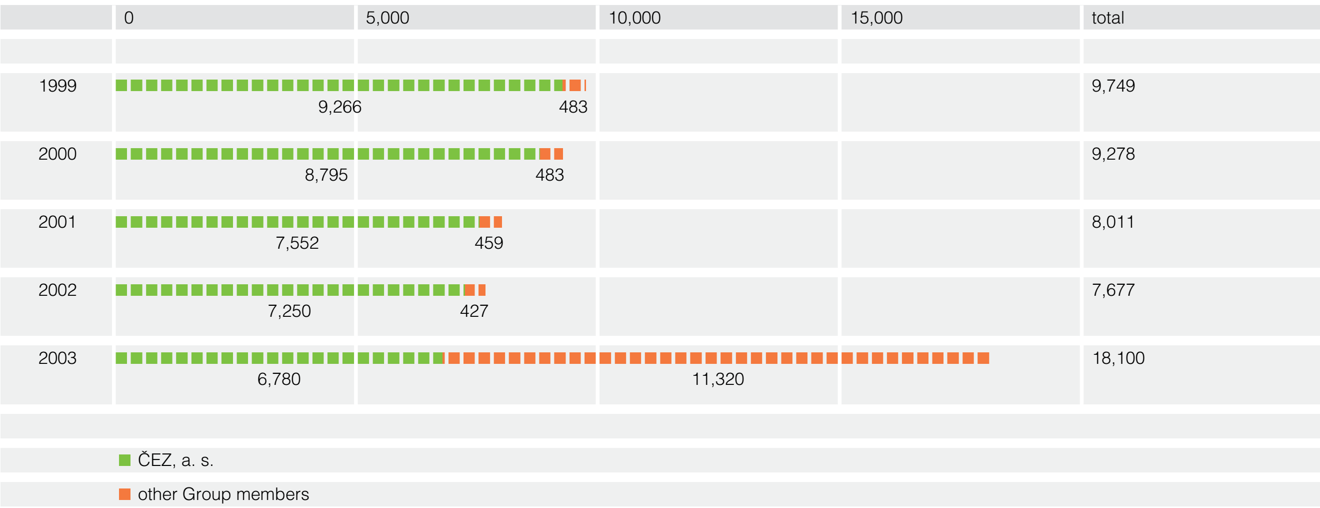
	Generation (MWh)	Weighting (%)
Hydro plants, total (pumped-storage excluded)	773,342	98.9
of which: installed capacity 10 MW or less	152,569	19.5
Wind power plants	235	0
Solar power plant	0.84	0
Biomass	8,638	1.1
Renewable Sources of Energy, Total	782,216	100

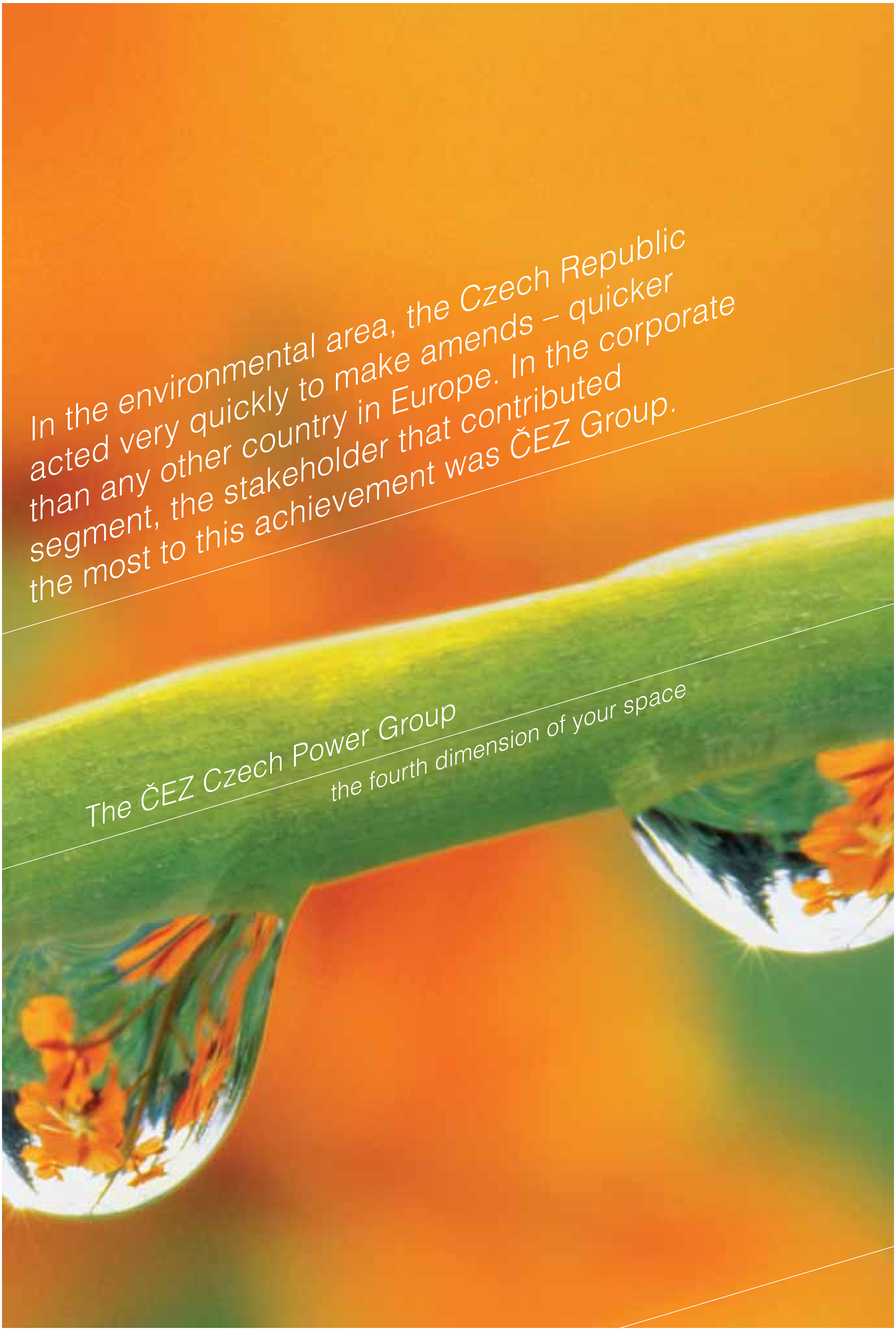
Human Resources

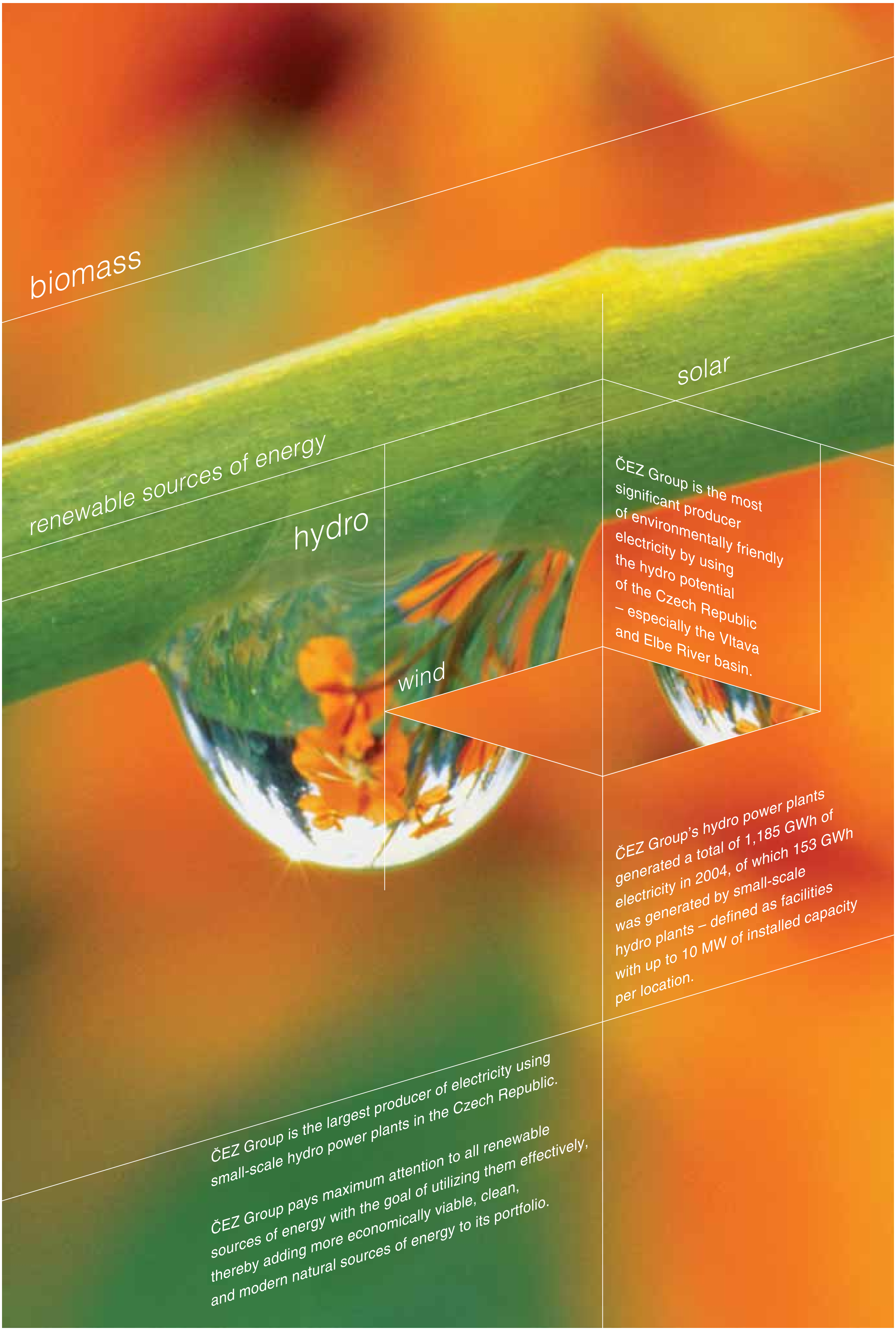
Number of Employees

The process of work force rationalization and optimizing continued in 2003.
As of 31 December 2003, ČEZ Group (parent company plus 22 fully consolidated subsidiaries) had 18,100 employees. The substantial increase of ČEZ Group employees from 7,677 to 18,100 is due mainly to Group enlargement.

ČEZ Group Employee Head Count as of 31 December




In the environmental area, the Czech Republic acted very quickly to make amends – quicker than any other country in Europe. In the corporate segment, the stakeholder that contributed the most to this achievement was ČEZ Group.
The ČEZ Czech Power Group
the fourth dimension of your space



biomass

renewable sources of energy

hydro

wind

solar

ČEZ Group is the most significant producer of environmentally friendly electricity by using the hydro potential of the Czech Republic – especially the Vltava and Elbe River basin.

ČEZ Group's hydro power plants generated a total of 1,185 GWh of electricity in 2004, of which 153 GWh was generated by small-scale hydro plants – defined as facilities with up to 10 MW of installed capacity per location.

ČEZ Group is the largest producer of electricity using small-scale hydro power plants in the Czech Republic.

ČEZ Group pays maximum attention to all renewable sources of energy with the goal of utilizing them effectively, thereby adding more economically viable, clean, and modern natural sources of energy to its portfolio.

Social Policy

ČEZ's social policy is implemented through the social program, which encompasses a wide range of activities and benefits provided to employees. The total amount expended on the social program in 2003 was nearly CZK 322 million. When amounts provided to employees in the form of interest-free loans are included, the amount reaches nearly CZK 497 million.
The social program includes a contribution provided to employees and former employees (retirees) to help pay their electricity bills, an employee supplementary pension insurance contribution, preventive medical care, and a special contribution paid when a baby is born.

Part of the social program is the maintenance of a social fund, from which CZK 80.2 million was drawn in 2003, mostly for the following uses:

- employee meal plan (mostly in in-house cafeterias),
- recreational, spa, and sanatorium sojourns,
- children's recreation,
- social aid,
- physical exercise and cultural programs for employees and members of their families,
- healthcare programs,
- retirees clubs and similar activities for former employees,
- contributions for blood donors,
- healthcare (not covered by statutory health insurance),
- compensation of costs incurred by employees for temporary accommodation.

Other companies of ČEZ Group also use social policy as part of their system of employee compensation and as a major incentive for employees. Some of the most popular incentive programs include:

- personal accounts, which employees themselves choose how they wish to use,
- contribution to employees' supplementary pension insurance and private life insurance plans,
- subsidized employee meals,
- contribution toward children's recreation,
- interest-free loans,
- keeping in touch with former employees in Retirees Clubs and at regular gatherings,
- company preventive medical care,
- severance pay for employees leaving the company,
- support for education and professional development.

Corporate Strategy

Strategic Plans of ČEZ Group

The current situation in the electricity market is characterized by steady growth in competition and parallel changes in the structure of the customer base. The company's development is in line with these changes. In 2003, ČEZ, a. s. acquired a significant portion of Czech distributors in what was the most important structural change in the company since its inception.
The acquisition, in April 2003, of majority stakes in five of the eight electricity distribution companies operating in the Czech Republic enlarged the ČEZ Group, which now includes not just generation of power, but also its distribution and sale to final customers. ČEZ Group's core operations cover both liberalized, deregulated business opportunities (generation, trading) and regulated activities (distribution). Business risks are more balanced, making ČEZ Group a major player in the electricity market of Central Europe.

At the same time, the acquisitions unlocked the potential to leverage synergies through successful integration of the new Group members. The extensive integration and optimization project aims to:

- ensure ČEZ Group members have a unified approach to development,
- focus on the core businesses of generation, distribution and sale of electricity,
- improve the utilization of all resources, including coordinated procurement of goods and services,
- share services provided to ČEZ Group customers and optimize performance in individual activities with maximum standardization of processes and procedures,
- unify procedures in electricity marketing and sales,
- unify support processes and activities in the information technologies area.

The project is going forward with the assistance of a selected consulting company, and the project team includes experts from both ČEZ, a. s. and the electricity distribution companies in ČEZ Group. The introductory, conceptual phase of the project ran from July to September 2003. Subsequently, the project moved into its implementation phase, consisting of 50 subprojects. The first group of these is designed to implement Group-wide roll-out of the best, proven practices in individual functions. The timeline calls for most of the subprojects to be completed by the end of 2004.
The second group of subprojects lays groundwork for the centralized performance of certain activities on behalf of all Group members. Organizational units of various kinds (from performance centers to joint ventures) will be assigned certain activities or functions. The objective is to achieve maximum synergies, maximize the economic benefit for ČEZ Group and its individual members, and to create conditions for future effective separation of regulated from non-regulated operations in the companies of ČEZ Group.

ČEZ Group Business Policy

In accordance with the Articles of Association, the General Meeting approves the long-term business policy that serves as a framework for the company's business. The policy gives direction to the company's business, stipulates objectives for individual areas, and incorporates the company's mission statement and vision. It also defines the basic responsibilities of corporate governance bodies and senior management.

The company's primary objectives were to complete its transformation into a generation and trading company, further increase its share in the domestic electricity market, and to develop its business beyond the borders of the Czech Republic. ČEZ Group intends to win and keep customers' trust, so as to be a respected power group in the European market.

The ČEZ Group's core business is the generation, purchase, distribution, and sale of electricity to all final customer segments and the provision of ancillary services. This core business accounts for the bulk of the company's sales revenues and costs. Most of the electricity we sell is generated in the Group's own economically viable facilities, with a high degree of reliability, minimum safety risk, and minimum environmental impact. In nuclear power generation operations, nuclear safety continues to have the highest priority.

ČEZ Group Strategic Development Objectives

We are focusing on the following strategic development objectives:

- to implement an effective market and sales orientation on the electricity market by reaching out to the final customer,
- to complete Temelín Nuclear Power Station's transition from commercial operation to permanent operation, to continue to optimize the structure of power station capacity by upgrading Dukovany Nuclear Power Station, by controlled aging, shutdowns, advantageous acquisitions or partial ownership interests, and, possibly, by selling entire power generation facilities or parts thereof,
- to prepare to renew fossil power generation capacity as technological components reach the end of their useful lifetimes; to this end, secure corresponding human resources capacity,
- to complete the ČEZ Group integration project by regrouping the basic activities that the electricity distribution companies in ČEZ Group are involved in, so as to leverage synergies fully, reducing to a minimum the cost of guaranteed-quality electricity supplies,
- to systematically evaluate possibilities for generating electricity from renewable sources of energy and implement effective projects in this direction,
- to improve the perception of the company as a reliable partner and serious competitor that makes effective use of its capacities for the benefit not just of its shareholders and employees but its suppliers and customers as well,
- to continue in the program of foreign investments in Central and Eastern Europe.

Power Sector Development Forecast

Power Industry Legislative Framework

Of fundamental legislative importance for the business of ČEZ Group is the Commercial Code (Act No. 513/1991 Sb.), as amended. After undergoing extensive revisions in past years, 2003 saw this key law stabilized to a certain extent, which brought a greater degree of legal certainty to the area of business law.

In the power sector, the legislative framework continues to consist mainly of the following: Act No. 278/2003 Sb. which amends Act No. 458/2000 Sb., on Conditions for Business and State Administration in the Energy Sectors (the Energy Act), Act No. 406/2000 Sb., on Energy Management, Act No. 18/1997 Sb. on the Peaceful Use of Nuclear Energy and Ionizing Radiation (the Nuclear Act), and related secondary legislation (decrees, ordinances, directives, etc.). Other laws have also been passed in prior years that have a direct impact on the company's business, including in particular Act No. 100/2001 Sb., on Environmental Impact Assessment, Act No. 185/2001 Sb. on Waste, and Act No. 254/2001 Sb., on Water (the Clean Water Act), all as amended.

