CEZ Group
Annual Report 2005

ENERGY


29.4
EBIT
(CZK billions)
12.3
RETURN
ON EQUITY
(%)
5.0
ECONOMIC
VALUE ADDED
(CZK billions)

22.3

NET INCOME
(CZK billions)

74.4

ELECTRICITY
SALES
(TWh)

CEZ GROUP

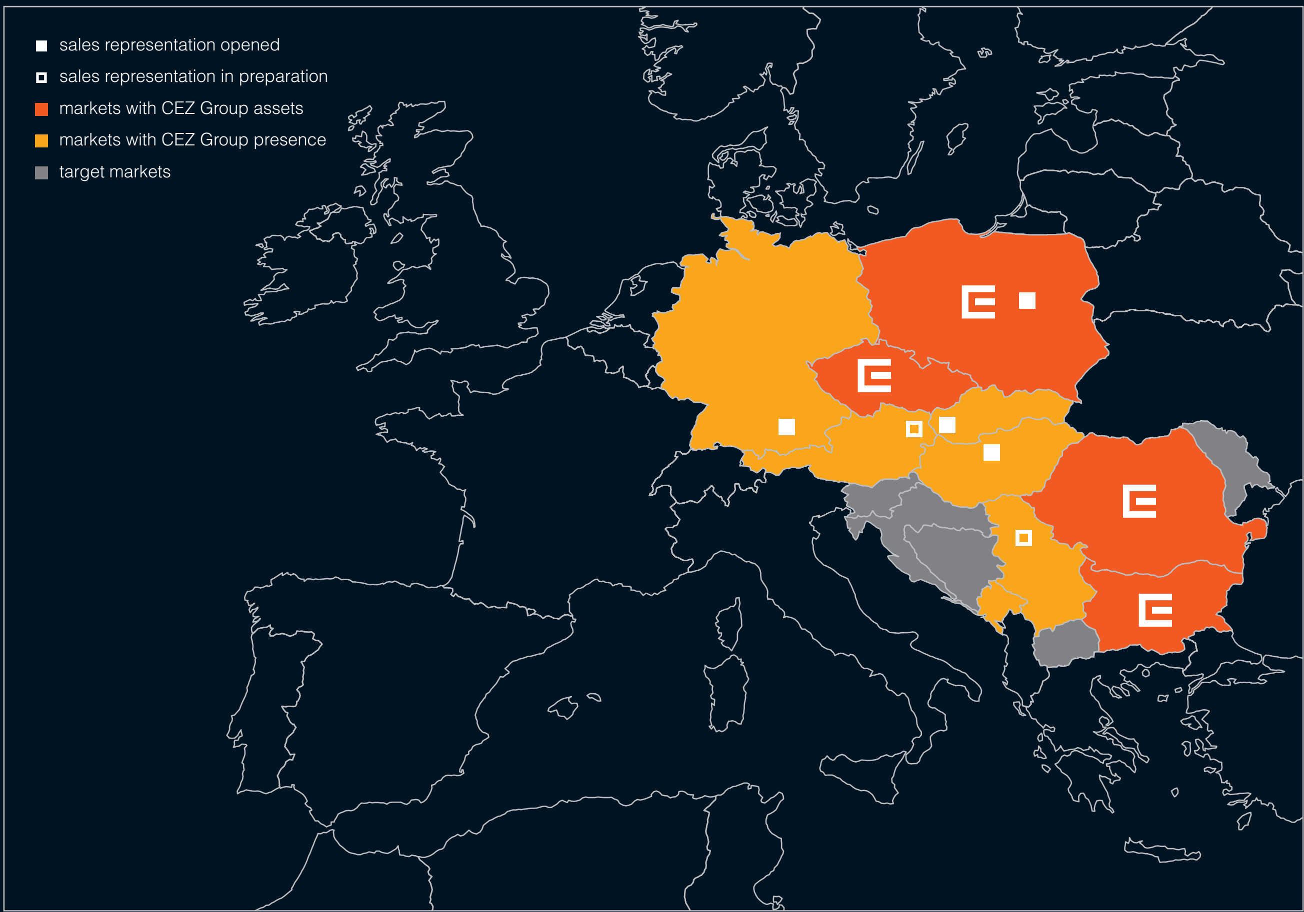
CZECH NATIONAL CHAMPION WITH INTERNATIONAL REACH

CEZ Group is one of the largest electricity conglomerates in Central and Southeastern Europe. In 2005, it further expanded at the international level and reinforced its domestic market position by acquiring a coal mining company.
In the Czech Republic, it is the dominant electricity producer, operator of the distribution grid over most of the country, and the strongest player in the wholesale and retail electricity market. Most of the Group's generation capacity is concentrated in the corporate parent, ČEZ, a. s., which is also one of the largest producers of heat. During 2005 the regional electricity distribution companies of CEZ Group were completely reorganized along process-based lines. One of the reasons for this measure was to separate (or "unbundle") distribution, as a regulated activity, from sales. The key electricity distribution and sales functions were taken over by ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o., respectively. In December 2005, CEZ Group became stronger by acquiring Severočeské doly a.s. Early 2005 saw completion of the acquisition of three Bulgarian distribution companies, Elektrorazpredelenie Pleven EAD, Sofia Oblast EAD, and Stolichno EAD, and the third quarter brought the acquisition of the Romanian distributor Electrica Oltenia S.A. In January 2006 an agreement was signed on the purchase of majority stakes in the Polish electric companies Elektrownia Skawina S.A. and Elektrociepłownia Chorzów Sp. z o. o.
The Group's other businesses include telecommunications, information technology, nuclear research, design, engineering, construction, and maintenance of power-related plant and equipment, mining of raw materials, and processing of electricity generation by-products, among others.

CEZ GROUP

CEZ Group Territory

CEZ Group's operations are centered in the Czech Republic, where its members are major players in the generation, sale, and distribution of electricity and heat. CEZ Group also includes a number of smaller companies that support and develop its core business. The Czech Republic is also home to the corporate parent of the entire CEZ Group – ČEZ, a. s.
Currently there are CEZ Group members in Germany, Poland, Hungary, Slovakia, Romania, and Bulgaria. CEZ Group owns one Romanian and three Bulgarian regional electricity distribution companies. In Bulgaria, negotiations are underway on a deal to purchase a power plant in Varna. In Romania, ČEZ, a. s. is bidding in tenders for several power plants.
In January 2006, ČEZ, a. s. signed purchase agreements for two power plants in the Upper Silesia region of Poland; this transaction is subject to approval by Polish antitrust authorities. The Group also has a sales representation office in Poland, and in Slovakia as well. In Hungary, CEZ Group is represented by a newly acquired subsidiary, while in Germany it has a long-standing presence in the form of a successful trading company. Sales representations are also being prepared in Serbia and Austria.