Also, further regulations supplemental to the Energy Act have been promulgated, gradually supplementing and updating the legislative framework of the power sector in the conditions of the market liberalization process:

- Decree No. 539/2002 Sb., amending Decree No. 252/2001 Sb. on the Manner of Purchasing Electricity Generated from Renewable Sources of Energy and from Combined Generation of Electricity and Heat (promulgated by the Ministry of Industry and Trade),
- Decree No. 12/2003 Sb., amending Decree No. 373/2001 Sb. Stipulating Rules for Organizing the Electricity Market and Principles for Determining Prices in Market Operator Activities (promulgated by the Energy Regulatory Authority),
- Decree No. 13/2003 Sb., amending Decree No. 438/2001 Sb. Stipulating the Content of Economic Data and Procedures for Price Regulation in the Power Sector (promulgated by the Energy Regulatory Authority),
- Decree No. 74/2003 Sb., amending Decree No. 439/2001 Sb. Stipulating Rules for Keeping Separate Records of Sales, Costs and Revenues for Regulation Purposes and Rules for Separating Costs, Sales and Returns on Capital Invested in the Power Sector (promulgated by the Energy Regulatory Authority),
- Decree No. 300/2003 Sb., amending Decree No. 18/2002 Sb. on Conditions for Hook-up to and Conveyance of Electricity Within the Power System (promulgated by the Ministry of Industry and Trade),
- Decree No. 450/2003 Sb., amending Decree No. 218/2001 Sb. Stipulating Details on Electricity Metering and Handover of Technical Data (promulgated by the Energy Regulatory Authority),
- Decree No. 459/2003 Sb., amending Decree No. 373/2001 Sb. Stipulating Rules for Organizing the Electricity Market and Principles for Determining Prices in Market Operator Activities, as amended by Decree No. 12/2003 Sb. (promulgated by the Energy Regulatory Authority).

The year 2003 was also significant in terms of increased legislative activity in the environmental protection area. More supplemental regulations and decrees were issues, in particular to the following key laws:

- Act No. 185/2001 Sb., on Waste,
- Act No. 86/2002 Sb., on Air Protection,
- Act No. 254/2001 Sb., on Water.

In the past year, ČEZ Group played a significant role in comment proceedings concerning prepared amendments of selected laws and regulations directly related to the company's business activities in the power sector.

Brief Forecast of Power Industry Development from the Perspective of ČEZ Group

The updated State Energy Plan stipulates conditions for the further development of the power sector in the Czech Republic. In order to implement the Plan, it is necessary to decide on how individual objectives will be achieved and go about doing so in an organized fashion. Issues that need to be addressed include fuel availability, degree of domestic resource utilization, and the relative social acceptability of various power generation techniques.

In the power sector business in the Czech Republic, the country's entry into the European Union will bring certain new demands that already are, or in a short time will be, integrated into the Czech legal system. The most important change is the acceleration of the electricity market liberalization process and other requirements of new European directives concerning the internal energy markets, such as the legal separation of distribution, "ex ante" regulation, and rules for utilizing cross-border transmission profiles, that will unify conditions on the individual national markets of European Union Member States and make it possible to interlink them more effectively.

In terms of environmental protection, this includes in particular:

- implementation of Integrated Pollution Prevention and Control (IPPC) procedures; obligation to obtain integrated permit for existing facilities by 2007,
- the national emissions reduction program, focused on locally and regionally significant pollutants, which will use "emissions ceilings" to bring all generation facilities into compliance with acceptable emissions limits by the year 2016,
- measures that prevent global climate change by limiting emissions of greenhouse gases; the European emissions credit trading system will be launched in 2005 regardless of the fate of the Kyoto Protocol, and the system's second control period will begin in 2008,
- in the integrated permit process, requiring the use of the best available technologies in the construction of new generation facilities.

Government support for renewable sources of energy and combined generation of power and heat presents an interesting challenge that the company is addressing. On one hand, this support constitutes a significant deformation of the level playing field in the market and its price signals. On the other, it limits the use of non-renewable fuel resources and increases the effectiveness of their use, thereby creating conditions for sustainable development.

Because the time is drawing nearer when certain technical power plant components will reach the end of their useful lifetimes, the company is intensifying preparations for renewing its generation capacities. ČEZ Group anticipates that the time required to complete the investments in question will be significantly impacted by public hearings at all levels of documentation. Nonetheless, ČEZ Group expects to have at its disposal sufficient potential to participate in covering the anticipated rise in demand both in the Czech Republic and abroad.

In terms of organization and ownership structures, over the long term we can expect to see a continuation in the trend toward consolidation in Europe, with market players consolidating into a few large groups controlled by today's most highly capitalized power companies, which will be optimizing their portfolio through both vertical integration and horizontal – i.e., by further interconnecting electric power with gas. Since the forecasts show electricity demand catching up to supply, wholesale electricity prices are already beginning to rise. This trend could mean the beginning of a classic "boom and bust" market investment cycle, with periodicity and prices determined by the marginal generation facility.

Black-outs over large areas of the USA and various parts of Western Europe, caused primarily by demand spiking in areas not sufficiently covered by generation facilities, is forcing the authorities responsible for transmission grid operation and stability of supply to take measures to improve the situation. These include planned grid development and better grid control. Currently, these measures have led to an upward trend in emergency back-up capacity, which is restricting the capacity on cross-border profiles available for trading. Over time, today's short-term measures will have to be supplemented by investments to increase cross-border transmission capacity, and that could lead to an improvement in the conditions for international power trading.

ČEZ Group Anticipated Economic and Financial Situation in 2004

2004 will be the first full fiscal year for the recently expanded ČEZ Group – the year in which we should see the first specific benefits produced by the synergies currently being leveraged by streamlining and optimizing processes. One example is the introduction of a virtual cash pool in October 2003, and its transformation into a real cash pool during the first half of 2004. These measures will lead to more effective treasury management within ČEZ Group, thereby reducing costs for all companies involved in the pool.

In general, vertical integration between generation and distribution is seen by the professional community as a very positive development. Thanks to the major reduction in dependence on the volatility of electricity prices, vertically integrated utilities become more stable and their profit streams more predictable.

Prices of electricity, which rose by more than 25% in Western Europe during 2003, had an impact on the pricing of both domestic and international ČEZ, a. s. product offerings. Prices in the domestic “Duhová energie” product offering for 2004 rose for the first time after three years of price cuts. Due to higher expected electricity sales volumes in the domestic market and unfavorable scheduling of planned shutdowns of generation and transmission facilities in certain months of the year, export volume is expected to fall in 2004 by approximately 15% relative to 2003. The higher unit price should offset this decline to a certain extent.

The ČEZ Group budget for 2004 envisions 11% higher sales revenues and an operating profit of CZK 14 billion. It also calls for CZK 12.2 billion in investments in property, plant, and equipment (including intangibles).

Here it can be stated that, while achieving a repeat performance of the high electricity sales volumes of 2003 will not be easy, the development of the economy and the power market to-date is creating conditions favorable to the achievement of good financial performance results in 2004.

In 2004, ČEZ, a. s. is expecting to see yet another major change in the size and structure of its ownership interests. On one hand, we expect to exercise an option under an agreement reached between ČEZ, a. s. and E.ON for shares of Severomoravská energetika, a. s. and Severočeská energetika, a.s. On the other hand, ČEZ, a. s. is bidding to acquire one of three groups of distribution companies that are being offered in Bulgaria, and a 66% (revised upward from 49%) stake in Slovenské elektrárne, a.s., the biggest electricity producer in the Slovak Republic.

Securing financing for the planned acquisitions will be a demanding task in view of uncertainty surrounding the final purchase price and the date of its payment. Thus, the terms and timeline with which the company will turn to the capital markets will be in close correlation to the course of realization of the acquisitions. In 2004, after a five-year pause, ČEZ, a. s. will enter the European bond market; in February 2004, the Board of Directors approved an issue of eurobonds up to a total of EUR 400 million (approximately CZK 13 billion). Even in the event all the intended acquisitions are realized, however, the overall indebtedness of ČEZ, a. s. will remain at a low level compared to our European competitors.

During 2004, in accordance with trends in interest rates, the average weighted cost of debt will continue to fall as previous borrowings are replaced with new, far cheaper forms of financing.

Financial Section Contents

Report of Independent Auditors

ERNST & YOUNG

To the Shareholders of ČEZ, a. s.:

We have audited the accompanying consolidated balance sheet of ČEZ, a. s., and subsidiaries ("the Group") as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, cash flows and the related notes for the years then ended, which were prepared in accordance with International Financial Reporting Standards. 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 audit. We did not audit the financial statements of Středočeská energetická a.s., Severočeská energetika, a.s., Severomoravská energetika, a. s., and certain other companies of the ČEZ Group, which statements reflect 7% of total consolidated assets as of December 31, 2003, and 33% of total consolidated operating revenues for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the companies not audited by us, is based solely on the reports of the other auditors.

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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ČEZ, a. s., and subsidiaries as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003 in conformity with International Financial Reporting Standards.

The consolidated financial statements of the Group as of December 31, 2001 and for the year then ended were audited by other auditors who expressed an unqualified opinion in their report dated March 12, 2002.

The accompanying annual report for 2003 contains information about important matters related to the Group's financial statements, the evolution of its business and other matters. We have checked that the accounting information in the annual report is consistent with that contained in the audited financial statements as of December 31, 2003. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Group.

Ernst & Young

Ernst & Young ČR, s.r.o.

April 23, 2004
Prague, Czech Republic

ČEZ Group – Consolidated Balance Sheets
Prepared in Accordance with International Financial Reporting Standards

Consolidated Balance Sheets as of December 31 (in CZK millions)

	2003	2002	2001
Assets			
Property, plant and equipment:			
Plant in service	363,165	242,338	180,252
Less accumulated provision for depreciation	150,426	103,355	92,614
Net plant in service (Note 3)	212,739	138,983	87,638
Nuclear fuel, at amortized cost	9,574	7,931	5,967
Construction work in progress	10,204	56,513	111,929
Total property, plant and equipment	232,517	203,427	205,534
Other non-current assets:			
Investment in associates	10,999	5,880	5,518
Investments and other financial assets, net (Note 4)	8,642	5,723	5,315
Intangible assets, net (Note 5)	1,997	1,174	1,144
Deferred tax assets (Note 21)	288	–	–
Total other non-current assets	21,926	12,777	11,977
Total non-current assets	254,443	216,204	217,511
Current assets:			
Cash and cash equivalents (Note 8)	4,014	4,225	2,280
Receivables, net (Note 9)	7,063	4,040	3,827
Income tax receivable	103	1,994	–
Materials and supplies, net	3,242	2,467	2,499
Fossil fuel stocks	979	618	657
Other current assets (Note 10)	4,299	1,917	2,253
Total current assets	19,700	15,261	11,516
Total assets	274,143	231,465	229,027
Shareholders' equity and liabilities			
Shareholders' equity:			
Stated capital	59,152	59,041	59,050
Retained earnings and other reserves	90,535	84,634	77,676
Total shareholders' equity (Note 11)	149,687	143,675	136,726
Minority interest	7,893	–	–
Long-term liabilities:			
Long-term debt, net of current portion (Note 12)	30,965	35,729	43,081
Accumulated provision for nuclear decommissioning and fuel storage (Note 14)	28,164	23,866	21,396
Other long-term liabilities	357	–	–
Total long-term liabilities	59,486	59,595	64,477
Deferred tax liability (Note 21)	14,721	12,541	9,870
Current liabilities:			
Short-term loans (Note 15)	2,320	–	514
Current portion of long-term debt (Note 12)	5,691	4,235	5,126
Trade and other payables (Note 17)	20,578	8,934	8,651
Income taxes payable	3,203	256	953
Accrued liabilities (Note 18)	10,564	2,229	2,710
Total current liabilities	42,356	15,654	17,954
Total shareholders' equity and liabilities	274,143	231,465	229,027

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

ČEZ Group – Consolidated Statements of Income
Prepared in Accordance with International Financial Reporting Standards

Consolidated Statements of Income for the Years Ended December 31 (in CZK millions)

	2003	2002	2001
Revenues:			
Sales of electricity (Note 19)	79,548	52,938	53,300
Heat sales and other revenues	5,268	2,640	2,755
Total revenues	84,816	55,578	56,055
Operating expenses:			
Fuel	14,307	12,894	13,220
Purchased power and related services	21,100	7,328	6,389
Repairs and maintenance	4,226	3,847	3,476
Depreciation and amortization	17,611	11,721	9,366
Salaries and wages	7,994	3,854	3,946
Materials and supplies	3,670	1,838	1,851
Other operating expenses (Note 20)	8,408	2,842	3,129
Total expenses	77,316	44,324	41,377
Income before other expenses (income) and income taxes	7,500	11,254	14,678
Other expenses (income):			
Interest on debt, net of capitalized interest (Note 2.9)	1,714	582	796
Interest on nuclear provisions (Note 2.22 and 14)	1,680	1,532	1,463
Interest income	(319)	(149)	(177)
Foreign exchange rate losses (gains), net	(1,915)	(3,340)	(2,110)
Other expenses (income), net (Note 22)	744	1,330	1,774
Income from associates (Note 2.3)	(1,063)	(497)	(360)
Total other expenses (income)	841	(542)	1,386
Income before income taxes	6,659	11,796	13,292
Income taxes (Note 21)	208	3,375	4,169
Income after income taxes	6,451	8,421	9,123
Minority interest	519	–	–
Net income	5,932	8,421	9,123
Net income per share (CZK per share) (Note 26)			
Basic	10.0	14.3	15.4
Diluted	10.0	14.2	15.4
Average number of shares outstanding (000s) (Notes 11 and 26)			
Basic	590,772	590,363	591,926
Diluted	592,211	592,150	592,088

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

ČEZ Group – Consolidated Statements of Shareholders' Equity Prepared in Accordance with International Financial Reporting Standards

Consolidated Statements of Shareholders' Equity for the Years Ended December 31 (in CZK millions)

	Number of Shares (in thousand)	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total Equity
December 31, 2000, as previously reported	592,088	59,209	–	–	70,233	129,442
Effect of adopting IAS 39 (Note 2.4)	–	–	–	–	(496)	(496)
January 1, 2001, as restated	592,088	59,209	–	–	69,737	128,946
Net income	–	–	–	–	9,123	9,123
Acquisition of treasury shares	(1,950)	(159)	–	–	–	(159)
Dividends declared	–	–	–	–	(1,184)	(1,184)
December 31, 2001	590,138	59,050	–	–	77,676	136,726
Additional paid-in capital	123	12	–	–	–	12
Net income	–	–	–	–	8,421	8,421
Acquisition of treasury shares	(1,950)	(181)	–	–	–	(181)
Sale of treasury shares	1,965	160	–	–	17	177
Dividends declared	–	–	–	–	(1,480)	(1,480)
December 31, 2002 as previously reported	590,276	59,041	–	–	84,634	143,675
Change in accounting policy – effect of change in group structure (Note 2.4)	–	–	–	–	609	609
January 1, 2003, as restated	590,276	59,041	–	–	85,243	144,284
Net income	–	–	–	–	5,932	5,932
Change in fair value of available-for-sale financial assets recognized in equity	–	–	–	(101)	–	(101)
Gain on sale of subsidiary ČEPS, net of tax (Note 25)	–	–	–	–	7,162	7,162
Effect of acquisition of REAS on equity (Note 6)	–	–	–	–	(5,023)	(5,023)
Sale of treasury shares	1,190	111	–	–	(5)	106
Dividends declared	–	–	–	–	(2,657)	(2,657)
Returned dividends on treasury	–	–	–	–	4	4
Share options	–	–	–	21	–	21
Share on equity movements of associates	–	–	–	–	(25)	(25)
Other movements	–	–	1	(1)	(16)	(16)
December 31, 2003	591,466	59,152	1	(81)	90,615	149,687

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

ČEZ Group – Consolidated Statements of Cash Flows
Prepared in Accordance with International Financial Reporting Standards

Consolidated Statements of Cash Flows for the Years Ended December 31 (in CZK millions)

	2003	2002	2001
Operating activities:			
Income before income taxes	6,659	11,796	13,292
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation, amortization and asset write-offs	17,619	11,735	9,429
Amortization of nuclear fuel	3,484	2,071	1,644
(Gain) loss on fixed asset retirements, net	(384)	(363)	50
Foreign exchange rate loss (gain), net	(1,915)	(3,340)	(2,110)
Interest expense, interest income and dividend income, net	1,054	356	555
Provision for nuclear decommissioning and fuel storage	3,656	641	387
Provisions for doubtful accounts, environmental claims and other adjustments	1,602	(53)	217
Income from associates	(1,063)	(497)	(360)
Changes in assets and liabilities:			
Receivables	1,138	(282)	(979)
Materials and supplies	(152)	44	57
Fossil fuel stocks	(343)	39	56
Other current assets	1,903	334	(396)
Trade and other payables	2,141	353	2,197
Accrued liabilities	1,103	(363)	421
Cash generated from operations	36,502	22,471	24,460
Income taxes paid	(44)	(3,395)	(1,820)
Interest paid, net of capitalized interest	(1,601)	(434)	(744)
Interest received	316	149	178
Dividends received	587	210	131
Net cash provided by operating activities	35,760	19,001	22,205
Investing activities:			
Acquisition of subsidiaries, net of cash acquired	(28,374)	–	–
Proceeds from disposal of a subsidiary, net of cash disposed of	12,208	–	–
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.9)	(23,942)	(10,419)	(15,706)
Proceeds from sales of fixed assets	9,585	1,078	108
Change in decommissioning and other restricted funds	(407)	(594)	(788)
Total cash used in investing activities	(30,930)	(9,935)	(16,386)
Financing activities:			
Proceeds from borrowings	31,284	8,446	6,737
Payments of borrowings	(33,736)	(13,864)	(11,776)
Proceeds from other long-term liabilities	131	–	–
Payments of other long-term liabilities	(66)	–	–
Dividends paid to group shareholders	(2,640)	(1,480)	(1,174)
Dividends paid to minority interests	(227)	–	–
Acquisition/sale of treasury shares	106	(4)	(159)
Total cash used in financing activities	(5,148)	(6,902)	(6,372)
Net effect of currency translation in cash	(59)	(219)	(89)
Net increase (decrease) in cash and cash equivalents	(377)	1,945	(642)
Cash and cash equivalents at beginning of period	4,225	2,280	2,922
Effect of change in group structure on opening balance of cash and cash equivalents	166	–	–
Cash and cash equivalents at beginning of period, as restated	4,391	2,280	2,922
Cash and cash equivalents at end of period	4,014	4,225	2,280
Supplementary cash flow information			
Total cash paid for interest	2,538	2,562	3,527

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

Notes to Consolidated Financial Statements as of December 31, 2003

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 67.6% at December 31, 2003 by the Czech Republic National Property Fund. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic. The average number of employees of the Company and its consolidated subsidiaries was 16,093, 7,806 and 8,532 for the year 2003, 2002 and 2001, respectively.