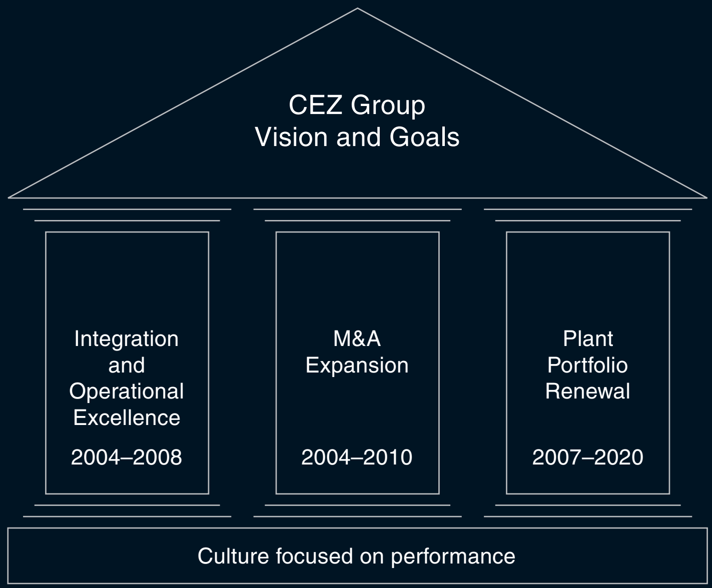


Expanding International Presence

CEZ Group is implementing a successful program of foreign acquisitions in the target region of Central and Southeastern Europe. This growth area, and Southeastern Europe in particular, has in the past been of marginal interest to the biggest European power companies. The fact that, during 2005, practically all of Europe's large energy companies entered into privatization or sales transactions in this part of the continent proves the correctness of CEZ Group's strategy. Successes to date in acquisitions and, in particular, in subsequently improving the targets' performance by implementing changes based on experience gained, for example, in the VIZE 2008 project, are key conditions for CEZ Group to transform acquisition opportunities into growth in its market value.

Strategic Initiatives Contributing to Increased CEZ Group Market Value

CEZ Group has set an ambitious goal: to become the leader in the electricity markets of Central and Southeastern Europe.
The management of ČEZ, a. s. is convinced that the fulfillment of this vision is the most effective way to maximize the company's shareholder value, both in the short and long term. In order to reach this goal, the company's management has identified three key strategic initiatives on which to focus maximum efforts.



Integration and Operational Excellence

The principal goal of the integration and operational improvement projects is to cut costs and increase performance at companies of CEZ Group.
In 2004, CEZ Group began to implement the VIZE 2008 project. When it is completed in 2008, the existing organization of CEZ Group in the Czech Republic, based on geographically defined subsidiaries, will have changed into a standard process-based organization with highly efficient management of operations. After the project is completed, the new organization will make it possible to leverage synergies with an estimated annual financial benefit of CZK 2.9 billion.
The company focused on increasing the performance of its foreign holdings. Earnings of the Bulgarian distribution companies in 2005, i.e. in the first year they operated under ČEZ, a. s. management, increased by CZK 516 million, or 325%, compared to the previous year.
Other projects designed to cut costs and increase the efficiency of electricity generation are based on benchmarking of current CEZ Group procedures against the "best practices" of our European competitors. Projects in this area have the potential to increase the company's annual income by approximately CZK 3 billion starting from 2009.
CEZ Group is making effective use of the newly formed CO_2 emissions permit market and modifying generation-related decisions based on price movements in this market, with the aim of maximizing the sales margin. Aside from the evident economic benefit, by doing this the companies of CEZ Group support the effective utilization of energy resources and the fulfillment of goals called for by the newly introduced EU Emission Trading Scheme.

Plant Portfolio Renewal

CEZ Group has drawn up a plan for retrofitting its brown coal-fired power plants and is currently working on its technical specifications, including the possibility of expansion in the remaining portion of its generation portfolio. The specific energy consumption of the retrofitted/new plants would be 15% and 25%, respectively, lower than the existing plants. This would reduce the electricity generation costs and bring about a major reduction in greenhouse gas emissions. The reduction in CO_2 would be in line with the decrease in specific energy consumption (i.e. a 15% or 25% reduction), while NO_X reduction for the retrofitted and new plants would be approximately 60% and SO_2 emissions would fall by approximately 50%.
In this way, CEZ Group can guarantee sufficient electricity will be available for the future and at the same time become more competitive.

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CEZ GROUP KEY FIGURES

Selected Indicators (IFRS, consolidated)

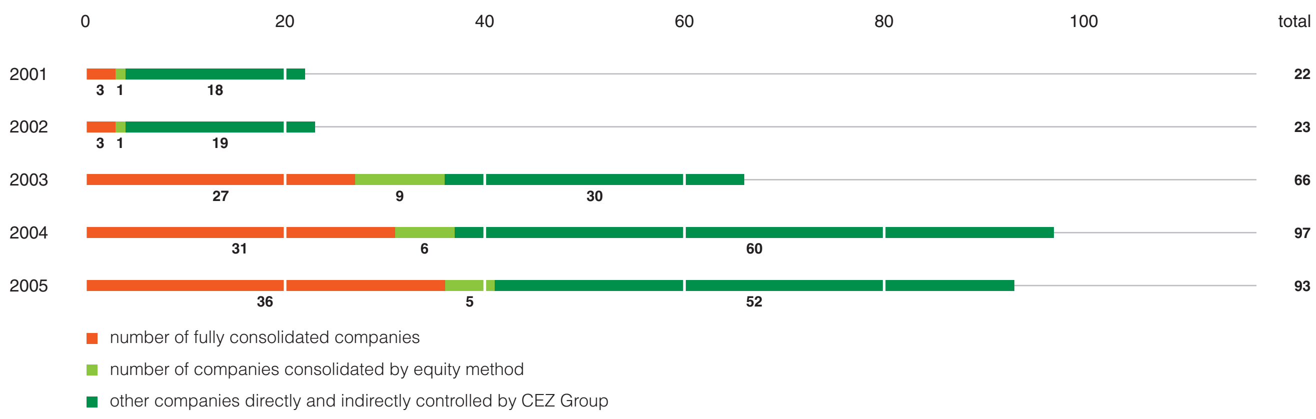
	Units	2000	2001	2002	2003	2004	2005	Index 2005/2004 (%)
Installed capacity	MW	10,146	10,146	11,146	12,297	12,297	12,298	100.0
Electricity generation (gross)	GWh	50,842	52,162	54,118	61,399	62,126	60,016	96.6
Electricity sales	GWh	50,449	50,910	53,174	69,005	67,662	74,432	110.0
Heat sales	TJ	9,858	10,473	9,550	10,942	10,008	9,817	98.1
Employee head count as at 31 December	persons	9,278	8,011	7,677	23,098	22,768	29,905	131.3
Operating revenues	CZK millions	52,431	56,055	55,578	87,264	102,670	125,083	121.8
of which, e.g.: sales of electricity	CZK millions	49,675	53,300	52,938	78,974	92,183	115,949	125.8
EBITDA	CZK millions	22,238	24,117	22,944	33,561	39,627	50,126	126.5
EBIT	CZK millions	12,862	14,751	11,223	15,048	19,785	29,403	148.6
EBIT margin	%	24.5	26.3	20.2	17.2	19.3	23.5	122.0
Net income	CZK millions	7,237	9,123	8,421	10,213	14,268	22,282	156.2
Net income per share – basic	CZK / share	12.2	15.4	14.3	16.2	22.3	36.3	162.7
Dividend per share (gross) *)	CZK / share	–	2.0	2.5	4.5	8.0	9.0	112.5
Return on Invested Capital (ROIC)	%	4.1	4.7	3.3	4.0	5.0	7.8	158.0
Return on Equity (ROE), net	%	5.8	6.9	6.0	6.3	7.9	12.3	155.4
Total assets	CZK millions	222,260	229,027	231,465	296,638	299,250	324,209	108.3
Equity	CZK millions	129,442	136,726	143,675	171,075	178,447	191,289	107.2
Debt	CZK millions	54,866	48,539	39,964	38,846	41,819	38,739	92.6
Debt/equity	%	42.4	35.5	27.8	24.0	24.3	21.9	90.2
Capital expenditure (CAPEX)	CZK millions	(21,346)	(15,706)	(10,419)	(26,381)	(16,925)	(15,671)	92.6
Financial investments **)	CZK millions	–	–	–	(28,373)	(18,166)	(12,258)	67.5
Operating cash flow	CZK millions	21,169	22,205	19,001	38,329	36,641	43,895	119.8