ČEZ is an electricity generation company, which produced approximately 73% of the electricity and a portion of the district heating in the Czech Republic in 2003. The Company sells a substantial portion of its electricity production to eight distribution companies ("REAS") in the Czech Republic which distribute the electricity to end customers (see Note 19). The Company operates ten fossil fuel plants, thirteen hydroelectric plants and two nuclear plants.

The company is a parent company of the ČEZ Group ("the Group"), which is primarily engaged in the business of production and distribution of electricity (see Notes 2.3 and 7).

In November 2000 the Czech Parliament passed The Act on Conditions of Business Activity and State Administration in the Energy Industries and on State Power Inspection (the "Energy Law"), which replaced the previous Energy Law effective from January 1, 1995. The Energy Law provides the conditions for business activities, performance of public administration and regulation in the energy sectors, including electricity, gas and heat, as well as the rights of and obligations of individuals and legal entities related thereto. The business activities in the energy sectors in the Czech Republic may only be pursued by individuals or legal entities upon the basis of government authorization in the form of licenses granted by the Energy Regulatory Authority.

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

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

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

Third-party access is being introduced gradually between 2002 and, at the latest, 2006 at which time all electricity customers will be able to purchase electricity from any distributor, eligible generator, or trader.

On March 11, 2002 the Government decided to sell its shares in the eight REAS, which are held by the National Property Fund and Czech Consolidation Agency, to ČEZ and to purchase from ČEZ a 66% share in its transmission subsidiary ČEPS. The transaction was carried out on April 1, 2003 (see Notes 2.3, 6, and 25).

Through this transaction ČEZ has acquired a majority share in five REAS, and a minority share in three REAS. However, the Economic Competition Protection Authority has ruled that ČEZ should sell its shares in one of the REAS in which it acquired a majority share and in three of the REAS in which it acquired a minority share. The Economic Competition Protection Authority has also decided that ČEZ should sell its remaining equity share in ČEPS. Following the decisions of the Economic Competition Protection Authority, ČEZ has sold in September 2003 its shares in two of the three REAS (Jihočeská energetika, a.s., and Jihomoravská energetika, a.s.), where ČEZ previously acquired minority shares.

2. Summary of Significant Accounting Policies

2.1. Basis of Accounting

The Company is required to maintain its books and records in accordance with accounting principles and practices mandated by the Czech Law on Accounting. The accompanying consolidated financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of the Company in order to conform the Czech statutory balances to financial statements prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. The adjustments are summarized in Note 28.

2.2. Financial Statements

The accompanying consolidated financial statements of ČEZ are prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. They are prepared under the historical cost convention, except when IFRS requires that certain financial assets and liabilities be stated at fair value (see Note 2.19).

2.3. Group Accounting

a. Group Structure
The financial statements include the accounts of ČEZ, a. s., its subsidiaries and associates, which are shown in the Note 7. Other investments are excluded from the consolidation because the impact on the consolidated financial statements would not be significant. These investments are included in the balance sheet under investments and other non-current assets and are stated at cost net of provision for diminution in value (see Note 4).

b. Subsidiaries
Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.
Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.
The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.
In case of acquisitions of subsidiaries from entities under common control the assets and liabilities of the acquired subsidiaries are initially included in the consolidated financial statements at their book values at the date of acquisition. The difference between the cost of acquisition and the share of the book value of net assets of the subsidiary acquired is recorded directly in equity.
Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

2.4. Change in Accounting Principle

a. Adoption of IAS 39

In 2001 the Company adopted International Accounting Standard IAS 39, Financial Instruments: Recognition and Measurement. Following the introduction of IAS 39, available-for-sale investments are carried at fair value and all derivative financial instruments are recognized as assets or liabilities. The opening balance of retained earnings at January 1, 2001 was adjusted.

b. Change in group structure

In 2003 the Company included in the consolidated group certain companies, which previously have not been consolidated, because the impact on the consolidated financial statements was not significant. In previous periods the investments in these companies have been included in other financial assets as available for sale financial investments. The impact of consolidation of the previously unconsolidated subsidiaries and associates was recorded in 2003 directly in equity by adjusting the opening balance of retained earnings (see Note 7). Comparative information has not been restated, because it was impracticable to do so.

c. Comparatives

Certain prior year financial statement items have been reclassified to conform to the current year presentation.

2.5. Measurement Currency

Based on the economic substance of the underlying events and circumstances relevant to the company, the measurement currency of the Company has been determined to be the Czech crown (CZK).

2.6. Estimates

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

2.7. Revenues

The Group recognizes revenue from supplies of electricity and related services based on contract terms. Any differences between contracted amounts and actual supplies are estimated from meter readings and settled through the market operator.

2.8. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,484 million, CZK 2,071 million and CZK 1,644 million for the years ended December 31, 2003, 2002 and 2001, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 14). Such charges amounted to CZK 113 million, CZK 82 million and CZK 107 million in 2003, 2002 and 2001, respectively.

2.9. Interest

The Group capitalizes all interest costs incurred in connection with its construction program that theoretically could have been avoided if expenditures for the assets had not been made. Such capitalized interest costs amounted to CZK 937 million, CZK 2,128 million and CZK 2,783 million, which was equivalent to an interest capitalization rate of 7.4%, 7.5% and 7.5% in 2003, 2002 and 2001, respectively.

2.10. Property, Plant and Equipment

Property, plant and equipment are recorded at cost net of accumulated depreciation. Cost of plant in service includes materials, labor, payroll-related costs and the cost of debt financing used during construction. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. In case that during the construction of an asset in 2002 and 2001 the constructed asset produces products or services, which are sold, the revenues from such sales are deducted from the original cost of that asset. Government grants received for construction of certain environmental installations decrease the acquisition cost of the respective items of property, plant and equipment.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale 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.
The Group periodically reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values.

Depreciation

The Group depreciates the original cost of property, plant and equipment by using the straight-line method over the estimated economic lives. The depreciable lives used for property, plant and equipment are as follows:

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

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

	Average Life
Hydro plants	
Buildings and structures	44
Machinery and equipment	16
Fossil fuel plants	
Buildings and structures	32
Machinery and equipment	14
Nuclear power plant	
Buildings and structures	32
Machinery and equipment	17
Electricity distribution grid	30
Transformer stations	12

Depreciation of plant in service was CZK 17,066 million, CZK 11,375 million and CZK 9,127 million for the years ended December 31, 2003, 2002 and 2001, which was equivalent to a composite depreciation rate of 5.7%, 5.6% and 5.3%, respectively.

2.11. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization. Amortization of fuel in the reactor is based on the amount of power generated.
Nuclear fuel includes capitalized costs of provisions (see Note 2.22). Such capitalized costs at net book value amounted to CZK 360 million at December 31, 2003.

2.12. Intangible Assets, Net

Intangible assets are valued at their acquisition cost and related expenses. Intangible assets are amortized over their useful life using the straight-line method. The estimated useful life of intangible assets ranges from 4 to 15 years.

2.13. Investments

Investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the company, are classified as available-for-sale.
Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.
All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.
Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale and trading investments that do not have a quoted market price in an active market are measured at cost. The carrying amounts of such investments are reviewed at each balance sheet date for impairment.
Gains or losses on measurement to fair value of available-for-sale investments are recognized directly in the fair value reserve in shareholders' equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.
Changes in the fair values of trading investments are included in other expense (income).
Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

2.14. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 8). Foreign currency deposits are translated at December 31, 2003, 2002 and 2001 exchange rates, respectively.

2.15. Cash Restricted in Its Use

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

2.16. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectable amounts. At December 31, 2003, 2002 and 2001 the allowance for uncollectable receivables amounted to CZK 2,317 million, CZK 728 million and CZK 715 million, respectively.
Payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.17. Materials and Supplies

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

2.18. Fossil Fuel Stocks

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

2.19. Derivative Financial Instruments

Derivative financial instruments that are not designated as effective hedging instruments are classified as held-for-trading and carried at fair value under other current assets and trade and other payables, with changes in fair value included in other expense (income).
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:
– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
– a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
– the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.

2.20. Income Taxes

The provision for corporate tax is calculated in accordance with Czech tax regulations and is based on the income or loss reported under Czech accounting regulations, adjusted for appropriate permanent and temporary differences from Czech taxable income. In the Czech Republic, income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns. Current income taxes are provided at a rate of 31% for each of the years ended December 31, 2003, 2002 and 2001, after adjustments for certain items which are not deductible, or taxable, for taxation purposes.

Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. Deferred income taxes are provided on temporary differences between financial statement and taxable income at the subsequent year's tax rate using the liability method. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Income tax rates are published the year preceding their effectiveness and for 2004 the rate will be 28% (see Note 21).

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences, except goodwill for which amortization is not deductible for tax purposes. Deferred tax assets and liabilities of group companies are not offset in the balance sheet.

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

2.21. Long-term Debt

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

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

2.22. Nuclear Provisions

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

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is approximately 4.5%, which is based on the current rate of interest on long-term Czech government bonds of approximately 7% and the estimated 2.5% real rate of interest.

The decommissioning process is expected to continue for approximately a sixty-year period subsequent to the final operation of the plants. Furthermore, spent nuclear fuel will be stored on a temporary basis until approximately 2060 when permanent storage facilities are planned to become available. While the Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates.

Since 2002, pursuant to a proposed interpretation of the International Financial Reporting Interpretation Committee ("IFRIC"), changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset to the extent the change relates to future periods. However, to the extent that such a treatment would result in a negative asset, the effect of the change should be recognized in the income for the current period. To the extent the change relates to the current or prior periods, it is reported as income or expense for the current period. Until 2001 the changes in a decommissioning liability were recognized as income or expense for the period.

2.23. Leases

a. A Group company is a lessee

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

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

b. A Group company is the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized over the lease term as finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.24. Treasury Shares

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

2.25. Share Options

Board of directors, certain members of management of the Company and the Supervisory Board members have been granted options to purchase common shares of the Company. Employee compensation expense is measured on the date of the grant to the extent the quoted market price of the shares exceeds the exercise price of the share options.

2.26. Translation of Foreign Currencies

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction.

3. Net Plant in Service

Net plant in service at December 31, 2003, 2002 and 2001 is as follows (in CZK millions):

	Buildings	Plant and Equipment	Land and Other	Total 2003	Total 2002	Total 2001
Cost – opening balance	74,661	166,908	769	242,338	180,252	177,361
Plant additions	13,715	41,728	119	55,562	63,343	3,983
Retirements	(1,292)	(2,739)	(50)	(4,081)	(1,257)	(1,092)
Acquisition of subsidiaries	50,603	32,566	794	83,963	–	–
Disposal of subsidiaries	(7,281)	(7,269)	(67)	(14,617)	–	–
Cost – closing balance	130,406	231,194	1,565	363,165	242,338	180,252
Accumulated deprec. and allowances – opening balance	(29,001)	(74,354)	–	(103,355)	(92,614)	(84,408)
Depreciation	(3,703)	(13,263)	(3)	(16,969)	(11,375)	(9,127)
Net book value of assets disposed	(646)	(663)	–	(1,309)	(558)	(168)
Retirements	1,292	2,739	5	4,036	1,257	1,092
Acquisition of subsidiaries	(22,069)	(18,746)	(6)	(40,821)	–	–
Disposal of subsidiaries	3,487	4,600	–	8,087	–	–
Change in allowances	(37)	10	(68)	(95)	(65)	(3)
Accumulated deprec. and allowances – closing balance	(50,677)	(99,677)	(72)	(150,426)	(103,355)	(92,614)
Net plant in service – closing balance	79,729	131,517	1,493	212,739	138,983	87,638

At December 31, 2003, 2002 and 2001, plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2003	2002	2001
Cost	11,464	10,461	7,894
Accumulated depreciation	(3,778)	(2,896)	(2,672)
Total net book value	7,686	7,565	5,222

At December 31, 2002 capitalized costs of provisions related to second unit of Temelín nuclear power plant were included in construction work in progress and amounted to CZK 873 million, of which CZK 619 million related to plant and equipment and CZK 254 million related to nuclear fuel.
The carrying value of plant and equipment held under finance lease at December 31, 2003 is CZK 173 million. In 2002 and 2001 the Group had no finance lease contracts (see Note 16).
In 2003, 2002 and 2001 the Group capitalized CZK 0 million, CZK 1,373 million and CZK 922 million of revenues, which were earned during the construction of assets (see Note 2.10).
None of the Group's plant in service is pledged as security for liabilities.

4. Investments and Other Financial Assets, Net

Investments at December 31, 2003, 2002 and 2001 consist of the following (in CZK millions):

	2003	2002	2001
Investments in REAS, net (see Note 6)	3,401	1,937	1,946
Financial assets available for sale, net	2,262	1,969	2,115
Restricted funds for nuclear decommissioning	1,245	944	–
Other restricted funds	1,069	735	1,085
Long-term receivables, net	665	138	169
Total	8,642	5,723	5,315

Investments in REAS represent shares and share rights of certain of the Czech electric distribution companies REAS. In 2003 the investments in REAS represents a 34% share in Pražská energetika, a.s., which based on the decision of the Economic Competition Protection Authority has to be sold in the future. Financial assets available for sale include also other majority and minority shareholdings in operationally related companies (see Note 2.3).
At December 31, 2003, 2002 and 2001 impairment provisions for financial assets available for sale amounted to CZK 909 million, CZK 190 million and CZK 221 million, respectively. Impairment provision for investment in REAS (Pražská energetika, a.s.) was CZK 421 million at December 31, 2003 only.

5. Intangible Assets, Net

Intangible assets at December 31, 2003, 2002 and 2001 were as follows (in CZK millions):

	Software	Rights and Other	Total 2003	Total 2002	Total 2001
Cost – opening balance	1,977	46	2,023	1,742	1,225
Plant additions	626	208	834	282	525
Retirements	(63)	(7)	(70)	(1)	(8)
Acquisition of subsidiaries	2,064	22	2,086	–	–
Disposal of subsidiaries	(184)	(25)	(209)	–	–
Cost – closing balance	4,420	244	4,664	2,023	1,742
Accumulated amortisation – opening balance	(1,188)	(24)	(1,212)	(868)	(633)
Amortization charge for the year	(633)	(9)	(642)	(346)	(239)
Net book value of assets disposed	(1)	–	(1)	–	(4)
Disposals	63	7	70	1	8
Acquisition of subsidiaries	(1,546)	(17)	(1,563)	–	–
Disposal of subsidiaries	69	13	82	–	–
Accumulated amortisation – closing balance	(3,236)	(30)	(3,266)	(1,213)	(868)
Net intangible assets – closing balance	1,184	214	1,398	810	874

At December 31, 2003, 2002 and 2001, intangible assets presented on the balance sheet included intangible assets in progress in the amount of CZK 599 million, CZK 364 million and CZK 270 million, respectively.

6. Acquisition of REAS

On April 1, 2003, ČEZ acquired majority of the voting shares in 5 Czech electricity distribution companies from Czech National Property Fund and Czech Consolidation Agency. Through the acquisition of REAS ČEZ has also gained control over several other companies, which were owned directly by the respective REAS companies. As the REAS companies and their subsidiaries were acquired from the direct parent of ČEZ and an agency under common control of ČEZ's ultimate parent (Czech government), ČEZ has accounted for this transaction as an acquisition of subsidiaries under common control (see Note 2.3).

The book values of the identifiable assets and liabilities of the REAS companies acquired from companies under common control are (in CZK millions):

	Group SČE	Group SME	Group STE
Shares acquired in 2003 from entities under common control	48.05%	48.65%	58.3%
Shares acquired in previous years *)	2.95%	10.43%	–
Total shares	51.00%	59.08%	58.3%
Property, plant and equipment, net	7,306	10,523	9,741
Deferred income taxes	189	–	–
Other non-current assets	524	1,069	697
Cash and cash equivalents	76	265	33
Other current assets	3,843	7,222	4,346
Minority interests	(1)	–	(8)
Long-term liabilities	(65)	(2,215)	(256)
Deferred income taxes	–	(1,015)	(835)
Current liabilities	(5,839)	(6,065)	(6,738)
Total net assets	6,033	9,784	6,980
Minority interests	(2,956)	(4,004)	(2,911)
Share of net assets acquired	3,077	5,780	4,069
Effect of acquisition of REAS recognized directly in equity	1,660	1,730	(363)
Total purchase consideration	4,737	7,510	3,706
Less:			
Outstanding payables from acquisition	(1,031)	(1,450)	(866)
Consideration paid for shares in previous periods	(327)	(1,310)	–
Cash and cash equivalents in subsidiaries acquired	(76)	(265)	(33)
Cash outflow on acquisition from entities under common control	3,303	4,485	2,807

*) Shares acquired in previous periods have been accounted for as available for sale financial assets in 2002 and 2001, respectively.

	Group VČE	Group ZČE	Total REAS
Shares acquired in 2003 from entities under common control	49.62%	50.26%	
Shares acquired in previous years *)	0.45%	–	
Total shares	50.07%	50.26%	
Property, plant and equipment, net	8,553	5,176	41,299
Deferred income tax	–	–	189
Other non-current assets	259	1,892	4,441
Cash and cash equivalents	151	130	655
Other current assets	4,735	4,302	24,448
Minority interests	(1)	(1)	(11)
Long-term liabilities	(109)	(262)	(2,907)
Deferred income taxes	(952)	(502)	(3,304)
Current liabilities	(5,550)	(4,069)	(28,261)
Total net assets	7,086	6,666	36,549
Minority interests	(3,538)	(3,316)	(16,725)
Share of net assets acquired	3,548	3,350	19,824
Effect of acquisition of REAS recognized directly in equity	356	1,640	5,023
Total purchase consideration	3,904	4,990	24,847
Less:			
Outstanding payables from acquisition	(903)	(1,121)	(5,371)
Consideration paid for shares in previous periods	(41)	–	(1,678)
Cash and cash equivalents in subsidiaries acquired	(151)	(130)	(655)
Cash outflow on acquisition from entities under common control	2,809	3,739	17,143

*) Shares acquired in previous periods have been accounted for as available for sale financial assets in 2002 and 2001, respectively.

During 2003 ČEZ purchased further minority shares in 3 of the REAS from various third parties. These subsequent acquisitions have been recorded using the purchase method of accounting. ČEZ has recorded its share of the fair value of the net assets acquired and based on the valuation of assets and liabilities no goodwill or negative goodwill was recognized in these transactions. The following table summarizes the critical terms of the subsequent acquisitions of minority shares in REAS during 2003 (in CZK millions):

	Group STE	Group VČE	Group ZČE	REAS total
Shares acquired in 2003 from third parties	39.4%	48.76%	48.87%	
Share of fair value of net assets acquired	2,578	3,799	4,854	11,231
Goodwill (negative goodwill)	–	–	–	–
Total purchase consideration paid to third parties	2,578	3,799	4,854	11,231

The following table summarizes the cash outflows on acquisitions of subsidiaries during 2003 (in CZK millions):

Cash outflows on acquisition from entities under common control	17,143
Cash outflows on acquisitions from third parties	11,231
Total cash outflows on acquisitions in 2003	28,374

From the date of acquisition, the REAS companies and their subsidiaries have contributed the following balances to the Group's income statement for the year 2003 (in CZK millions):

	Group SČE	Group SME	Group STE
Revenues	8,055	10,900	7,829
Income before other expense (income) and income taxes	725	520	138
Net income	238	286	256

	Group VČE	Group ZČE	Total REAS
Revenues	7,922	5,388	40,094
Income before other expense (income) and income taxes	193	166	1,742
Net income	183	34	997

7. Investments in Subsidiaries and Associates

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

Subsidiaries	Country of incorporation	% equity interest 2003	% voting interest 2003	% equity interest 2002	2001
Západočeská energetika, a.s.	Czech Republic	99.1	99.1	–	–
Východočeská energetika, a.s.	Czech Republic	98.8	98.8	–	–
Středočeská energetická a.s.	Czech Republic	97.7	97.7	–	–
Severomoravská energetika, a. s.	Czech Republic	59.1	59.1	–	–
Severočeská energetika, a.s.	Czech Republic	51.0	51.0	–	–
CEZ FINANCE B. V. *)	the Netherlands	100.0	100.0	100.0	100.0
ČEZnet, a.s. *)	Czech Republic	100.0	100.0	100.0	100.0
Energetické opravny, a.s. *)	Czech Republic	100.0	100.0	100.0	100.0
HYDROČEZ,a.s. *)	Czech Republic	100.0	100.0	100.0	100.0
I & C Energo s.r.o. *)	Czech Republic	100.0	100.0	100.0	100.0
rpg Energiehandel GmbH *)	Germany	100.0	100.0	100.0	100.0
EN-DATA a.s.	Czech Republic	99.1	100.0	–	–
VČE - elektrárny, s.r.o.	Czech Republic	98.8	100.0	–	–
VČE - montáže, a.s.	Czech Republic	98.8	100.0	–	–
STE - obchodní služby spol. s r.o.	Czech Republic	74.4	76.2	–	–
Energetika Vítkovice, a.s.	Czech Republic	59.1	100.0	–	–
ePRIM, a.s.	Czech Republic	59.1	100.0	–	–
MSEM, a.s.	Czech Republic	59.1	100.0	–	–
STMEM, a.s.	Czech Republic	59.1	100.0	–	–
Union Leasing, a.s.	Czech Republic	59.1	100.0	–	–
První energetická a.s.	Czech Republic	53.0	62.0	–	–
Ústav jaderného výzkumu Řež a.s. *)	Czech Republic	52.5	52.5	52.5	52.5

Associates	Country of incorporation	% equity interest 2003	% voting interest 2003	% equity interest 2002	2001
ČEPS, a.s. **)	Czech Republic	34.0	34.0	100.0	100.0
AB Michle s.r.o. *)	Czech Republic	99.9	50.0	99.9	99.9
KOTOUČ ŠTRAMBERK, spol. s r.o. *)	Czech Republic	64.9	50.0	64.8	64.8
LOMY MOŘINA spol. s r.o. *)	Czech Republic	51.0	50.0	51.0	51.0
Plzeňská energetika a.s.	Czech Republic	49.6	50.0	–	–
KNAUF POČERADY, spol. s r.o. *)	Czech Republic	40.0	50.0	40.0	40.0
Severočeské doly a.s.	Czech Republic	37.2	37.2	37.2	37.2
ŠKODA PRAHA a.s. *)	Czech Republic	29.8	29.8	29.8	29.8
Aliatel a.s.	Czech Republic	21.1	30.0	–	–
Coal Energy, a.s. *)	Czech Republic	20.0	20.0	20.0	20.0

*) These subsidiaries and associates have not been consolidated in 2002 and 2001. The effect of the first-time consolidation in 2003 was included in equity as an adjustment of the opening balance of retained earnings.
**) ČEPS was in 2002 and 2001 a subsidiary of ČEZ.

8. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2003, 2002 and 2001 is as follows (in CZK millions):

	2003	2002	2001
Cash on hand and current accounts with banks	1,264	356	750
Short-term bank notes	2,501	3,520	1,502
Term deposits	249	349	28
Total	4,014	4,225	2,280

At December 31, 2003, 2002 and 2001, cash and cash equivalents included foreign currency deposits of CZK 866 million, CZK 1,045 million and CZK 237 million, respectively.
The weighted average interest rate on short-term bank notes and term deposits at December 31, 2003, 2002 and 2001 was 1.7%, 2.6% and 4.2%, respectively. For the years 2003, 2002 and 2001 the weighted average interest rate was 1.9%, 3.0% and 4.8%, respectively.

9. Receivables, Net

The composition of receivables, net, at December 31, 2003, 2002 and 2001 is as follows (in CZK millions):

	2003	2002	2001
Trade receivables	9,112	4,297	4,114
Other receivables	63	471	428
Other taxes and fees	205	–	–
Less allowance for doubtful receivables	(2,317)	(728)	(715)
Total	7,063	4,040	3,827

At December 31, 2003, 2002 and 2001, the total receivables included receivables from associates and unconsolidated subsidiaries in the net amount of CZK 1,113 million, CZK 341 million and CZK 477 million, respectively.

10. Other Current Assets

The composition of other current assets at December 31, 2003, 2002 and 2001 is as follows (in CZK millions):

	2003	2002	2001
Securities held for trading	1,756	–	–
Debt securities held to maturity	1,476	–	–
Advances granted	360	160	134
Prepayments	477	261	153
Derivatives	230	1,496	1,966
Total	4,299	1,917	2,253

11. Shareholders' Equity

The Company's stated capital as of December 31, 2003, 2002 and 2001 is as follows:

	Number of Shares Outstanding	Par Value per Share (CZK)	Total (CZK millions)
2003			
Registered shares	592,210,843	100	59,221
Treasury shares	(745,000)	100	(69)
Total	591,465,843		59,152
2002			
Registered shares	592,210,843	100	59,221
Treasury shares	(1,935,000)	100	(180)
Total	590,275,843		59,041
2001			
Registered shares	592,088,461	100	59,209
Treasury shares	(1,950,000)	100	(159)
Total	590,138,461		59,050

In November and December 2001 the Company acquired 1,950,000 of its own shares ("treasury shares"). In October 2002 these treasury shares were sold. In December 2002 the Company acquired another 1,950,000 treasury shares and at the same time sold 15,000 treasury shares. During 2003 the Company sold further 1,190,000 treasury shares. The remaining 745,000 treasury shares are reflected in the balance sheet at cost as a deduction from stated capital. The profit on sale of treasury shares was included in retained earnings.

In accordance with Czech regulations, joint stock companies are required to establish an undistributable reserve fund for contingencies against possible future losses and other events. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of profit each year thereafter, until the fund reaches at least 20% of capital. The fund can only be used to offset losses. As of December 31, 2003, 2002 and 2001, the balance was CZK 9,185 million, CZK 8,872 million and CZK 8,528 million, respectively, and is reported as a component of retained earnings.

12. Long-term Debt

Long-term debt at December 31, 2003, 2002 and 2001 is as follows (in CZK millions):

	2003	2002	2001
7.125% Notes, due 2007	4,545	5,336	6,419
7.25% Eurobonds, due 2006	6,467	6,299	6,368
8.75% Debentures, due 2004	3,000	2,995	2,990
9.22% Zero Coupon Debentures, due 2009 [1]	3,057	2,832	2,623
9.22% Debentures, due 2014 [2]	2,494	2,493	2,492
11.0625% Debentures, due 2008	–	2,987	2,984
3.35% Debentures, due 2008	2,987	–	–
6M PRIBOR + 1,3%, due 2005	500	–	–
6M PRIBOR + 0,4%, due 2005	1,000	–	–
Long-term bank loans:			
less than 2.00%	4,852	55	80
2.00% to 2.99%	2,787	9,127	3,825
3.00% to 3.99%	286	2,506	1,844
4.00% to 4.99%	–	13	5,440
5.00% to 5.99%	2,365	1,010	7,038
6.00% to 6.99%	382	2,589	553
7.00% to 7.99%	1,241	1,712	5,532
8.00% and more	693	10	19
Total long-term debt	36,656	39,964	48,207
Less: Current portion	(5,691)	(4,235)	(5,126)
Long-term debt, net of current portion	30,965	35,729	43,081

[1] Nominal value of these zero coupon debentures is CZK 4,500 million.
[2] From 2006 the interest rate changes to consumer price index plus 4.2%.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Group. For fair values of interest rate hedging instruments see Note 13.

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

2004	5,691
2005	3,696
2006	8,464
2007	7,012
2008	3,769
Thereafter	8,024
Total long-term debt	36,656

The following table analyses the long-term debt at December 31, 2003, 2002 and 2001 by currency (in millions):

	2003		2002		2001	
	Foreign currency	CZK	Foreign currency	CZK	Foreign currency	CZK
USD	454	11,637	502	15,111	553	20,017
EUR	258	8,360	296	9,325	355	11,330
CZK	–	16,659	–	15,528	–	16,860
Total long-term debt		36,656		39,964		48,207

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

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

The Company has entered into a number of currency swap contracts to hedge its long-term debt against currency risk (see Note 13). Although these swaps represent effective economic hedges of the currency risk, the Company elected not to apply hedge accounting for these transactions.

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising dates at December 31, 2003, 2002 and 2001 (in CZK millions):

	2003	2002	2001
Floating rate long-term debt			
with interest rate fixed for 1 month	1,818	2,354	6,554
with interest rate fixed from 1 to 3 months	5,701	6,941	5,736
with interest rate fixed from 3 months to 1 year	1,840	4,517	7,276
with interest rate fixed for more than 1 year	2,494	2,493	2,492
Total floating rate long-term debt	11,853	16,305	22,058
Fixed rate long-term debt	24,803	23,659	26,149
Total long-term debt	36,656	39,964	48,207

13. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.
The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

Investments
The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. The management believes that for instruments for which there are no quoted market prices the carrying amount approximates the fair value of such investments.

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

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

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

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

Carrying amounts and the estimated fair values of financial instruments at December 31, 2003, 2002 and 2001 were as follows (in CZK millions):

	2003		2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets:						
Investments	10,999	10,999	5,880	5,880	5,518	5,518
Receivables	7,063	7,063	4,040	4,040	3,827	3,827
Cash and cash equivalents	4,014	4,014	4,225	4,225	2,280	2,280
Liabilities:						
Long-term debt	(36,656)	(39,626)	(39,964)	(42,726)	(48,207)	(49,074)
Short-term loans	(2,320)	(2,320)	–	–	(514)	(514)
Accounts payable	(17,548)	(17,548)	(5,333)	(5,333)	(4,660)	(4,660)
Derivatives:						
Receivables from derivates	230	230	1,496	1,496	1,966	1,966
Payables from derivates	(3,030)	(3,030)	(3,601)	(3,601)	(3,991)	(3,991)

14. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

ČEZ's nuclear plant, Dukovany, consists of four 440 MW units which were placed into service from 1985 to 1987. ČEZ finalized construction of a second nuclear power plant, Temelín, where the second of the two 1 000 MW units started commercial operation in April 2003. Czech Republic has enacted a Nuclear Act ("Act"), which 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"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2043 for Temelín. An updated 2003 Dukovany estimate and a 1999 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 15.6 billion and CZK 10.4 billion, respectively.
Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a "nuclear account" funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government resolution in 1997, at 50 CZK per MWh produced at nuclear power plants. Since October 1, 1997, ČEZ has made regular payments to the nuclear account based on its average nuclear MWh generated during the last 5 years. From 2003 ČEZ is making these payments based on the actual quantity of electricity generated in nuclear power plants. The originator of radioactive waste directly covers all costs associated with interim storage of radioactive waste and spent fuel. Actual costs incurred are charged against the accumulated provision for interim and long-term spent fuel storage.
Group has established provisions as described in Note 2.22, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2003, 2002 and 2001 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommissioning	Spent fuel storage Interim	Spent fuel storage Long-term	Total
Balance at December 31, 2000	5,045	2,502	13,355	20,902
Movements during 2001				
Discount accretion	126	63	334	523
Effect of inflation	227	112	601	940
Provision charged to income statement	–	107	–	107
Effect of change in estimate charged (credited) to income statement (Note 2.22)	–	57	(288)	(231)
Current cash expenditures	–	(190)	(655)	(845)
Balance at December 31, 2001	5,398	2,651	13,347	21,396
Movements during 2002				
Discount accretion	144	70	334	548
Effect of inflation	258	126	600	984
Provision charged to income statement	–	82	–	82
Effect of change in estimate credited to income statement (Note 2.22)	–	(82)	–	(82)
Effect of change in estimate added to (deducted from) fixed assets (Note 2.22)	932	–	(59)	873
Capitalized cost of Temelín provisions	619	254	–	873
Current cash expenditures	–	(135)	(673)	(808)
Balance at December 31, 2002	7,351	2,966	13,549	23,866
Effect of change in group structure	142	4	–	146
Movements during 2003				
Discount accretion	187	74	339	600
Effect of inflation	337	133	610	1,080
Provision charged to income statement	–	113	–	113
Effect of change in estimate credited to income statement (Note 2.22)	902	(56)	2,527	3,373
Effect of change in estimate added to (deducted from) fixed assets (Note 2.22)	(749)	–	1,134	385
Current cash expenditures	–	(103)	(1,296)	(1,399)
Balance at December 31, 2003	8,170	3,131	16,863	28,164

The current cash expenditures for the long-term storage of spent nuclear fuel represent payments to the state controlled nuclear account and the expenditures for interim storage represent mainly the purchase of interim fuel storage containers.
The actual decommissioning and spent fuel storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials, and equipment and/or the actual time required to complete all decommissioning, disposal and storage activities.

15. Short-term Loans

Short-term loans at December 31, 2003, 2002 and 2001 are as follows (in CZK millions):

	2003	2002	2001
Bank overdrafts	17	–	–
Short-term bank loans	2,295	–	514
Other short-term notes payable	8	–	–
Total	2,320	–	514

Interest on short-term loans is variable. The weighted average interest rate was 2.1% at December 31, 2003 and 3.0% at December 31, 2001. For the years 2003, 2002 and 2001 the weighted average interest rate was 2.2%, 3.0% and 4.1%, respectively.

16. Finance Leases

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

	2003	2002	2001
Within one year	31	–	–
After one year but not more than five years	25	–	–
More than five years	–	–	–
Total minimum lease payments	56		
Future finance charges on finance leases	(6)	–	–
Present value of finance lease liabilities	50	–	–

17. Trade and Other Payables

Trade and other payables at December 31, 2003, 2002 and 2001 are as follows (in CZK millions):

	2003	2002	2001
Advances received from retailers	15,855	–	–
Unbilled revenues	(12,962)	–	–
Advances received from retailers, net	2,893	–	–
Payables from purchase of REAS	7,470	–	–
Trade payables	6,251	4,999	4,156
Other payables	933	334	504
Derivatives	3,031	3,601	3,991
Total	20,578	8,934	8,651

At December 31, 2003, 2002 and 2001, the total payables included payables from associates and unconsolidated subsidiaries in the amount of CZK 1,192 million, CZK 709 million and CZK 649 million, respectively.