*) Paid, relating to the previous year.
**) Acquisitions of subsidiaries and associates, net of cash acquired.

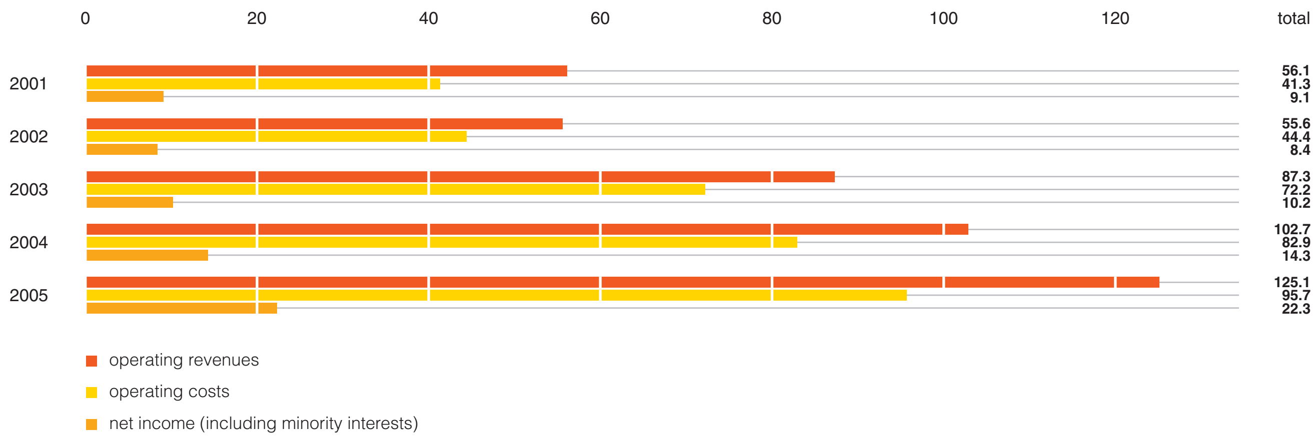
Key Figures by Business Segment, 2005

	Units	Power production and trading	Distribution and sale total	Distribution and sale of which, foreign	Mining	Other	Total
Revenues	CZK millions	47,376	72,906	14,435	2,738	2,063	125,083
EBITDA	CZK millions	33,642	11,258	1,995	3,607	1,619	50,126
EBIT	CZK millions	19,734	6,029	813	2,660	980	29,403
Acquisitions of fixed assets	CZK millions	5,751	5,866	1,301	1,241	2,000	14,858
Employee head count as at 31 December	persons	7,174	13,765	7,662	3,554	5,142	29,905

Number of CEZ Group Companies as at 31 December



CEZ Group Financial Performance (CZK billions)



IMPORTANT EVENTS
OF 2005 AND 2006 UP TO ANNUAL REPORT CLOSING DATE

IMPORTANT EVENTS OF 2005

January
- electricity market opened for all end customers except households,
- ČEZ, a. s. holds extraordinary General Meeting,
- shares of three Bulgarian distribution companies transferred to ČEZ, a. s.

February
- most of the remaining shares of Severomoravská energetika, a. s. purchased in a mandatory buy-out by ČEZ, a. s., bringing our stake in this company to 99.1%,
- equity stake in VČE - měřicí technika, s.r.o. transferred from Východočeská energetika, a.s. to ČEZ, a. s.; change in corporate name to ČEZ Měření, s.r.o.,
- joint business and construction plan for the Comprehensive Retrofit of Tušimice II Power Station approved,
- sales representation office opened in Poland,
- ČEZ, a. s. market capitalization passes USD 10 billion.

March
- Antitrust Office issues a decision replacing the condition that ČEZ, a. s. sell one of its majority stakes in regional electricity distribution companies with a condition that it sell to third parties through auctions, in 2006 and 2007, electricity generated by its power plants equivalent to generator output of 400 MW, or 240 MW in the period from June to August,
- new company CEZ Trade Bulgaria EAD formed,
- new companies ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o. established,
- ČEZ, a. s. obtains 28.7% of the shares of ŠKODA PRAHA a.s. in a voluntary minority shareholder buy-out offer; the State was one of the minority shareholders who accepted the offer, selling its 24.28% stake. This brought ČEZ's stake in the company to 97.6%.

April
- ČEZ, a. s. and ŠKODA PRAHA a.s. enter into an agreement on engineering the comprehensive retrofit of Tušimice II Power Station,
- signing of agreement on purchase of stake in the distribution company Electrica Oltenia S.A. with representatives of the Romanian State-owned Electrica S.A.

May
- credit rating agency Standard & Poor's reaffirms the long-term rating of ČEZ, a. s. at BBB+ while changing the outlook from "stable" to "positive",
- amendment to the Coal Supply Agreement signed with Severočeské doly a.s., extending the agreement's validity to 2052 and guaranteeing the quality and dates of supplies in accordance with ČEZ, a. s. needs, as well as escalation of supply prices in line with development of electricity prices,
- VČE - elektrárny, s.r.o. changes its name to ČEZ Obnovitelné zdroje, s.r.o.

June
- 13th Annual General Meeting of ČEZ, a. s.,
- Moody's credit rating agency increases long-term rating of ČEZ, a. s. from Baa1 to A3, outlook is kept at "stable".

July
- long-term brown coal supply agreement signed with Mostecká uhelná a.s. containing, among other features, a formula for escalating supply price in line with development of electricity prices; should the territorial extraction limits be redrawn, the new agreement could remain in force for up to 50 years,
- CEZ Trade Bulgaria EAD obtains electricity trading license,
- ČEZ, a. s. market capitalization exceeds EUR 10 billion.

August
- Slovak sales representation office opens.

September
- Moody's increases the long-term rating of ČEZ, a. s. from A3 to A2, leaving outlook at "stable",
- agreement signed with Segfield Investments Limited giving ČEZ, a. s. right of first refusal on stake in Severočeská energetika, a.s.,
- minority shareholders of Východočeská energetika, a.s. and Západočeská energetika, a.s. squeezed out; ČEZ, a. s. gains 100% stakes in these companies,
- roll-out of a new environmental program called Zelená elektřina (Green Electricity), promoting the generation and supply of electricity from renewable energy sources in the domestic market,
- acquisition of 51% stake in the Romanian electricity distribution company Electrica Oltenia S.A.

October
- new company ČEZ Distribuční služby, s.r.o. established; ČEZ, a. s. stake is 100%,
- minority shareholders of Severomoravská energetika, a. s. squeezed out, bringing ČEZ, a. s. stake to 100%.

November
- minority shareholders of ŠKODA PRAHA a.s. squeezed out, bringing ČEZ, a. s. stake in the company to 100%.

December
- business plan for construction of a new 1 x 660 MW generating unit in Ledvice Power Station approved,
- stake in Severočeské doly a.s. increased from 37.3% to 93.1%,
- HYDROČEZ,a.s. struck from the Commercial Register; on 1 July 2005 the company merged with ČEZ Obnovitelné zdroje, s.r.o.

IMPORTANT EVENTS OF 2006 UP TO ANNUAL REPORT CLOSING DATE

January
- Czech Republic electricity market completely opened for all end users, including households,
- ČEZ, a. s. becomes a member of the ECX (European Climate Exchange) in Amsterdam in order to trade in CO_2 emission permits,
- agreement signed on purchase of majority stakes in the Polish power companies Elektrownia Skawina S.A. and Elektrociepłownia Chorzów Sp. z o.o. whose combined installed generating capacity is 810 MW,
- additional EUR 15.5 million payment for Electrica Oltenia S.A. based on post-acquisition audit, bringing total amount paid by ČEZ, a. s. for this Romanian electricity distribution company to EUR 166.5 million,
- ČEZ, a. s. market capitalization passes USD 20 billion.

March
- deadline for reaching a deal in ongoing negotiations with the Bulgarian Government on the sale of conventional power plant in Varna is set for the end of April 2006,
- General Meeting of Severočeské doly a.s. decides to transfer other shares to the principal shareholder – ČEZ, a. s.,
- Board of Directors and Supervisory Board approve sale of a part of the enterprise – Teplárna Dvůr Králové; the sale will go to the General Meeting in May and, if approved there, will be subsequently implemented,
- agreement signed by Západočeská energetika, a.s. for sale of 50% equity stake in Plzeňská energetika a.s.; settlement to take place in April 2006.

April
- contract documents signed with Segfield Investments Limited enabling ČEZ, a. s. to acquire an additional 39.04% stake in Severočeská energetika, a.s. under an option agreement entered into in September 2005; purchase of this stake increases ČEZ's stake in said company from 57.1% to 96.14%.

TEAM

CEZ Group is one of the most important players in the Czech Republic economy. It is also one of the 10 largest power conglomerates in Europe, in terms of both installed capacity and number of customers. CEZ Group is one of the leaders in the Central Europe regional electricity market. Following the addition of one Romanian and three Bulgarian electricity distribution companies, CEZ Group became a company with international reach. In February 2005, the market value of ČEZ, a. s. passed USD 10 billion for the first time, placing ČEZ squarely among the largest world players.
CEZ Group has businesses in various sectors – from mining of raw materials to the generation, distribution, and sale of electricity.
At year end 2005 the Group consisted of 93 companies, 41 of which are included in the consolidated financial statements. CEZ Group supplies electricity to nearly 6.8 million customers, making it the number-eight European power group by this criterion. Directly or indirectly, CEZ Group provides jobs to over 150,000 people in Central and Southeastern Europe.

LETTER TO SHAREHOLDERS

Dear shareholders:
In 2004 we created the fundamental strategy of CEZ Group and likened it to an ancient Greek temple. Our number-one objective, which forms the roof of this “strategic temple”, is to become the leader in the electricity markets of Central and Southeastern Europe. The roof is supported by three pillars: the VIZE 2008 integration project which is gradually changing the overall structure of CEZ Group, which today encompasses over 90 companies, international M&A expansion, and plant portfolio renewal.
The foundations of our temple are solid because they consist of a performance-focused corporate culture ensuring that all of our efforts go towards increasing the company’s shareholder value.
Your assets rose significantly in value last year. During this period, the share price rose by 116.1% (from CZK 341 to CZK 736) and the company’s shareholder value increased by CZK 232 billion. The briskly paced growth continued in early 2006 and the 800 CZK/share barrier was quickly shattered. The company’s market capitalization passed USD 21 billion, putting ČEZ, a. s. at the top of the ladder of Central European power companies. Last year was very successful for CEZ Group in terms of net earnings, which were the highest in company history. Consolidated net income totaled CZK 22.3 billion, up 56.2% from the previous year. This exceeded even our own forecast from the beginning of last year. We are certain the high earnings trend will be maintained in 2006 as well, when we are expecting the results to be even better.
Operating profit was up year-on-year by over 48% to CZK 29.4 billion on higher electricity revenues. Especially positive is the news that, while revenues were up significantly, costs were kept under control even when the favorable impact of CO_2 emission permits sold is excluded.
Major accomplishments and progress were achieved in all three pillars of our “strategic temple”. This was especially evident in foreign M&A activity. CEZ Group expanded its territorial reach, adding the Romanian electricity distribution company Electrica Oltenia S.A. to the three Bulgarian distributors already acquired. We also took our first step in Poland, acquiring the power plants Skawina and ELCHO. Here at home, CEZ Group’s ranks swelled with the addition of Severočeské doly a.s. and while we succeeded in keeping Severočeská energetika, a.s. in the group, we also obtained full control over ŠKODA PRAHA a.s. In addition, we opened sales representation offices in a number of neighboring countries. The future outlook for growth in financial performance is bright.
We also made progress in the plant portfolio renewal pillar. After 2010, the useful lifetimes of our current plants will start to expire. To counter this, we have already nearly completed preparations for the first phase in renewing our coal generating capacity.
A total of 11 generating units in the brown coal-fired power plants Tušimice, Prunéřov and Počerady will be completely retrofitted. We are planning to build two completely new brown coal-fired units, each with an installed generating capacity of 660 MW, in Ledvice and Počerady. In 2005, we approved the first three projects and more will come up for approval in 2006 to ensure that our generating portfolio is balanced and that it provides good prospects for the future development of ČEZ, a. s.
The past year was successful for the VIZE 2008 integration project pillar as well. 2005 saw a major restructuring of CEZ Group. Activities that were previously duplicated five or even six times will now be done only once. This is one of the most significant changes in the history of the Czech power industry. As a result, 2004 and 2005 saw the formation of new subsidiaries focused on sales, distribution, and customer services, to name just a few. The result of this very time-, capital-, and work-intensive process of transforming the power sector is the clear separation of the non-regulated electricity generation and sales functions from the distribution function, which is regulated.
Most of CEZ Group’s employees were involved in the project and the results show that they did some remarkable work. And for that, our employees deserve a round of thanks. No other power company has made such extensive changes in such a short time.
I am convinced that in 2006 we will take yet another major step on the road to becoming the leader in the electricity markets of Central and Southeastern Europe. Our development initiatives are not a mere exercise, nor will they be. Our growth is always fully subordinated to the goal of delivering maximum value to you, our shareholders.