18. Accrued Liabilities

Accrued liabilities at December 31, 2003, 2002 and 2001 consist of the following (in CZK millions):

	2003	2002	2001
Accrued interest	805	951	1,042
Provision for ash storage reclamation	451	432	395
Estimated environmental claims (Note 27)	200	220	254
Other provisions	2,160	–	–
Social and bonus funds	254	167	201
Unbilled goods and services	546	186	232
Deferred income	5,284	12	203
Other taxes and fees	864	261	383
Total	10,564	2,229	2,710

19. Sales of Electricity

The composition of sales of electricity at December 31, 2003, 2002 and 2001 is as follows (in CZK millions):

	2003	2002	2001
Sales to distribution companies	19,843	39,230	46,087
Sales to end customer through distribution grid	36,590	–	–
Exports of electricity including trade outside the Czech Republic	13,296	10,143	7,528
Sales to traders	1,592	2,010	–
Revenues capitalized during construction	–	(1,373)	(922)
Other domestic sales of electricity	3,893	2,928	607
Sales of ancillary services	4,334	–	–
Total	79,548	52,938	53,300

20. Other Operating Expenses

Other operating expenses (income), net, for the year ended December 31, 2003, 2002 and 2001 consist of the following (in CZK millions):

	2003	2002	2001
Services	4,411	3,199	2,872
Costs of ash storage, air and water pollution and environmental claims	285	365	328
Loss (gain) on sale of property, plant and equipment	(326)	20	52
Loss (gain) on sale of material	73	136	381
Capitalization of expenses to the cost of fixed assets	(1,889)	(437)	(430)
Fines and penalties revenue	(57)	(260)	(871)
Change in provisions and valuation allowances	2,003	(19)	320
Nuclear provisions	3,373	(82)	(231)
Other, net	535	(80)	708
Total	8,408	2,842	3,129

21. Income Taxes

Income Tax Legislation

Corporate income tax is calculated in accordance with Czech tax regulations at the rate of 31% in 2003, 2002 and 2001. The corporate income tax rate for 2004 will be 28%.

The Czech Republic currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value-added tax, corporate tax, and payroll (social) taxes, together with others. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains those relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Income Tax Provision

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

	2003	2002	2001
Current income tax charge	1,007	450	2,047
Adjustments in respect of current income tax of previous periods	11	254	87
Deferred income taxes	(810)	2,671	2,035
Total	208	3,375	4,169

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

	2003	2002	2001
Income before income taxes	6,659	11,796	13,292
Statutory income tax rate	31%	31%	31%
"Expected" income tax expense	2,064	3,657	4,121
Add (deduct) tax effect of:			
Change in tax rates	(1,438)	–	–
Czech/IFRS accounting differences	78	282	17
Non deductible provisions, net	123	(30)	4
Investment tax relief	(1,010)	(1,181)	(43)
Other non deductible (non taxable) items, net	140	(117)	62
Tax credits	(212)	(103)	(79)
Additional tax assessments	11	254	87
Withholding tax on dividend	42	–	–
Difference between carrying and tax value of financial asset	410	–	–
Deferred tax on undistributed profits of subsidiary	–	613	–
Income taxes	208	3,375	4,169
Effective tax rate	3%	29%	31%

Deferred Income Taxes, Net

Deferred income taxes at December 31, 2003, 2002 and 2001 consist of the following (in CZK millions):

	2003	2002	2001
Accumulated provision for nuclear decommissioning and spent fuel storage	6,641	6,129	5,656
Foreign exchange	–	–	352
CASTOR containers write off	338	367	347
Derivatives	–	8	628
Other provisions	885	300	292
Tax loss carry forwards	25	–	–
Revaluation of financial assets	17	–	–
Other deductible differences	171	187	202
Total deferred tax assets	8,077	6,991	7,477
Tax depreciation in excess of financial statement depreciation	12,102	8,226	7,399
Capitalized interest	5,590	6,227	5,808
Capitalized cost of provisions	2,253	2,683	2,223
Repairs and maintenance accrual	987	967	891
Penalty receivables	71	164	187
Additional foreign exchange rate differences under IAS 39	–	–	259
Other IAS 39 differences	17	25	64
Investment in associate	1,490	627	516
Investment in subsidiary	–	613	–
Total deferred tax liabilities	22,510	19,532	17,347
Total deferred tax liabilities, net	14,433	12,541	9,870

22. Other Expenses (Income), Net

Other expenses, net, for the year ended December 31, 2003, 2002 and 2001 consist of the following (in CZK millions):

	2003	2002	2001
Derivative losses (gains), net	1,157	1,643	1,720
Loss (gain) on sale of financial investments	9	(385)	3
Other, net	(422)	72	51
Total	744	1,330	1,774

23. Related Parties

The Company purchases products from related parties in the ordinary course of business. Approximately 60% of the brown coal consumption is supplied by Severočeské doly a.s. (SD), a company in which ČEZ holds a 37.2% share. In 2003, 2002 and 2001, coal purchases from SD amounted to CZK 5,177 million, CZK 4,921 million and CZK 5,416 million, respectively. Receivables from SD amounted to CZK 10 million, CZK 11 million and CZK 11 million as of December 31, 2003, 2002 and 2001, respectively. Payables to SD amounted to CZK 508 million, CZK 560 million and CZK 515 million as of December 31, 2003, 2002 and 2001, respectively. The prices of fossil fuel supplies from SD do not differ significantly from market prices.
ŠKODA PRAHA a.s. is the Company's general supplier of technology and equipment for the Temelín nuclear power plant and is 55% owned by the National Property Fund. In February and July 1999, the Company purchased 166,122 shares of ŠKODA PRAHA a.s. which represents a 29.8% interest in the company. During 2003 ČEZ subscribed 700,000 share of ŠKODA PRAHA a.s. with total nominal value of CZK 700 million. Subscribed shares were settled by offset with receivables of ČEZ, a. s., in the same amount. As of December 31, 2003, the increase of the share capital was not registered. The Company's purchases from ŠKODA PRAHA a.s. including value added tax, amounted to CZK 1,612 million, CZK 3,461 million, CZK 4,862 million in 2003, 2002 and 2001, respectively. The purchases from ŠKODA PRAHA a.s. are mainly for construction of Temelín nuclear power plant.
During 2003, 2002 and 2001 the Company granted share options to the Board of Directors, certain members of the management of the Company and Supervisory Board members. The following table shows changes during 2003, 2002 and 2001 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options	Weighted average exercise price (CZK per share)
Share options at December 31, 2000	–	–
Options granted	3,375,000	92.58
Options exercised	–	–
Options forfeited	–	–
Share options at December 31, 2001	3,375,000	92.58
Options granted	30,000	73.30
Options exercised	(30,000)	79.38
Options forfeited	(300,000)	96.39
Share options at December 31, 2002	3,075,000	92.15
Options granted	1,650,000	105.23
Options exercised	(1,190,000)	89.65
Options forfeited	(285,000)	87.83
Share options at December 31, 2003	3,250,000	100.95

At December 31, 2003, the aggregate number of share options granted to members of Board of Directors was 500,000 and the number of share options granted to Supervisory Board members was 2,750,000. The options granted do not have any vesting period and can be exercised during the terms of office of the respective Board members and in further 3 months after the end of such period. The exercise price for the granted options was based on the average quoted market price on the Prague stock exchange in the six-month period preceding the date of the grant. In 2003 the Company has recognized compensation expense of CZK 2 million related to the granted options (see Note 2.25). No expense was recognized in 2002 and 2001. The Company has settled options exercised during 2003 and 2002 using treasury shares. The gain on the sale of treasury shares was recognized directly in equity.

24. Segment Information

Until April 1, 2003 ČEZ has reported two distinguishable segments – generation and transmission, whose operations were accounted as separate businesses. On April 1, 2003 ČEZ has sold majority share in its transmission subsidiary ČEPS, a. s. (ČEPS) and at the same moment ČEZ has acquired majority shares in 5 electricity distribution companies REAS (see Note 1). Following this transaction ČEZ has modified its reporting of business segments by including new distribution segment, which is formed by the 5 majority owned REAS companies.

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

The following table summarizes segment information for the years ended December 31, 2003, 2002 and 2001, respectively (in CZK millions):

Year 2003:	Power Production	Transmission	Distribution	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	40,636	3,569	38,212	2,399	84,816	–	84,816
Intersegment sales	14,952	152	819	2,590	18,513	(18,513)	–
Total revenues	55,588	3,721	39,031	4,989	103,329	(18,513)	84,816
Operating income	4,698	757	1,678	111	7,244	256	7,500
Identifiable assets	185,508	–	44,362	2,714	232,584	(67)	232,517
Identifiable liabilities	85,076	–	15,965	2,772	103,813	(1,972)	101,841
Investment in associate	6,791	2,924	–	1,284	10,999	–	10,999
Income (share of loss) from associate	531	630	–	(98)	1,063	–	1,063
Depreciation and amortization	14,173	476	2,962	256	17,867	(256)	17,611
Change in provisions and allowances	5,767	4	903	(936)	5,738	(915)	4,823

Year 2002:	Power Production	Transmission	Combined	Elimination	Consolidated
Sales other than intersegment sales	43,651	11,927	55,578	–	55,578
Intersegment sales	6,235	441	6,676	(6,676)	–
Total revenues	49,886	12,368	62,254	(6,676)	55,578
Operating income	9,570	661	10,231	1,023	11,254
Identifiable assets	195,747	17,899	213,646	(10,219)	203,427
Identifiable liabilities	74,462	3,704	78,166	(2,917)	75,249
Investment in associate	5,880	–	5,880	–	5,880
Income from associate	497	–	497	–	497
Depreciation and amortization	10,869	1,865	12,734	(1,013)	11,721
Change in provisions and allowances	(696)	2	(694)	–	(694)

Year 2001:	Power Production	Transmission	Combined	Elimination	Consolidated
Sales other than intersegment sales	44,735	11,320	56,055	–	56,055
Intersegment sales	7,193	1,106	8,299	(8,299)	–
Total revenues	51,928	12,426	64,354	(8,299)	56,055
Operating income	13,042	524	13,566	1,112	14,678
Identifiable assets	197,444	19,323	216,767	(11,233)	205,534
Identifiable liabilities	81,689	4,431	86,120	(3,689)	82,431
Investment in associate	5,518	–	5,518	–	5,518
Income from associate	360	–	360	–	360
Depreciation and amortization	8,584	1,882	10,466	(1,100)	9,366
Change in provisions and allowances	(509)	8	(501)	–	(501)

The power generation segment sells the major part of its electricity generated to the eight REAS. The power generation segment charges the cost of power losses in the transmission grid and the supplies of ancillary services to the transmission segment. The transmission segment sells ancillary services and transmission services mainly to the eight REAS.

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

25. Discontinuing Operation

On March 11, 2002 the Government decided to purchase from ČEZ a 66% share in its transmission subsidiary ČEPS. General meeting of ČEZ's shareholders held on June 11, 2002, has confirmed the above mentioned decision of the Government. This transaction was carried out on April 1, 2003. Based on the decision of Economic Competition Protection Authority ČEZ has to also sell its remaining equity share in ČEPS in the future.
The purchase of ČEPS shares was made by OSINEK, a.s., a company controlled by the National Property Fund, and the Ministry of Labor and Social Affairs. Based on the fact that the transaction was carried out between parties under common control of ČEZ's ultimate parent, ČEZ has recorded the net gain on the sale directly in equity. The composition of the amount recorded in equity in 2003 is as follows (in CZK millions):

Total selling price	15,224
Book value of shares sold	(4,453)
Current income tax related to the sale	(4,152)
Deferred tax related to the sale	543
Effect of sale recognized in equity	7,162

The operations of ČEPS were reported in the transmission segment (see Note 24).

The carrying amounts of total assets and total liabilities attributable to the discontinuing operation at December 31, 2003, 2002 and 2001 are as follows (in CZK millions):

	2003	2002	2001
Total asset	2,924 *)	5,542	4,725
Total liabilities	–	(1,536)	(1,420)
Total net assets to be disposed off	2,924	4,006	3,305

*) The amount represents investment in associate only.

The amounts shown above do not include the deferred tax liability from consolidation of undistributed retained earnings of ČEPS. This deferred tax liability has decreased as result of the partial disposal of ČEPS and has affected the income tax expense on the transaction.

The following items of income, expenses and cash flows can be attributed to the discontinuing operation (in CZK millions):

	2003	2002	2001
Total revenues	2,023	5,692	4,127
Operating profit	1,013	1,684	1,636
Income from associate	630	–	–
Income before income taxes	1,609	1,531	1,424
Income tax expense	302	470	436
Cash flow from operating activities	1,055	1,460	1,707
Cash flow from investing activities	(113)	(477)	(762)
Cash flow from financing activities	–	–	–

The income tax expense shown above does not include deferred tax from consolidation of undistributed retained earnings of ČEPS.

26. Net Income per Share

	2003	2002	2001
Numerator – basic and diluted (CZK millions)			
Net income	5,932	8,421	9,123
Denominator (thousands shares)			
Basic:			
Weighted average shares outstanding	590,772	590,363	591,926
Dilutive effect of treasury shares	1,439	1,787	162
Diluted:			
Adjusted weighted average shares	592,211	592,150	592,088

27. Commitment and Contingencies

Investment Program

The ČEZ, a. s. is engaged in a continuous construction program, currently estimated as of December 31, 2003 to total CZK 51,3 billion over the next five years, as follows: CZK 9.5 billions in 2004, CZK 10.7 billions in 2005, CZK 10.6 billions in 2006, CZK 10.6 billions in 2007 and CZK 9.9 billions 2008. These figures do not include the expected acquisitions of subsidiaries and associates, which are estimated at CZK 43.6 billions in the period 2004 through 2008 The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2003 significant purchase commitments were outstanding in connection with the construction program.

The Company currently projects that its planned construction expenditures will be funded mainly with cash provided by operating activities. ČEZ currently prepares new issue of Eurobonds in the total amount of EUR 200 – 400 million to cover the potential cash requirements of its foreign acquisitions. To the extent financing is required, the Company has obtained the following credit ratings from Moody's Investors Service: Baa1 and Standard & Poor's: BBB+, both with a stable outlook.

Environmental Matters

The Czech Republic has adopted a series of environmental acts and laws and regulations ("the Acts") including a timetable for the reduction of atmospheric emissions in the period from 1992 through December 31, 1998. As of December 31, 1998, all plants operated by the Company had been upgraded to meet the environmental requirements of the Acts.

The Company is also liable under the Acts for past environmental damage (see Note 18). In 2003, 2002 and 2001, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 6 million, CZK 9 million and CZK 7 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 40 million in 2003, CZK 47 million in 2002 and CZK 57 million in 2001, respectively, for pollution damages. In 2003, 2002 and 2001 the Company further reversed CZK 54 million, CZK 72 million and CZK 84 million, respectively. Although uncertainties exist due to interpretations of applicable laws, management does not believe, based upon the information available at this time, that the ultimate outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

Insurance Matters

The Nuclear Act (see Note 14) sets limits for liabilities for nuclear damages by the operator of nuclear installations/licenses. The Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 6 billion per incident and that the reimbursement of such liability up to CZK 6 billion is guaranteed by the state. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 1.5 billion. The Nuclear Act also requires an operator/licensee to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 1.5 billion and up to a minimum of CZK 200 million for other activities (such as transportation). ČEZ has obtained all insurance policies with minimal limits as required by the law. ČEZ concluded about mentioned insurance policies with Czech nuclear pool, a group of insurance companies.

Group companies have various insurance policies covering Directors and Officers Liability, a property policy covering natural disaster and operational risks associated with the operation of ČEZ's fossil, hydro and nuclear power plants, insurance policies covering other property, general third party liability insurance in connection with electricity production, distribution and trading, car insurance and accident insurance.

28. Presentation of Financial Statements

The accompanying consolidated financial statements are presented on the basis of International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board. Certain accounting principles generally accepted in the Czech Republic (CAS) do not conform to IFRS used in preparing the accompanying consolidated financial statements. A description of the significant adjustments required to conform the Company's statutory balances to consolidated financial statements prepared in accordance with IFRS is set forth in the following tables.