Martin Roman
Chairman of the Board and CEO

DIRECTORS AND OFFICERS

In accordance with the ČEZ, a. s. Articles of Association, the General Meeting elects and removes the members of the Supervisory Board. The Supervisory Board does the same vis-à-vis the members of the Board of Directors. The Board of Directors, in turn, elects and removes the Chief Executive Officer and other members of the company's Executive Management.

SUPERVISORY BOARD

The Supervisory Board has twelve members, eight of which are elected to and removed from office by the General Meeting and four are elected by the employees in accordance with Section 200 of Act No. 513/1991 Sb., the Commercial Code. The Supervisory Board's powers include, in particular, election of members of the Board of Directors, overseeing the Board of Directors' exercise of authority and the company's business activities, inspecting company financing, reviewing the Report on Relations Among Affiliated Entities and the year-end financial statements, including income distribution proposals, and providing prior consent on the most significant decisions of the Board of Directors. In accordance with the Articles of Association, the Supervisory Board meets at least once per month. 14 meetings took place in 2005.

Supervisory Board meetings are regularly attended by the Chairman of the Board of Directors. Depending on the content and importance of matters on a particular meeting's agenda, other members of the Board of Directors or company employees may attend for the purpose of presenting oral reports on the matters at hand. The Clerk of the Supervisory Board also attends the meetings to keep minutes.

The Supervisory Board of ČEZ, a. s. has set up three committees. The Audit Committee is charged with supervising the independence of the internal and external audits. The committee assesses the reasonableness and effectiveness of the company's system of internal controls based on information and reports from the internal and external auditors and from the company's executives. The Personnel Committee deals with staffing the Board of Directors. The Strategic Planning Committee assesses the effectiveness of investment plans (plant and equipment and financial investments) before they are executed.

Members of the Supervisory Board

Zdeněk Hrubý (* 1956) Chairman since 26 January 2006, Vice Chairman 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. Since 1996 he has been a university professor and scientist with the Institute of Economic Studies of the Charles University Faculty of Social Sciences. He has been a member of the Board of Directors of GARNET MINING a.s. since 13 September 2005. From October 2002 to 30 June 2005 he was Vice Chairman of the Presidium of the National Property Fund of the Czech Republic. From 20 May 2004 to 23 June 2005 he was First Vice Chairman of the Supervisory Board of ČESKÝ TELECOM, a.s., and from 8 April 2004 to 23 June 2005 he was Vice Chairman of the Supervisory Board of Eurotel Praha, spol. s r.o.

Jiří Bis (* 1941) Vice Chairman since 26 January 2006, Member since 22 September 2005

A graduate of the Czech Technical University, Prague, with completion of studies at the Moscow Institute of Power Engineering, specializing in design and operation of nuclear facilities. Effective 12 September 2005, he is a Deputy Minister of Industry and Trade of the Czech Republic. He has been Vice Chairman of the Board of Directors of OSINEK, a.s. since 12 September 2005 and from 17 January 2003 to 11 October 2005 he was CEO and member of the Board of Directors of Plzeňská energetika a.s.

Václav Krejčí (* 1953) Vice Chairman since 20 June 2002, Member re-elected by the employees since 13 June 2002

A graduate of the Secondary Industrial School of Chemical Technology in Most, Mr. Krejčí is currently an officer in the Communication Department of ČEZ, a. s., Production Division, Dukovany Nuclear Power Station. From 28 August 2002 to 28 August 2005 he was a member of the Supervisory Board of "Duhová energie" Foundation.

Aleš Cincibus (* 1956) Member since 20 June 2005

Graduate of the Institute of Chemical Technology, Prague. Chief Adviser to the Minister of Industry and Trade of the Czech Republic, partner in the companies R.G.I., spol. s r.o., B.R.G., spol. s r.o., A.R.G., spol. s r.o. and R.I.G.I., spol. s r.o. Chairman of the Supervisory Board of ČEPRO, a.s. since 26 August 2004, member of the Supervisory Board of AERO Vodochody a.s. since 6 December 2004, member of the Supervisory Board of ČPP Transgas, s.p., Prague, since June 2003, and Vice Chairman of the Board of Directors of Severočeské doly a.s since 27 June 2003. Mr. Cincibus was a member of the administrative board of "Duhová energie" Foundation between 13 November 2004 and 28 August 2005.

Jan Demjanovič (* 1953) Member 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 of Severočeské doly a.s. and a partner in COAL SEVEN s.r.o. "in liquidation". He has been Vice Chairman of the Supervisory Board of SD - Kolejová doprava, a.s. since 25 November 2002. He was Vice Chairman of the Board of Directors of Coal Energy, a.s. from 31 October 2001 to 17 January 2005, and took up this position again as of 7 December 2005. He has been a member of the Board of Directors of Severočeské doly a.s. since 25 June 1999.

Jiří Jedlička (* 1959) Member elected by the employees since 10 November 2004

A graduate of the Zetor Brno Secondary Vocational School, Mr. Jedlička has been with ČEZ, a. s. since 1980. Since 1994 he has been relieved from his job responsibilities to serve as Chairman of the Labor Union of Shift Workers at the Dukovany Nuclear Power Station and, at the same time, he serves as Chairman of the Union of Nuclear Power Industry Employees and member of the Governing Board of the Association of Independent Labor Unions.

Jan Juchelka (* 1971) Member since 11 June 2002

A graduate of the Karviná Faculty of Business and Trade of the Silesian University in Opava. As of 1 February 2006, he works for Komerční banka, a.s. as director of the Prague Sales Division. Since 29 April 2005 he has been a member of the Supervisory Board of Komerční banka, a.s., since 26 August 2004 he has been Chairman of the Supervisory Board of PPP Centrum a.s., and since 3 January 2005 he has been a member of the Supervisory Board of Bulgaria-based Elektrorazpredelenie Pleven EAD. From 1 November 2002 to 31 December 2005 he was Chairman of the Executive Committee of the National Property Fund of the Czech Republic, from 13 June 2003 to 23 June 2005 he was a member of the Supervisory Board of ČESKÝ TELECOM, a.s., and from 8 April 2004 to 23 June 2005 he was a member of the Supervisory Board of Eurotel Praha, spol. s r.o.

Petr Kousal (* 1954) Member since 20 June 2005

A graduate of the University of Transport, Žilina. Since 1 August 2005, Mr. Kousal has been the General Representative of České dráhy, a.s. (Czech Railways) in Vienna. From 28 February 2003 to 9 May 2005 he was Chairman of the Board of Directors and from 9 May 2005 to 3 June 2005 member of the Board of Directors of Czech Railways. From 4 March 2003 to 9 May 2005 he was Director General of Czech Railways.

Pavel Suchý (* 1954) Member since 24 February 2003

A graduate of the University of Economics, Prague, where he majored in Financial Reporting and Auditing. As of 1 January 2006 he works in the area of financial, economic, and organizational consulting. Since 25 June 2003 he has been a member of the Supervisory Board of České aerolinie a.s. He has been a member of the Executive Committee of the National Property Fund of the Czech Republic since 1994 and from 1 November 2002 to 31 December 2005 he was First Vice Chairman of that body. From 17 January 2003 to 8 June 2005 he was a member of the Supervisory Board of UNIPETROL, a.s.

Jan Ševr (* 1947) Member elected by the employees since 9 November 2000,
re-elected by the employees as of 10 November 2004

A graduate of the Secondary Industrial School of Mechanical Engineering in Česká Lípa, Mr. Ševr works for ČEZ, a. s. 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 Trojan (* 1936) Member since 26 January 2006

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, Mr. Trojan defended his dissertation in 1974 and habilitated in 1991. He currently lectures at the Czech Technical University, Prague, Faculty of Mechanical Engineering and at the Institute of Process and Manufacturing Technology. He is an advisor to the Prime Minister. Since 17 December 2001 he has been Vice Chairman of the Supervisory Board of Střední průmyslová škola dopravní, Střední odborné učiliště a Učiliště, a.s. Prague. In 2004–2005 he was an advisor to the Minister of Local Development.

Zdeněk Židlický (* 1947) Member 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 Stations 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 Economic Policy Task Force.

List of members of the ČEZ, a. s. Supervisory Board whose memberships terminated in 2005 or before the Annual Report closing date (13 April 2006)

Jiří Havel	(* 1957)	Chairman between 20 June 2005 and 26 January 2006
Stanislav Kázecký	(* 1948)	Chairman between 24 February 2003 and 20 June 2005
Martin Pecina	(* 1968)	Member between 17 June 2003 and 22 September 2005
Václav Srba	(* 1941)	Member between 11 June 2002 and 20 June 2005
Pavel Šafařík	(* 1953)	Member between 17 June 2004 and 20 June 2005

BOARD OF DIRECTORS

Since 2000, ČEZ, a. s. 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.
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 approved by the General Meeting, which are deposited in the Collection of Documents of the Commercial Register maintained by the Prague Municipal Court.
The Board of Directors runs the company’s business, determines its strategy and commercial policy principles, plans major investments, and sets its policy toward risk. The Board of Directors is required to meet at least once a month. As a rule, however, meetings are held weekly. The total number of meetings held in 2005 was 45. In addition to three committees set up by the Supervisory Board (see the Supervisory Board section, above), the company has a Risk Committee and a Nuclear Safety Committee which deal with specific issues relating to their respective areas, formulate positions on them, and submit recommendations to the CEO or the Board of Directors. The Supervisory Board is regularly briefed on selected matters in accordance with the Articles of Association.

Members of the Board of Directors

Martin Roman (* 1969)
Chairman since 23 February 2004, Member since 19 February 2004
A 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. Mr. Roman has been Vice President of the Confederation of Industry of the Czech Republic since 29 April 2004 and as of 9 June 2005 he is a member of the Supervisory Board of the Prague Stock Exchange.

Jiří Borovec (* 1964)
Vice Chairman since 9 January 2006, Member since 21 October 2004
A graduate of the Brno Military Academy, the Masaryk University of Brno, the United States Air Force Defense Language Institute (USA), and the Brno Business School – Nottingham Trent University, where he was awarded an MBA. Mr. Borovec also completed the ABB International Management Workshop for ABB Group Senior Top Managers and was awarded the ABB Service Management Certificate. As of 11 July 2005 he is Vice Chairman of the Supervisory Board of ŠKODA PRAHA Invest s.r.o., as of 22 June 2005 he is a member, and as of 17 January 2006 the Vice Chairman, of the Supervisory Board of ŠKODA PRAHA a.s.

Alan Svoboda (* 1972)
Vice Chairman since 3 May 2004, Member since 27 April 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 CFA Institute. Supervisory Board memberships: ČEZData, s.r.o. (Vice Chairman since 31 August 2004), ČEZ Prodej, s.r.o.(Vice Chairman since 31 March 2005), Západočeská energetika, a.s. (member since 18 June 2004), ČEZ Zákaznické služby, s.r.o. (member since 21 March 2005). In addition, he has been a member of the General Assembly and Executive Committee of the international Foratom association in Brussels since 1 December 2005.
(On 13 April 2006 he announced his resignation from the Board of Directors of ČEZ, a. s.)

Daniel Beneš (* 1970)
Member since 15 December 2005
Graduate of the Mechanical Engineering Faculty, Technical University of Ostrava. Member of the Board of Directors of Severočeské doly, a.s. from 25 June 2004 to 21 February 2006, member of the Supervisory Board of the same company from 21 February to 14 March 2006, and Chairman of the Supervisory Board of Severočeské doly, a.s. effective 15 March 2006. Other Supervisory Board memberships: ČEZ Logistika, s.r.o. (Chairman since 13 September 2004), ŠKODA PRAHA Invest s.r.o. (Chairman since 12 July 2005), ČEZ Správa majetku, s.r.o. (Vice Chairman since 1 July 2005), ŠKODA PRAHA a.s. (member between 3 December 2004 and 22 June 2005, re-elected on 14 December 2005, Vice Chairman since 17 January 2006).