The effect on retained earnings and other reserves of differences in IFRS and CAS is as follows (in CZK millions):

	2003	December 31, 2002	2001
Balance per CAS (standalone)	79,863	69,154	64,847
Impact of consolidation	(635)	2,933	2,325
Balance per CAS	79,228	72,087	67,172
Accumulated provision for nuclear decommissioning and spent fuel storage (Note 14)	(14,415)	(9,715)	(10,128)
Capitalized costs of nuclear provisions	8,046	6,910	7,170
CASTOR containers write-off	(1,209)	(1,183)	(1,119)
Deferred tax on nuclear provisions, capitalized costs of nuclear provisions and CASTOR containers write-off, net	2,113	1,236	1,264
Reversal of repairs and maintenance accrual, net of deferred tax	2,545	2,152	1,982
Impact of CAS/IFRS accounting differences on the associate, net of deferred tax	(247)	(171)	(262)
Interest capitalized, net of deferred tax	16,829	15,482	14,076
Depreciation of interest capitalized, net of deferred tax	(2,455)	(1,620)	(1,149)
Grants received, net of deferred tax	(670)	(416)	(450)
Gain (loss) on derivatives, net of deferred tax	–	(17)	(1,397)
Additional foreign exchange rate differences under IAS 39, net of deferred tax	–	–	577
Other IAS 39 differences	43	57	142
Electrometers, net of deferred tax	970	–	–
Finance leases – lessee, net of deferred tax	109	–	–
Finance leases – lessor, net of deferred tax	(26)	–	–
Share options	18	–	–
Rights, net of deferred tax	(116)	–	–
Revaluation on acquisition	(5)	–	–
Reclassification of items from retained earnings, net	(223)	(168)	(202)
Revaluation on acquisition	90,535	84,634	77,676

The effect on net income of differences in IFRS and CAS is as follows (in CZK millions):

	2003	2002	2001
Net income per CAS (standalone)	13,931	6,713	6,434
Impact of consolidation	1,648	608	1,367
Net income per CAS	15,579	7,321	7,801
Accumulated provision for nuclear decommissioning and spent fuel storage (Note 14)	(2,540)	413	452
Capitalized costs of nuclear provisions	(994)	(261)	(191)
CASTOR containers write-off	(26)	(63)	(125)
Deferred tax on nuclear provisions, capitalized costs of nuclear provisions and CASTOR containers write-off, net	876	(28)	(42)
Reversal of repairs and maintenance accrual, net of deferred tax	179	170	252
Impact of CAS/IFRS accounting differences on the associate, net of deferred tax	(10)	91	(82)
Interest capitalized, net of deferred tax	1,348	1,405	1,650
Depreciation of interest capitalized, net of deferred tax	(835)	(471)	(290)
Grants received, net of deferred tax	32	34	32
Gain (loss) on derivatives, net of deferred tax	(263)	580	(1,154)
Additional foreign exchange rate differences under IAS 39, net of deferred tax	–	(577)	844
Other IAS 39 differences, net of deferred tax	(12)	(85)	127
Electrometers, net of deferred tax	21	–	–
Finance leases – lessee, net of deferred tax	4	–	–
Finance leases – lessor, net of deferred tax	(26)	–	–
Share options	(2)	–	–
Rights, net of deferred tax	(17)	–	–
Revaluation on acquisition	(5)	–	–
Sale of subsidiary ČEPS, net of tax	(7,162)	–	–
Deferred tax on tax loss carryforward	–	–	(95)
(Profit) loss on sale of treasury shares	5	(18)	–
Reclassification of items from retained earnings, net	(220)	(90)	(56)
Net income per IFRS	5,932	8,421	9,123

ČEZ, a. s. – Balance Sheets Prepared in Accordance with Czech Accounting Standards

Assets as of 31. 12. (in CZK thousands)

			2003 Gross	2003 Adjustments	2003 Net	2002 Net	2001 Net
		TOTAL ASSETS	322,005,070	104,084,600	217,920,470	198,874,194	202,373,315
A.		Stock subscribtions receivable	–	–	–	–	–
B.		Fixed assets	299,393,140	103,673,303	195,719,837	169,714,320	174,452,554
B. I.		Intangible assets	2,592,264	1,474,437	1,117,827	1,018,929	1,030,775
B. I.	1.	Expenses of foundation and organization	–	–	–	–	–
	2.	Research and development	–	–	–	–	–
	3.	Software	1,996,541	1,457,459	539,082	665,276	758,384
	4.	Patents, rights and royalties	222,591	16,978	205,613	9,917	6,812
	5.	Goodwill	–	–	–	–	–
	6.	Other intangibles	–	–	–	–	–
	7.	Intangibles in progress	373,132	–	373,132	343,636	264,578
	8.	Advances for intangibles	–	–	–	100	1,001
B. II.		Tangible assets	247,626,735	99,994,299	147,632,436	156,798,818	161,367,111
B. II.	1.	Land	691,666	–	691,666	699,955	663,093
	2.	Buildings, halls and constructions	71,139,586	26,708,779	44,430,807	37,752,458	27,125,687
	3.	Separate movable items and groups of movable items	169,534,780	73,285,520	96,249,260	73,388,194	42,171,735
	4.	Permanent growth	–	–	–	–	–
	5.	Livestock	–	–	–	–	–
	6.	Other tangible assets	13,952	–	13,952	13,679	13,854
	7.	Tangibles in progress	4,431,343	–	4,431,343	38,344,336	84,291,167
	8.	Advances for tangibles	1,815,408	–	1,815,408	6,600,196	7,101,424
	9.	Adjustment to acquired property	–	–	–	–	151
B. III.		Financial investment	49,174,141	2,204,567	46,969,574	11,896,573	12,054,668
B. III.	1.	Majority shareholdings and participating interests	–	–	–	–	–
		(shareholdings > 50%)	37,846,134	914,541	36,931,593	5,709,769	5,791,117
	2.	Substantial shareholdings and participating interests	–	–	–	–	–
		(shareholdings of 20% – 50%)	10,309,612	661,651	9,647,961	4,196,795	4,268,536
	3.	Other securities and deposits	178,139	–	178,139	1,693,844	1,078,664
	4.	Intergroup loans	–	–	–	–	–
	5.	Other financial investments	72,050	12,900	59,150	289,339	916,351
	6.	Financial investment in progress	768,206	615,475	152,731	6,826	–
	7.	Advances for financial investment	–	–	–	–	–
C.		Current assets	22,268,564	411,297	21,857,267	28,913,059	24,304,923
C. I.		Inventory	14,356,264	270	14,355,994	15,004,374	15,037,254
C. I.	1.	Materials	14,339,767	270	14,339,497	15,000,816	15,027,712
	2.	Work in progress and semi-finished production	–	–	–	1	1
	3.	Finished products	–	–	–	–	–
	4.	Livestock	–	–	–	–	–
	5.	Goods	–	–	–	–	–
	6.	Advances for inventory	16,497	–	16,497	3,557	9,541
C. II.		Long-term receivables	81,843	–	81,843	2,220,730	2,681,601
C. II.	1.	Trade receivables	20,403	–	20,403	15,947	76,586
	2.	Receivables from subsidiaries	–	–	–	2,137,732	2,565,278
	3.	Receivables from associates	–	–	–	–	–
	4.	Receivables from partners and associations	–	–	–	–	–
	5.	Contingencies	–	–	–	–	–
	6.	Other receivables	61,440	–	61,440	67,051	39,737
	7.	Deferred tax assets	–	–	–	–	–
C. III.		Short-term receivables	4,941,650	411,027	4,530,623	7,859,169	4,312,840
C. III.	1.	Trade receivables	4,127,680	336,390	3,791,290	3,163,442	3,533,216
	2.	Receivables from subsidiaries	–	–	–	464,546	479,170
	3.	Receivables from associates	1,430	1,430	–	–	–
	4.	Receivables from partners and associations	–	–	–	–	–
	5.	Receivables from social security	–	–	–	–	–
	6.	Receivables from taxes	48,790	–	48,790	1,993,614	3,439
	7.	Other advances	183,524	–	183,524	145,780	129,165
	8.	Contingencies	22,451	–	22,451	505,723	74,712
	9.	Other receivables	557,775	73,207	484,568	1,586,064	93,138
C. IV.		Financial accounts	2,888,807	–	2,888,807	3,828,786	2,273,228
C. IV.	1.	Cash	3,150	–	3,150	3,128	3,287
	2.	Bank accounts	2,139,202	–	2,139,202	2,341,093	1,445,532
	3.	Short-term financial assets	746,455	–	746,455	1,484,565	824,409
	4.	Short-term financial assets in progress	–	–	–	–	–
D. I.		Temporary accounts of assets	343,366	–	343,366	246,815	3,615,838
D. I.	1.	Prepaid expenses	342,616	–	342,616	246,495	2,180,422
	2.	Complex prepaid expenses	–	–	–	–	–
	3.	Unbilled revenues	750	–	750	320	1,237
	4.	Exchange rate losses	x	x	x	x	1,434,179

Shareholders' Equity and Liabilities as of 31. 12. (in CZK thousands)

			2003	2002	2001
		TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	217,920,470	198,874,194	202,373,315
A.		Shareholders' equity	139,014,969	128,194,872	123,897,070
A. I.		Stated capital	59,151,668	59,040,794	59,050,449
A. I.	1.	Stated capital	59,221,084	59,221,084	59,208,846
	2.	Own shares	(69,416)	(180,290)	(158,397)
	3.	Changes in stated capital	–	–	–
A. II.		Capital funds	430,981	859,551	1,661,341
A. II.	1.	Share premium	–	–	–
	2.	Other capital funds	1,659,057	1,659,500	1,661,341
	3.	Revaluation of assets and liabilities	(1,228,076)	(799,949)	–
	4.	Revaluation from transformations	–	–	–
A. III.		Reserve funds and other funds from net profit	9,265,086	9,038,840	8,729,798
A. III.	1.	Legal reserve fund	9,096,890	8,872,094	8,528,479
	2.	Statutory and other funds	168,196	166,746	201,319
A. IV.		Retained earnings	56,236,206	52,542,282	48,021,040
A. IV.	1.	Retained earnings of previous years	56,236,206	52,542,282	48,021,040
	2.	Retained losses of previous years	–	–	–
A. V.		Profit/loss of current accounting period	13,931,028	6,713,405	6,434,442
B.		Liabilities	78,224,940	69,873,654	76,932,589
B. I.		Reserves	18,183,201	16,175,071	15,926,330
B. I.	1.	Reserves in accordance with special laws	7,985,464	7,646,252	6,419,671
	2.	Reserves for pensions and similar liabilities	–	–	–
	3.	Reserve for income tax	–	–	–
	4.	Other reserves	10,197,737	8,528,819	8,370,079
	5.	Reserve for exchange rate losses	x	x	1,136,580
B. II.		Long-term liabilities	25,016,789	27,786,508	30,381,896
B. II.	1.	Trade payables	–	–	–
	2.	Payables to subsidiaries	11,047,412	11,685,098	13,450,117
	3.	Payables to associates	–	–	–
	4.	Payables to partners and associations	–	–	–
	5.	Long-term deposits received	–	–	182,220
	6.	Bonds payable	8,563,117	11,339,419	13,000,000
	7.	Long-term notes payable	–	–	–
	8.	Contingencies	–	–	–
	9.	Other payables	–	–	–
	10.	Deferred tax liabilities	5,406,260	4,761,991	3,749,559
B. III.		Short-term liabilities	21,427,973	8,889,995	6,136,105
B. III.	1.	Trade payables	11,378,616	3,936,675	3,477,978
	2.	Payables to subsidiaries	–	–	–
	3.	Payables to associates	–	–	–
	4.	Payables to partners and associations	22,705	10,255	10,255
	5.	Payables to employees	166,218	154,885	146,678
	6.	Social security payables	107,491	98,612	96,316
	7.	Taxes payable and subsidies	3,287,029	256,715	1,124,010
	8.	Short-term deposits received	125,464	564,488	559,786
	9.	Bonds payable	3,000,000	–	–
	10.	Contingencies	233,217	331,831	486,793
	11.	Other payables	3,107,233	3,536,534	234,289
B. IV.		Bank loans and short-term notes	13,596,977	17,022,080	24,488,258
B. IV.	1.	Long-term bank loans	9,609,594	12,786,980	19,131,974
	2.	Short-term bank loans	3,987,383	4,235,100	5,356,284
	3.	Short-term notes	–	–	–
C. I.		Temporary accounts of liabilities	680,561	805,668	1,543,656
C. I.	1.	Accruals	660,567	802,536	815,889
	2.	Deferred income	19,994	3,132	202,669
	3.	Exchange rate gains	x	x	525,098

ČEZ, a. s. – Profit and Loss Statement Prepared in Accordance with Czech Accounting Standards

Profit and Loss Statement as of 31. 12. (in CZK thousands)

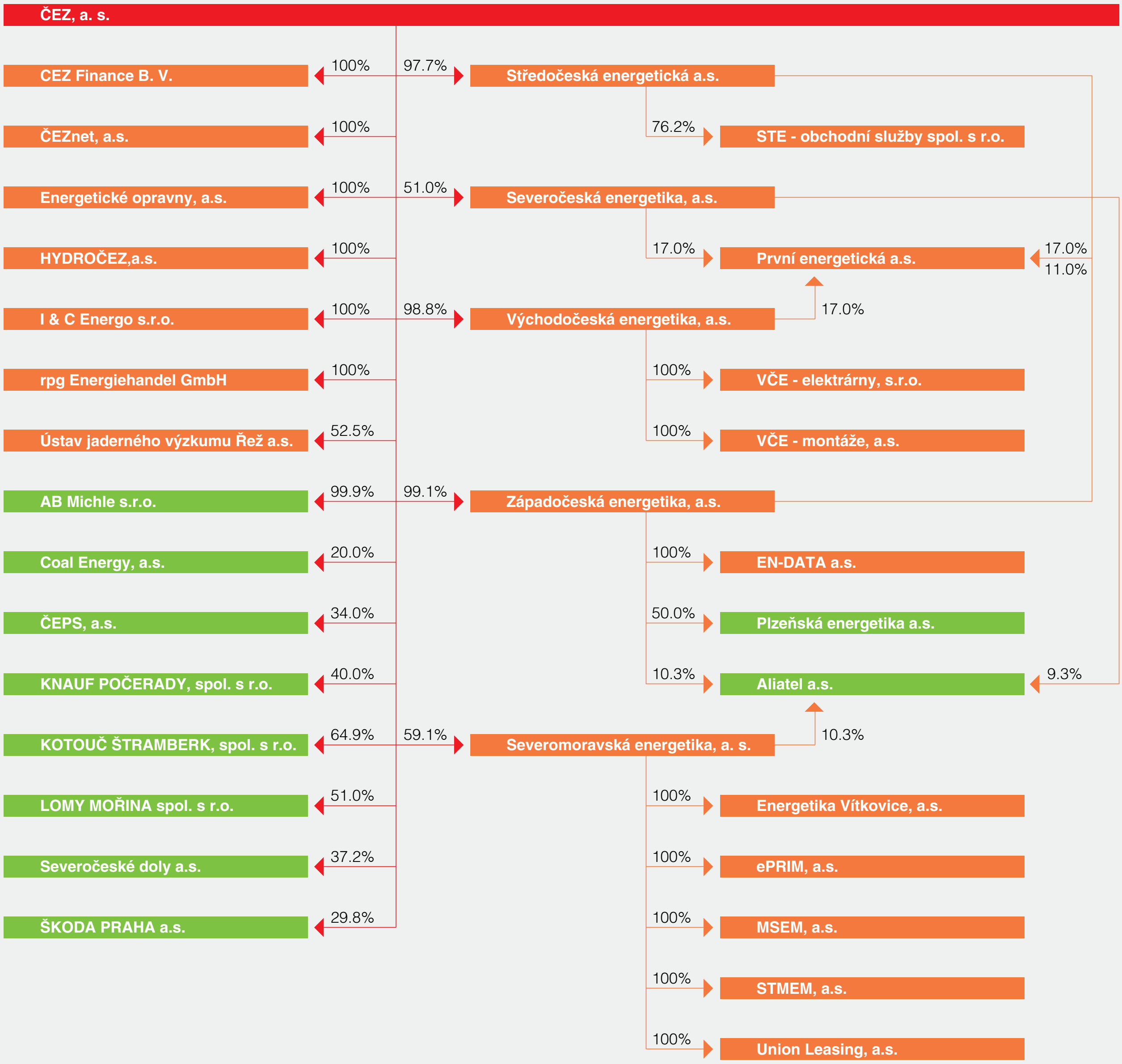
			2003	2002	2001
I.		Revenues from goods sold	–	8,749	7,352
A.		Costs of goods sold	–	6,970	5,626
+		**Sales margin**	**–**	**1,779**	**1,726**
II.		**Production**	**54,549,282**	**49,919,670**	**52,276,354**
II.	1.	Revenues from finished products and services	54,445,309	49,492,738	51,851,799
	2.	Changes in inventory of own production	(1)	–	–
	3.	Capitalization (of own work)	103,974	426,932	424,555
B.		**Consumption from production**	**26,940,445**	**26,029,665**	**26,256,579**
B.	1.	Consumption of material and energy	19,918,462	19,178,491	19,250,312
	2.	Services	7,021,983	6,851,174	7,006,267
+		**Value added**	**27,608,837**	**23,891,784**	**26,021,501**
C.		**Personnel expenses**	**3,713,089**	**3,622,573**	**3,727,581**
C.	1.	Wages and salaries	2,536,975	2,496,682	2,446,154
	2.	Bonuses to board members	9,662	10,552	9,571
	3.	Social insurance	922,021	891,912	879,482
	4.	Other social expenses	244,431	223,427	392,374
D.		Taxes and fees	1,680,194	1,126,929	1,085,934
E.		Amortization of intangibles and depreciation of tangibles	12,285,601	10,080,930	8,079,961
III.		**Revenues from intangibles, tangibles and material sold**	**660,621**	**488,561**	**195,902**
III.	1.	Revenues from intangibles and tangibles sold	617,133	437,089	134,956
	2.	Revenues from material sold	43,488	51,472	60,946
F.		**Net book value of intangibles, tangibles and material sold**	**377,622**	**661,149**	**643,676**
F.	1.	Net book value of intangibles and tangibles sold	272,487	461,231	190,010
	2.	Book value of material sold	105,135	199,918	453,666
G.		Changes in operational reserves and adjustments	1,582,323	1,394,581	1,612,127
IV.		Other operational revenues	430,107	406,459	878,356
H.		Other operational expenses	615,191	386,013	409,567
V.		Transfer of operational revenues	–	–	–
I.		Transfer of operational expenses	(170,088)	(420,500)	–
*		**Net operating results**	**8,615,633**	**7,935,129**	**11,536,913**
VI.		Revenues from sale of securities and deposits	20,531,409	717,911	5,952
J.		Sold securities and deposits	8,029,499	315,154	8,619
VII.		**Revenues from financial investments**	**739,409**	**210,054**	**131,160**
VII.	1.	Revenues from subsidiaries and associates	739,409	183,053	112,753
	2.	Revenues from other securities and deposits	–	27,001	18,407
	3.	Revenues from other financial investments	–	–	–
VIII.		Revenues from short-term financial assets	–	–	1,282
K.		Costs of financial assets	–	–	–
IX.		Revenues from revaluation of securities and derivatives	–	–	–
L.		Costs of revaluation of securities and derivatives	–	–	–
M.		Changes in financial reserves and adjustments	2,108,099	(1,167,586)	(809,860)
X.		Interest revenues	227,148	302,492	385,379
N.		Interest expenses	2,491,239	2,601,235	3,309,596
XI.		Other financial revenues	2,431,773	3,436,932	444,158
O.		Other financial expenses	1,416,426	2,860,939	539,313
XII.		Transfer of financial revenues	–	–	–
P.		Transfer of financial expenses	–	–	–
*		**Net results from financial activities**	**9,884,476**	**57,647**	**(2,079,737)**
Q.		**Income taxes on normal activity**	**4,668,038**	**1,317,973**	**2,958,234**
Q.	1.	– Due	4,023,769	305,541	1,910,407
	2.	– Deferred	644,269	1,012,432	1,047,827
**		**Net results after taxes from normal activity**	**13,832,071**	**6,674,803**	**6,498,942**
XIII.		Extraordinary revenues	428,140	472,795	26,038
R.		Extraordinary expenses	301,776	433,891	105,944
S.		**Income tax on extraordinary activity**	**27,407**	**302**	**(15,406)**
S.	1.	– Due	27,407	302	(15,406)
	2.	– Deferred	–	–	–
*		**Net results from extraordinary activity**	**98,957**	**38,602**	**(64,500)**
***		**Net profit (loss) for the accounting period**	**13,931,028**	**6,713,405**	**6,434,442**
		Profit (loss) before income taxes	**18,626,473**	**8,031,680**	**9,377,270**