Tomáš Pleskač (* 1966)
Member since 26 January 2006
A graduate of the Brno Institute of Agriculture, Faculty of Operational Economics, Mr. Pleskač also holds an MBA from the Prague International Business School. Supervisory Board memberships: ČEZ Distribuce, a. s. (Chairman since 31 March 2005), ČEZData, s.r.o. (member since 17 May 2004), Severomoravská energetika, a. s. (member since 17 June 2004), and Bratislava-based Elektrovod Holding, a. s. (member since 20 May 2003).

List of members of the ČEZ, a. s. Board of Directors whose memberships terminated in 2005 or before the Annual Report closing date (13 April 2006)

Radomír Lašák	(* 1965)	Member from 1 September 2004 to 26 January 2006
Petr Vobořil	(* 1950)	Member from 6 November 2002 and Vice Chairman from 21 June 2004 to 15 December 2005

Remuneration Principles – Members of the Board of Directors and Supervisory Board

The terms and conditions for remunerating and providing benefits to members of the Board of Directors are set forth in the "Agreement on Acting as a Member of the Board of Directors" entered into between the company and the member of the Board of Directors; said agreement is subject to approval by the Supervisory Board. The terms and conditions for remunerating and providing benefits to members of the Supervisory Board are set forth in the "Agreement on Acting as a Member of the Supervisory Board" which is subject to approval by the General Meeting. Under said agreements, members of the company's governing bodies receive the following consideration:

- fixed board member remuneration – paid regularly, following the end of each calendar month. Should a member of the Board of Directors fall ill, for the first 30 days the fixed monthly remuneration is paid in full. Should the board member be incapacitated for an uninterrupted period longer than 30 days, the amount of the monthly remuneration for the period from the 31st day of incapacitation to the end thereof shall be decided by the Board of Directors under the condition that said monthly remuneration may not be less than 50% of the full monthly remuneration amount. In the event a member of the Supervisory Board is temporarily unable to discharge his or her duties, he or she shall be entitled to remuneration should the Supervisory Board so decide;
- board member bonuses – provided to members of the Board of Directors and Supervisory Board by General Meeting decision. The amount of the bonus for individual members of the Board of Directors is set by the Supervisory Board (unless the General Meeting of shareholders determined the precise distribution directly);
- stock options – members of the Board of Directors are entitled to stock options (i.e. the option to purchase shares in the company's stated capital) under the relevant option agreement. The share price is calculated as the six-month weighted average of the prices achieved in public-market trading prior to the date the member joined the Board of Directors. The option may be exercised at any time after the agreement enters into force, for as long as the member serves on the Board of Directors and for a period of up to three months following the end of his or her board membership. The option agreement may not enter into force earlier than three months after the board member's term of office begins. The company cancelled the stock options program for members of the Supervisory Board on 20 June 2005;
- company car – members of the Board of Directors are entitled to a company car for business and personal use, subject to the terms and conditions of a special agreement. Vehicles provided for business and personal use are subject to taxation, and the cost of fuel consumed for personal use is recovered by withholding from pay. Members of the Supervisory Board may receive a company car only for use in their official capacity, not for personal use. In the event a member of a company board uses his or her own automobile in an official capacity, the costs of such use for business shall be borne by the company in accordance with applicable laws and regulations;
- insurance – the following types of insurance are taken out, at company expense, for members of the Board of Directors and Supervisory Board:
  - accident insurance to cover injuries suffered in accidents occurring during the course of official duties or in direct relation to them;
  - liability for damage caused to the company or to third parties while discharging duties;
  - capital life insurance which, upon the termination of board membership or the company's withdrawal from the capital life insurance policy, is transferred free-of-charge to the board member. Capital life insurance premiums paid by the company are treated as part of the board member's wages and are subject to taxation as such;
- severance pay – the agreement on acting as a member of the Board of Directors is entered into for a specified period of time. Should the agreement be terminated before it is due to expire, the company is obligated to pay severance pay to the board member. The severance pay shall be the aggregate total remuneration that would otherwise have been paid for the months remaining until the end of the board member's term. Persons who resign from the Board of Directors are not entitled to severance pay. Terms of payment of severance pay are set forth in the agreement mentioned above;
- reimbursement of travel expenses – when traveling on business, members of the Board of Directors and Supervisory Board are entitled to receive meal allowances and pocket money at rates above those set forth in applicable laws and regulations; other expenses and insurance premiums are reimbursed at face value;
- in accordance with Section 73(3) of the Labor Code, members of the Supervisory Board who are delegated to serve on the Supervisory Board by a government body of which they are an employee do not receive remuneration. This applied to employees and members of the Presidium, Executive Committee, and Supervisory Board of the former National Property Fund of the Czech Republic in accordance with the provisions of Sections 16 and 17 of Act No. 171/1991 Sb. The company also does not provide any other benefits not permitted by law to such Supervisory Board members.

EXECUTIVE MANAGEMENT

Martin Roman (* 1969) Chief Executive Officer since 1 April 2004
For personal data, see entry in the Board of Directors, above.

Daniel Beneš (* 1970) Chief Administration Officer since 1 February 2006
For personal data, see entry in the Board of Directors, above.

Jiří Borovec (* 1964) Chief Production Officer since 1 November 2004
For personal data, see entry in the Board of Directors, above.

Zdeněk Pasák (* 1966) Chief Personnel Officer since 15 March 2006
Graduate of the Faculty of Philosophy & Arts, Charles University, Prague, where he majored in psychology. From 15 October 1997 to 28 February 2006 he was Chairman of the Board of MADSEN & TAYLOR Consulting, a.s., and he was sole shareholder of the same company until 22 February 2006.

Tomáš Pleskač (* 1966) Chief Distribution Officer since 1 February 2006
For personal data, see entry in the Board of Directors, above.

Alan Svoboda (* 1972) Chief Sales Officer since 1 January 2005
For personal data, see entry in the Board of Directors, above.

Petr Vobořil (* 1950) Chief Finance Officer since 1 January 2005
A graduate of the Mechanical Engineering Faculty of the Czech Technical University, Prague, where he specialized in environmental technology, Mr. Vobořil also completed a postgraduate course of study in district heat development and the InterManager European standard management skills course. Since 10 December 2003 he has been a member of the Board of Directors of the Czech Federation of Power Industry Employers.

List of members of the ČEZ, a. s. executive management whose memberships terminated in 2005 or before the Annual Report closing date (13 April 2006)

Radomír Lašák (* 1965) Chief Administration Officer between 1 January 2005 and 18 January 2006

EXECUTIVE COMMITTEE

As part of the ongoing efforts to fulfill the company's key strategic goals, in early 2005 the Board of Directors of ČEZ, a. s. decided to establish an Executive Committee (EXCO), which replaces the Management Meeting. Members of the EXCO include the Chief Officers and other selected managers – section director and directors of selected subsidiaries.