ČEZ, a. s. – Cash Flow Statement
Prepared in Accordance with Czech Accounting Standards

Cash Flow Statement (in CZK thousands)

		2003	2002	2001
P.	**Cash and cash equivalents at beginning of period**	**3,828,786**	**2,273,228**	**3,072,579**
	Operating activities			
Z.	Pre-tax profit from normal activity	18,500,109	7,992,776	9,457,176
A.1.	Adjustments by non-cash transactions	5,672,621	13,782,762	13,114,330
A.1.1.	Depreciation, amortization and writing-off	12,304,351	10,096,458	8,139,744
A.1.1.1.	Depreciation and amortization of fixed assets	12,289,475	10,090,151	8,130,663
A.1.1.2.	Receivables writing-off	14,876	6,307	9,081
A.1.2.	Change in adjustments, reserves and accruals	3,609,624	486,731	1,992,648
A.1.2.1.	Change in adjustments	1,681,598	(21,897)	317,599
A.1.2.2.	Change in reserves	2,008,130	248,741	484,651
A.1.2.3.	Change in accruals	(80,104)	259,887	1,190,398
A.1.3.	Gain/Loss on fixed assets retirements and own shares	(12,846,557)	(378,615)	57,721
A.1.4.	Interest expenses and revenues	2,264,091	2,298,743	2,924,217
A.1.4.1	Interest expenses	2,491,239	2,601,235	3,309,596
A.1.4.2.	Interest revenues	(227,148)	(302,492)	(385,379)
A.1.5.	Other non-cash transactions	341,112	1,279,445	–
A.*	**Net cash provided by operating activities before taxes, changes in working capital and extraordinary items**	**24,172,730**	**21,775,538**	**22,571,506**
A.2.	Change in working capital	2,267,865	947,189	(2,012,486)
A.2.1.	Change in receivables from operational activities	1,861,853	667,402	(45,733)
A.2.2.	Change in short-term payables from operational activities	(242,362)	234,485	(221,024)
A.2.3.	Change in inventory	648,374	45,302	(1,745,729)
A.**	**Net cash provided by operating activities before taxes and extraordinary items**	**26,440,595**	**22,722,727**	**20,559,020**
A.3.	Interest paid, excl. capitalized interest	(2,460,192)	(2,477,872)	(3,135,622)
A.4.	Interest received	228,552	301,575	535,104
A.5.	Income taxes paid	924,170	(3,021,191)	(1,816,557)
A.6.	Revenues and expenses related to extraordinary items	234,777	44,210	(77,645)
A.***	**Net cash provided by operating activities**	**25,367,902**	**17,569,449**	**16,064,300**
	Investing activities			
B.1.	Fixed assets acquisition	(40,609,056)	(6,034,629)	(9,420,704)
B.1.1.	Additions to tangible fixed assets	(3,842,415)	(5,674,804)	(7,907,714)
B.1.2.	Additions to intangible fixed assets	(453,809)	(304,236)	(381,919)
B.1.3.	Change in financial investment	(43,601,085)	33,902	(639,536)
B.1.4.	Change in payables from investing activity	7,288,253	(91,639)	(493,930)
B.1.5.	Change in payables from investing activity (emerging from exchange rate differencies)	x	2,148	2,395
B.2.	Proceeds from sales of fixed assets	21,034,695	1,038,498	98,767
B.2.1.	Proceeds from sales of tangible fixed assets	617,133	437,086	134,960
B.2.2.	Proceeds from sales of intangible fixed assets	–	3	(4)
B.2.3.	Proceeds from sales of financial investment	20,425,047	540,562	5,952
B.2.4.	Change in receivables from sales of fixed assets	(7,485)	60,847	(42,141)
B.***	**Total cash used in investing activities**	**(19,574,361)**	**(4,996,131)**	**(9,321,937)**
	Financing activities			
C.1.	Change in long-term liabilities and short-term loans	(4,062,789)	(9,413,417)	(6,075,906)
C.1.1.	Change in long-term bank loans	(3,177,386)	(6,344,994)	(5,530,866)
C.1.2.	Change in short-term bank loans and notes	(247,717)	(1,121,184)	(4,295)
C.1.3.	Change in long-term bonds payable	–	–	–
C.1.4.	Change in other long-term liabilities	(637,686)	(1,947,239)	(540,745)
C.2.	Impact of changes in equity by cash	(2,670,731)	(1,604,343)	(1,465,808)
C.2.1.	Monetary donations and subsidies to equity	–	–	–
C.2.2.	Direct payments debited to funds	(124,801)	(109,572)	(123,866)
C.2.3.	Paid-out dividends and profit shares	(2,652,291)	(1,490,432)	(1,183,545)
C.2.4.	Purchase/sale of treasury shares	106,361	(4,339)	(158,397)
C.***	**Net cash from financing activities**	**(6,733,520)**	**(11,017,760)**	**(7,541,714)**
F.	**Net increase/decrease in cash**	**(939,979)**	**1,555,558**	**(799,351)**
R.	**Cash and cash equivalents at end of period**	**2,888,807**	**3,828,786**	**2,273,228**

ČEZ Group*) Organization Chart as of 31 December 2003



Legend:

- ČEZ, a. s. (Parent Company)
- Subsidiary (company subject to full consolidation)
- Affiliate (consolidated by equity method)

*) Consolidated companies only.

ČEZ, a. s.
Martin Roman
Chief Executive Officer
Duhová 2/1444,
140 53 Praha 4
tel.: (+420) 271 131 111
fax: (+420) 271 132 001
segment – generation

CEZ Finance B. V.
Amsterdam
Netherlands
segment – other

ČEZnet, a.s.
Antonín Kalda
Chief Executive Officer
Fügnerovo nám. 1866/5
120 00 Praha 2
tel.: (+420) 271 136 612
fax: (+420) 271 136 310
segment – other

Energetické opravny, a.s.
Štěpán Kostelník
Chief Executive Officer
Prunéřov č. 375
432 01 Kadaň
tel.: (+420) 474 305 067
fax: (+420) 474 305 088
segment – other

HYDROČEZ,a.s.
Zdeněk Noll
Acting Company Director
Dlážděná 4
110 00 Praha 1
tel.: (+420) 224 211 111
fax: (+420) 224 234 797
segment – other

I & C Energo s.r.o.
(since 1 May 2004
joint stock company)
Miroslav Horák
Chief Executive Officer
Pražská 684/49
674 01 Třebíč
tel.: (+420) 568 893 111
fax: (+420) 568 893 999
segment – other

rpg Energiehandel GmbH
Hanns H. Hannich
Managing Director
Karl-Theodor-Str. 69
Munich
Germany
tel.: +49 (99) 18943830
segment – other

Ústav jaderného výzkumu Řež a.s.
František Pazdera
CEO and Chairman of the Board
250 68 Husinec-Řež, čp. 130
tel.: (+420) 266 172 000
fax: (+420) 220 940 840
segment – other

AB Michle s.r.o.
Jan Hala
Director
U plynárny čp. 1388
140 00 Praha 4, Michle
tel.: (+420) 271 133 410
fax: (+420) 261 214 067
segment – other

Coal Energy, a.s.
Petr Paukner
Chief Executive Officer
Václavské náměstí 846/1
110 00 Praha 1
tel.: (+420) 224 473 056
fax: (+420) 224 223 672
segment – other

ČEPS, a.s.
Ludmila Petráňová
CEO and Chairwoman
of the Board
Elektrárenská 774/2
101 52 Praha 10
tel.: (+420) 267 104 111
fax: (+420) 267 104 568
segment – transmission

KNAUF POČERADY, spol. s r.o.
Jiří Frolík
Head of Unit
Počerady čp. 17
okres Louny
tel.: (+420) 415 735 011
fax: (+420) 415 735 010
segment – other

KOTOUČ ŠTRAMBERK, spol. s r.o.
Bohumír Volný
Director
Štramberk 500
742 67 pošta Ženklava
tel.: (+420) 556 852 701
fax: (+420) 556 852 711
segment – other

LOMY MOŘINA spol. s r.o.
Pavel Vyskočil
Jaroslav Šilhánek
Managing Directors
267 17 Mořina
okres Beroun
tel.: (+420) 311 702 111
fax: (+420) 311 702 314
segment – other

Severočeské doly a.s.
Vratislav Vajnar
CEO and Chairman of the Board
Boženy Němcové 5359
430 01 Chomutov
tel.: (+420) 474 652 265
fax: (+420) 474 652 264
segment – generation

ŠKODA PRAHA a.s.
Jiří Smola
Chief Executive Officer
effective 1 June 2004
Milady Horákové 109
160 41 Praha 6
tel.: (+420) 224 396 444-5
fax: (+420) 224 396 447
segment – other

Středočeská energetická a.s.
Jan Kanta
Chief Executive Officer
Vinohradská 325/8
120 21 Praha 2
tel.: (+420) 222 032 201
fax: (+420) 224 213 101
segment – distribution

STE - obchodní služby spol. s r.o.
Michal Stibůrek
Director
Vinohradská 8
120 00 Praha 2
tel.: (+420) 222 032 511
fax: (+420) 224 230 720
segment – other

Severočeská energetika, a.s.
Josef Holub
Chief Executive Officer
Teplická 874/8
405 49 Děčín IV
tel.: (+420) 412 441 111
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segment – distribution

První energetická a.s.
Šárka Vinklerová
Acting Company Director
Opletalova 1525/39
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fax: (+420) 221 004 767
segment – other

Východočeská energetika, a.s.
František Šůcha
Chief Executive Officer
Sladkovského 215
501 03 Hradec Králové
tel.: (+420) 495 842 255
fax: (+420) 495 523 581
segment – distribution

VČE - elektrárny, s.r.o.
Vladimír Tomek
Director
Křižíkova 788
500 03 Hradec Králové
tel.: (+420) 495 842 218
fax: (+420) 495 842 708
segment – other

VČE - montáže, a.s.
Jiří Abel
Chief Executive Officer
Arnošta z Pardubic 2082
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fax: (+420) 466 872 708
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Západočeská energetika, a.s.
Jaroslav Hába
Chief Executive Officer
Guldenerova 19
303 28 Plzeň
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fax: (+420) 378 002 008
segment – distribution

EN-DATA a.s.
Jiří Linda
Chief Executive Officer
Guldenerova 19
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fax: (+420) 378 002 992
segment – other

Plzeňská energetika a.s.
Jiří Bis
Chief Executive Officer
Tylova 57
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fax: (+420) 378 133 007
segment – generation

Aliatel a.s.
Bernhard Fanger
Chief Executive Officer
Sokolovská 131/86
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fax: (+420) 225 253 208
segment – other

Severomoravská energetika, a. s.
Jaroslav Veselský
Chief Executive Officer
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fax: (+420) 596 612 388
segment – distribution

Energetika Vítkovice, a.s.
Vlastislav Sznapka
Director
Výstavní 1144/103
706 02 Ostrava – Vítkovice
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fax: (+420) 597 015 309
segment – generation

ePRIM, a.s.
Aleš Dámek, MBA
Director
28. října 568/147
709 02 Ostrava-Moravská Ostrava
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fax: (+420) 596 611 527
segment – other

MSEM, a.s.
Pavel Kubín
Executive Director and Vice
Chairman of the Board
Collo louky 126
738 02 Frýdek-Místek
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fax: (+420) 558 437 172
segment – other

STMEM, a.s.
Jiří Linhart
Executive Director and Vice
Chairman of the Board
Tržní 8
750 02 Přerov
tel.: (+420) 581 292 103
fax: (+420) 581 225 478
segment – other

Union Leasing, a.s.
Ivo Ostrožný
Director
Mlýnská 1
702 00 Ostrava
tel.: (+420) 596 674 771
fax: (+420) 596 674 772
segment – other

ČEZ, a. s. Organization Chart as of 3 June 2004

Corporate Governance Structure

General Meeting

Supervisory Board Stanislav Kázecký Chairman, Zdeněk Hrubý Vice Chairman, Václav Krejčí Vice Chairman
Jan Demjanovič, František Haman, Jan Juchelka, Jaroslav Košut, Martin Pecina, Václav Srba, Pavel Suchý, Jan Ševr, Zdeněk Židlický

Board of Directors Martin Roman Chairman, Alan Svoboda Vice Chairman, David Svojitka, Jiří Vágner, Petr Vobořil

Head Office

1000
Chief Executive Officer
Martin Roman

- 1100 Office of the CEO and the Board of Directors
- 1400 Human Resources
- 1600 Mergers and Acquisitions

3000
Finance and Administration
David Svojitka

- 3002 Taxes
- 3003 Planning
- 3100 Financing
- 3200 Accounting
- 3500 Property Management, Sales, and Services

4000
Strategic Development
Petr Vobořil

- 4100 Strategy and Controlling
- 4200 Information Technologies and Telecommunications
- 4300 Ownership Participations

5000
Sales
Alan Svoboda

- 5010 Sales Support and Development
- 5300 Balance

Organizational Unit

- ČEZTrade (CTR)

6000
Distribution
Henning Probst

- 6100 Asset Management

0101
Internal Audit

Conventional Power Division (CPD)

2000
Conventional Power
Pavel Klika

2010
Quality, Safety, and Services

2020
Human Resources

2030
Economics

2100
Production

2200
Technical

2300
Sales

2500
Property Management

Organizational Units

- Mělník Power Station
- Poříčí Power Stations
- Chvaletice Power Station
- Tušimice Power Stations
- Hodonín Power Station
- Tisová Power Station
- Dětmarovice Power Station
- Ledvice Power Station
- Počerady Power Station
- Prunéřov Power Stations
- Hydro Power Stations

Nuclear Power Division (NPD)

7000
Nuclear Power
Zdeněk Linhart

7100
Management System and External Affairs

7200
Economics and Sales

7300
Human Resources

7400
Property Management

7500
Safety

7600
Technical

7700
Dukovany Nuclear Power Station Generation

7800
Temelín Nuclear Power Station Generation

ČEZ, a. s. Directory of Organization Units and Information Centers

Head Office
Martin Roman, CEO
ČEZ, a. s.
Duhová 2/1444
140 53 Praha 4
tel.: (+420) 271 131 111
fax: (+420) 271 132 001

ČEZTrade
Vladimír Tošovský, Director
ČEZ, a. s.
Duhová 2/1444
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tel.: (+420) 271 131 111
fax: (+420) 271 132 001

Nuclear Power Division
Zdenek Linhart, Executive Director
ČEZ, a. s.
Dukovany Nuclear Power Station
675 50 Dukovany
tel.: (+420) 568 811 111
fax: (+420) 568 866 360

Dukovany Nuclear Power Station
Miloš Štěpanovský, Production Section Director
Dukovany Nuclear Power Station
ČEZ, a. s.
Dukovany Nuclear Power Station
675 50 Dukovany
tel.: (+420) 568 811 111
fax: (+420) 568 866 360

Temelín Nuclear Power Station
Miroslav Vilím, Production Section Director
Temelín Nuclear Power Station
ČEZ, a. s.
Temelín Nuclear Power Station
373 05 Temelín
tel.: (+420) 385 781 111
fax: (+420) 385 782 298

Information Center
Veronika Vespalcová
ČEZ, a. s.
Dukovany Nuclear Power Station
Information Center
675 50 Dukovany
tel.: (+420) 568 815 519
fax: (+420) 568 866 370
e-mail: infocentrum.edu@mail.cez.cz
Internet: http://www.cez.cz/edu-exkurze
Opening Hours: 9:00 – 16:00 seven days a week,
Closed first Monday of each month.

Milan Malík
ČEZ, a. s.
Temelín Nuclear Power Station
Information Center
373 05 Temelín
tel.: (+420) 385 782 639
fax: (+420) 385 784 900
e-mail: infocentrum.ete@mail.cez.cz
Internet: http://www.cez.cz/ete-exkurze
Opening Hours: 9:00 – 16:00 seven days a week;
July and August: 9:00 – 17:30.
On state holidays by telephone appointment,
larger groups and visits inside the power station compound
by telephone appointment only.

Conventional Power Division
Pavel Klika, Executive Director
ČEZ, a. s.
Elektrárny Tušimice č. p. 9
432 01 Kadaň
tel.: (+420) 474 321 111
fax: (+420) 474 324 006

Hydro Power Stations
Aleš Tomec, Director
ČEZ, a. s.
Hydro Power Stations
Prof. Vl. Lista 329
252 07 Štěchovice
tel.: (+420) 257 740 088
fax: (+420) 257 740 308

Information Center
Jan Kyncl, Head of Quality Control and Safety Dept.

Štěchovice run-of-river and pumped storage hydro power station
ČEZ, a. s.
Hydro Power Stations
Information Center
Prof. Vl. Lista 329
252 07 Štěchovice
appointments:
tel.: (+420) 602 107 453 – Renáta Pátová
(+420) 603 769 197 – Jan Frouz
(+420) 608 308 759 – Václav Petrák
fax: (+420) 257 740 308
Opening Hours: Year-round by advance telephone appointment only.

Dlouhé Stráně pumped storage hydro power station
Tours arranged by:
Energotis, s. r. o.
Žižkova 5
787 01 Šumperk
tel.: (+420) 583 235 091 – Dr. Trnečková, Ms. Maňková
fax: (+420) 583 235 094
Opening Hours: Year-round 8:00 – 15:00,
by advance telephone appointment only 7:00 – 15:00
Entrance fee CZK 50; children up to 10 years free,
schools, handicapped with ZTP card CZK 30
Private property – protected area.

Dalešice pumped storage hydro power station
Tours arranged by:
ČEZ, a. s.
Dukovany Nuclear Power Station
Information Center
675 50 Dukovany
tel.: (+420) 568 815 519
fax: (+420) 568 866 370
e-mail: infocentrum.edu@mail.cez.cz
Internet: http://www.cez.cz/edu-exkurze
Opening Hours: July 1 – August 31:
Monday through Sunday, 9:00 – 16:00,
September 1 – June 30:
Monday through Friday, 9:00 – 16:00,
by advance appointment only.

Lipno hydro power station
ČEZ, a. s.
Hydro Power Stations
Lipno Unit
Information Center
382 78 Lipno nad Vltavou
Appointments: Vladimír Valík, Pavel Míšek, Jan Irsigler
tel.: (+420) 380 746 621
(+420) 606 445 798
fax: (+420) 380 746 622
Opening Hours: June 15 – September 15:
10:00 – 16:00 seven days a week.
Off-season by advance telephone appointment only.
Admission: adults CZK 20, children and senior citizens CZK 10.

Mělník Power Station
František Strach, Director
ČEZ, a. s.
Elektrárna Mělník č. p. 255
277 03 Horní Počaply
tel.: (+420) 315 611 111
fax: (+420) 315 626 840

Tisová Power Station
Jaroslav Souček, Director
ČEZ, a. s.
Elektrárna Tisová,
poštovní přihrádka 98
356 69 Sokolov 1
tel.: (+420) 352 651 111
fax: (+420) 352 624 035

Poříčí Power Stations
Jan Žižka, Director
ČEZ, a. s.
Elektrárny Poříčí
Kladská 466
541 37 Trutnov
tel.: (+420) 499 806 111
fax: (+420) 499 806 199

Dětmarovice Power Station
Lumír Jendryščík, Director
ČEZ, a. s.
Elektrárna Dětmarovice č. p. 1202
735 71 Dětmarovice
tel.: (+420) 596 582 111
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Glossary of Terms and Abbreviations

Term	Commentary
Achievable capacity	Power station nameplate capacity less outages caused by changes that are permanent in character.
Ancillary services	Activities carried on by private individuals and/or legal entities to provide for system services.
Available capacity	Maximum active capacity for generation of electrical energy and supply of heat that can be achieved by a given generation facility when considering internal technical and operational conditions but disregarding external ones. Equals achievable capacity less selected basic shut-downs (for overhauls, extended overhauls, upgrades, guarantee repairs, routine repairs) and technical failure rate. Used to calculate working availability.
BI 12	Index of power industry stocks on the Prague Stock Exchange.
Cash pool	A service ensuring that the balances of all participating accounts of the client are summed daily and this sum is then used to calculate interest for that day (at a higher applicable rate), which is then credited to the main account.
CO	Carbon monoxide.
CO_2	Carbon dioxide.
Czech Nuclear Pool	A consortium of insurers for insuring nuclear risks.
ČEPS, a.s.	Entity that owns and operates the transmission grid; inception: October 1998. 100% subsidiary of ČEZ, a. s. until 31 March 2003; affiliate of ČEZ, a. s. (34% ownership interest) effective 1 April 2003.
Desulfurization/desulfurization equipment	Technologies and/or equipment for reducing the content of sulfur oxides in powder-coal boiler flue gases.
Distribution grid	A mutually interconnected set of 110 kV power lines and equipment – with the exception of 110 kV power line and equipment that are part of the transmission grid, and power lines and equipment with voltages 0.4/0.23 kV, 3 kV, 6 kV, 10 kV, 22 kV and 35 kV that serves purposes of distributing electricity in a defined area of the Czech Republic, including metering, protective, control, security, information and telecommunications systems and technologies.
Electricity demand	Total electricity generated by domestic sources less electricity consumed by power stations less grid losses less electricity used for pumping at pumped-storage hydro power stations plus balance of foreign electricity trade.
Electricity distribution companies	Eight electric utility companies in the Czech Republic that distribute electricity to final consumers and may also trade in electricity. With certain exceptions, they cover the entire territory of the Czech Republic.
Electricity importer	Private individual or legal entity that holds an electricity trading license and purchases electricity abroad for re-sale in the home market.
Electricity Market Operator (OTE)	A State-established joint-stock company whose purpose is to organize the Czech Republic electricity market, draw up the reconciliation of agreed and actual amounts of electricity supplied and purchased by market players, see to the settlement of deviations of actual supply amounts from contracted-for amounts, and organize the electricity spot market.

Term	Commentary
Electricity producer	Private individual or legal entity that produces electricity and holds a license to produce electricity.
Electricity production	Overall electricity generated, as measured from generator terminals over the period in question.
Electricity supply	Total electricity generation less in-house consumption and losses inherent in generation technologies.
Electricity trader	Private individual or legal entity who holds a license to trade in electricity and who purchases electricity for the purpose of resale.
Eligible Customer	A final customer who has the right to choose its electricity supplier from among market players licensed to produce and/or trade in electricity. May also procure electricity directly on the market organized by the OTE.
Emissions ceilings	Highest permissible aggregate emissions of pollutants or set groups of pollutants arising as a result of human activity, expressed in terms of mass over a one-year period from all sources of air pollution, from defined groups of said sources, or from individual sources of air pollution within a defined geographical area.
Emissions limits	Highest permissible concentrations of pollutants released into the air.
Energy Regulatory Authority (ERA)	Administrative office responsible for regulating the energy sectors; has its own separate category in the Czech Republic national budget. The Energy Regulatory Authority, headquartered in Jihlava, supports competition and protects consumer interests in those areas of the energy industries where competition is not possible, with the aim of satisfying all reasonable demand for energy.
Final Customer	A customer that uses electricity supplied only for the customer's own consumption, not for resale.
Fluidized-bed boiler	Boiler in which coal combustion takes place in a rising column of air. Flue gas desulfurization takes place by adding ground limestone to the fuel. This renders unnecessary the desulfurization equipment used with more common powder-coal boilers.
IFRS	International Financial Reporting Standards, formerly known as IAS (International Accounting Standards).
Installed capacity	Sum of generator name-plate capacities, including generators for in-house consumption. The only capacities that are not counted are those of generators that have been permanently decommissioned and generators whose drive motor has been permanently removed and therefore are serving as compensators.
IAEA	International Atomic Energy Agency, based in Vienna, Austria.
International System on Occupational Exposures (ISOE)	International system for determining radiation dosages sustained by employees of nuclear power plants.
Liberalization of the electricity market	The process of creating a competitive market environment. For natural reasons, a monopoly currently remains in the power sector, especially in the use of the transmission and distribution grids, including the provision of system services. What is being liberalized is the generation of electricity and trading in electricity and ancillary services. For the time being, the Czech Republic's organized electricity spot market is also a State monopoly.
Nameplate capacity	Capacity figure shown on the generator nameplate.
NEA	Nuclear Energy Agency. Specialized agency within the OECD for international cooperation in the development of the scientific, technological and legal framework for safe use of nuclear energy for placeful purposes. Based in Paris, France.
NO_x	Nitrogen oxides.

Term	Commentary
Peak requirement	Highest load on the grid measured during a given period.
Power System	The Czech Republic Power System is a mutually interconnected set of equipment for the generation, transmission, transformation, and distribution of electricity, including electricity hook-ups, direct power lines, as well as metering, protective, control, security, information and telecommunications systems and technologies.
Privatization	Transfer of State ownership to a non-State entity.
Protected Customer	A private individual or legal entity that has the right to be hooked-up to the distribution grid and be supplied with electricity in the prescribed quality and for a regulated price. Does not have the right to change its electricity supplier.
PX 50	The official stock index of the Prague Stock Exchange. The index is set using the method recommended by the IFC (International Finance Corporation) for calculation of indexes in emerging markets. From analyses it was decided to create a base consisting of 50 stocks. Currently the number of base stocks is variable, but it may not exceed 50. Equity securities of investment funds and holding companies founded by transformation of investment funds are not included in the index base. The date 5 April 1994 was chosen as the index start date, and the initial value of the PX 50 on that date was set at 1,000 points. As of the closing date of this Annual Report, the number of stocks included in the PX 50 calculation was sixteen, and three of them were ČEZ Group companies (ČEZ, a. s., Severočeské doly a.s., Severomoravská energetika, a. s.) with a total weighting of 22.49%.
Regulated Third Party Grid Access	Under this principle, anyone who satisfies the stipulated technical conditions has the right to access grids (at regulated prices) in order to engage in electricity trades. Unlike negotiated access, prices for regulated third-party access are set by a regulator (the Energy Regulatory Authority) and are made public.
Renewable sources of energy	Energy resources that renew themselves naturally. Includes, e.g., hydro, solar, wind, and biomass.
Retail electricity customer	An electricity consumption category, members of which are hooked up to the low-voltage grid (1 kV and under). The category is further subdivided into households and businesses.
SO_2	Sulfur dioxide.
System services	Activities carried on by the transmission grid operator (ČEPS, a.s.) and distribution grid operators to ensure reliable operation of the Czech Republic Power System with consideration for the operation of interconnected power systems.
"Take or Pay"	A type of contract based on payment for an agreed amount of electricity regardless of whether or not the entire amount was actually used.
Transmission grid	A mutually interconnected system of 400 kV, 220 kV power lines and equipment and selected power lines and equipment of the 110 kV grid, which serves the purpose of electricity transmission throughout the entire Czech Republic and that of interconnection with power systems of neighboring countries, including metering, protective, control, safety, information and telecommunications equipment; the transmission grid is built and operated in the public interest.
Unbundling	The separation of distribution operations from trading operations.
Wholesale electricity customer	A customer who purchases electricity from the high- and medium-voltage grids.
Working availability	The degree to which electricity generating equipment is available to produce electricity and heat. Available capacity expressed as a percentage of achievable capacity.

Description of “Duhová energie” Products (2004 Offering)

“Duhová energie”	A marketing strategy through which ČEZ, a. s. offers customers several types of electricity supply, all color-coded. The 2004 offering contains a total of 15 products.
Year Band	
■ Yellow	Supply of electricity at a constant one-hour wattage in all hours of all days of the year.
■ Green	Supply of electricity at a constant one-hour wattage in all hours of all business days of the year.
■ Orange	Supply of electricity at a constant one-hour wattage on all business days of the year from 8:00 to 20:00.
■ R day block	Supply of electricity at a constant one-hour wattage on all business days of the year from 6:00 to 22:00.
■ Violet	Supply of electricity at a constant one-hour wattage in all hours of all non-business days of the year.
■ Brown	Supply of electricity at a constant one-hour wattage on all business days of the year from 00:00 to 08:00 and from 20:00 to 24:00.
Quarter Band	
■ Q red	Supply of electricity at a constant one-hour wattage in all hours during the given quarter.
■ Q light-blue	Supply of electricity at a constant one-hour wattage in all hours of all business days of the given quarter from 8:00 to 20:00.
Month Band	
■ Red	Supply of electricity at a constant one-hour wattage in all hours during the given month.
■ Blue	Supply of electricity at a constant one-hour wattage in all hours of all business days of the given month.
■ Light-blue	Supply of electricity at a constant one-hour wattage on all business days of the given month, from 8:00 to 20:00.
■ M day block	Supply of electricity at a constant one-hour wattage on all business days of the given month, from 6:00 to 22:00.
■ Grey	Supply of electricity at a constant one-hour wattage in all hours of all non-business days of the given month.
■ Dark-green	Supply of electricity at a constant one-hour wattage on all business days of the given month from 00:00 to 08:00 and from 20:00 to 24:00.
Other	
□ White	Supply of electricity at a variable one-hour wattage negotiated and charged on a per-week basis (by dividing up the total agreed number of MWh for the year).

Method Used to Calculate Key Indicators

Indicator	Calculation
Return on equity (ROE) gross	Income before income taxes / Shareholders' equity *)
Return on equity (ROE) net	Net income / Shareholders' equity *)
Return on total assets (ROA) net	Net income / Total assets *)
Return on capital employed (ROCE) net	Net income / (Shareholders' equity *) + Long-term debt net of amount due within one year *) + Long-term revolving loans *))
Sales margin	Income before income taxes / Operating revenues
Working ratio **)	Operating expenses / Operating revenues
Debt to equity ratio	Debt / Shareholders' equity
Total indebtedness with provisions excluded	(Long-term liabilities + Current liabilities + Deferred income taxes - Accumulated provision for nuclear decommissioning and fuel storage - Accrued liabilities) / Total assets
Long-term indebtedness	(Long-term debt net of amount due within one year + Long-term revolving loans) / Total assets
Debt service ratio **)	(Operating revenues + Other income - Operating expenses - Income tax due) / Debt service requirements
Current ratio	Current assets / Short-term liabilities
Operational cash flow to liabilities ratio	Net cash provided by operating activities / Liabilities
Total assets turnover	Operating Revenues / Total assets *)
Cash generation ratio **)	Cash generated from own sources / Average yearly investment expeditures
Coverage of fixed assets	(Long-term liabilities + Shareholders' equity) / Fixed Assets
Extent of depreciation	1 - (Net plant in service / Plant in service)
Earnings per share	Net income / Stated capital
Dividend share of profit	Dividends paid from the profit of current year / Net income of current year
Price / earnings ratio	Price of share in Prague Stock Exchange * Number of shares / Net income

*) Average of values at end of last year and end of given year.

**) According to Czech Accounting Standards.

Explanation of Units Used in This Document

Unit	Explanation
TWh	terawatt-hour; 1 TWh = 10^3 GWh = 10^6 MWh = 10^9 kWh = 10^{12} Wh, Wh = 3,600 Ws
pcs	pieces (units)
kV	kilovolt; 1 kV = 10^3 V, V = a unit of electrical potential (voltage)
MW	megawatt; 1 MW = 10^6 W = 10^3 kW, W = a unit of electrical capacity
t	metric ton; 1 t = 10^3 kg = 10^6 g, g = a unit of mass
TJ	terajoule; 1 TJ = 10^3 GJ = 10^6 MJ = 10^9 kJ = 10^{12} J,
	J = Ws = a unit of work (energy)
% p. a.	% per annum, per year

Governmental Bodies

Name used in text	Full name
Antitrust Office	Office for the Protection of Competition
Chamber of Deputies	Chamber of Deputies of the Parliament of the Czech Republic
Constitutional Court	Constitutional Court of the Czech Republic
Government	Government of the Czech Republic (i.e., the Cabinet)
Ministry of Culture	Ministry of Culture of the Czech Republic
Ministry of Education	Ministry of Education of the Czech Republic
Ministry of Environment	Ministry of Environment of the Czech Republic
Ministry of Finance	Ministry of Finance of the Czech Republic
Ministry of Labor and Social Affairs	Ministry of Labor and Social Affairs of the Czech Republic
Parliament	Parliament of the Czech Republic
Senate	Senate of the Parliament of the Czech Republic

Remark:

The companies mentioned in the 2003 Annual Report are presented as they appear in the Commercial Register of the Ministry of Justice of the Czech Republic.

Information for Shareholders and Investors

Events Calendar

Audited unconsolidated financial performance figures for 2003 according to Czech Accounting Standards ■ Press conference ■ Financial Performance Summary (Czech version)	27. 2. 2004
Unaudited unconsolidated financial performance figures for 1st quarter 2004 according to Czech Accounting Standards ■ Press conference ■ Financial Performance Summary (Czech version)	30. 4. 2004
Publishing of 2003 Annual Report (Czech version)	30. 4. 2004
ČEZ Group Financial Performance Summary according to IFRS for 2003 (English version)	30. 4. 2004
ČEZ Group Financial Performance Summary according to IFRS for 1st quarter 2004 (English version)	late May 2004
Publishing of 2003 Annual Report (English version)	17. 6. 2004
12th Annual General Meeting of ČEZ, a. s.	17. 6. 2004
Unaudited unconsolidated financial performance figures for 1st half 2004 according to Czech Accounting Standards ■ Press conference ■ Financial Performance Summary (Czech version)	late July 2004
ČEZ, a. s. Half-year Report according to Czech Accounting Standards (unconsolidated, unaudited)	31. 8. 2004
ČEZ Group Financial Performance Summary according to IFRS for 1st half 2004 (English version)	late August 2004
Unaudited unconsolidated financial performance figures for 1st – 3rd quarters 2004 according to Czech Accounting Standards ■ Press conference ■ Financial Performance Summary (Czech version)	late October 2004
ČEZ Group Financial Performance Summary according to IFRS for 1st – 3rd quarters 2004 (English version)	late November 2004

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Information on Persons Responsible for the Annual Report

Responsibility for the Annual Report

Sworn Statement:

The information presented in the Annual Report for the Year 2003 are factual and no material circumstances have been omitted that could influence the accurate and correct evaluation of ČEZ Group.

Prague, 3 June 2004

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