Executive Committee Members as of the Annual Report closing date:

Martin Roman	(* 1969)	Chief Executive Officer; member since 31 January 2005
Jiří Borovec	(* 1964)	Chief Production Officer; member since 31 January 2005
Alan Svoboda	(* 1972)	Chief Sales Officer; member since 31 January 2005
Daniel Beneš	(* 1970)	Chief Administration Officer; member since 31 January 2005
Tomáš Pleskač	(* 1966)	Chief Distribution Officer; member since 31 January 2005
Petr Vobořil	(* 1950)	Chief Finance Officer; member since 31 January 2005
Zdeněk Pasák	(* 1966)	Chief Personnel Officer; member since 15 March 2005
Jiří Feist	(* 1962)	Director, Business Development Section; member since 31 January 2005
Karel Křížek	(* 1953)	Director, Technology Section; member since 31 January 2005
Bohumil Mazač	(* 1955)	General Manager, ČEZ Prodej, s.r.o.; member since 31 January 2005
Josef Sedlák	(* 1959)	General Manager, ČEZ Obnovitelné zdroje, s.r.o.; member since 31 January 2005
Vladimír Schmalz	(* 1966)	Director, M&A Section; member since 31 January 2005
Michal Skalka	(* 1975)	Director, Trading Section; member since 1 November 2005
Jaroslav Suk	(* 1954)	Director, Financing Section; member since 31 January 2005
Igor Šmucr	(* 1965)	General Manager, ČEZ Zákaznické služby, s.r.o.; member since 31 January 2005
Lubomír Štěpán	(* 1955)	Director, ICT Strategy Section; member since 20 February 2006
Jiří Vágner	(* 1956)	Director, Plant Assets Administration Section; member since 31 January 2005

List of EXCO members whose memberships terminated in 2005 or before the Annual Report closing date (13 April 2006)

Radomír Lašák	(* 1965)	member between 31 January 2005 and 26 January 2006
Luboš Tejkl	(* 1968)	member between 9 May 2005 and 15 March 2006
Vladimír Tošovský	(* 1961)	member between 31 January 2005 and 31 July 2005
František Šůcha	(* 1949)	member between 31 January 2005 and 15 February 2006

Remuneration Principles – Company Management (ČEZ, a. s. Chief Officers and Section Directors)

The terms and conditions for remunerating individual members of company management are set forth in the manager contracts, which are entered into between the company and the managers for an indefinite period of time. These agreements stipulate the conditions for providing:

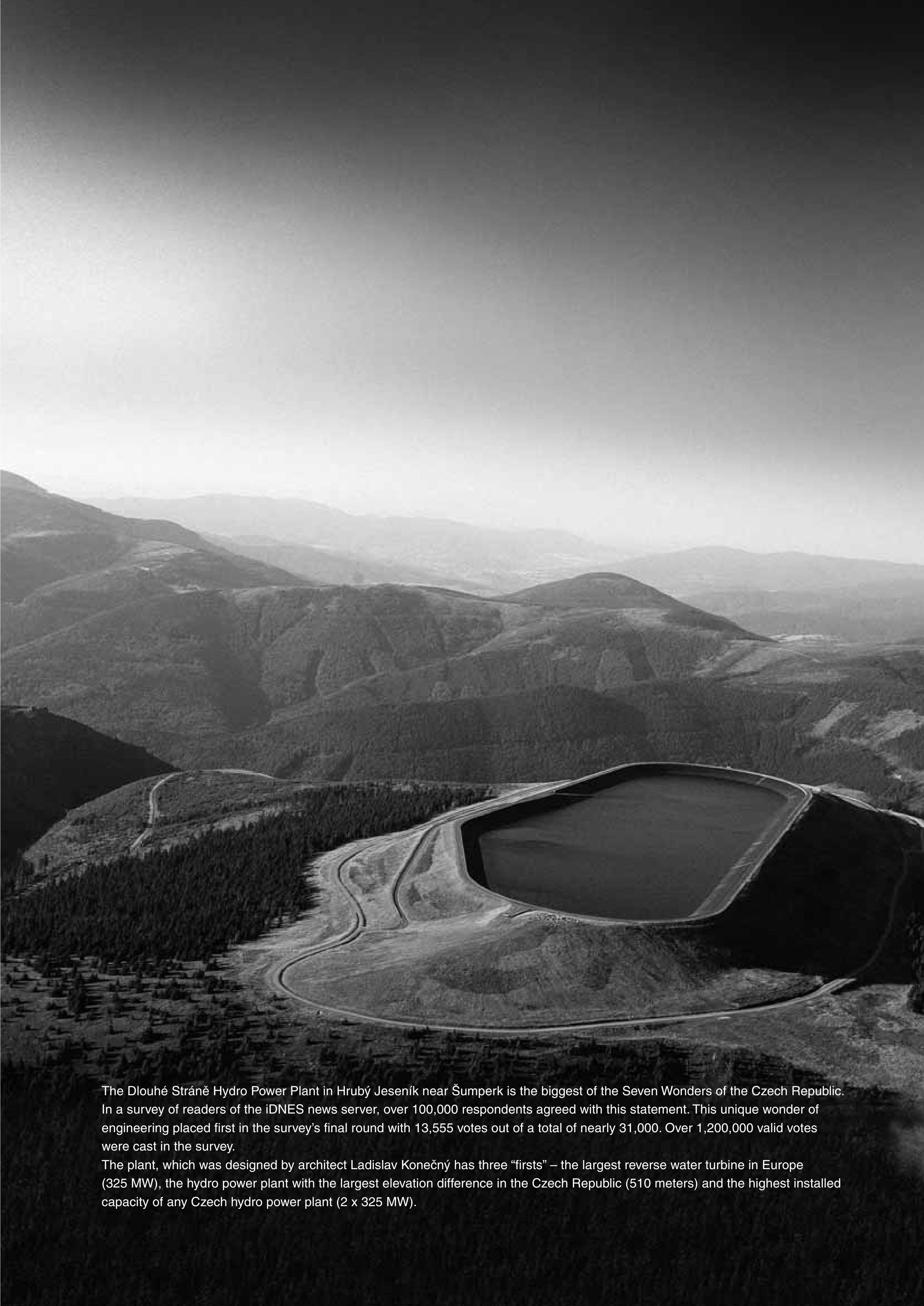
- base monthly wage – paid regularly for each calendar month. The base monthly wage is paid for the amount of time worked, including overtime;
- annual bonuses – to which the manager is entitled in addition to the base monthly wage. The bonus amount depends on fulfillment of criteria stipulated in advance. The maximum annual bonus amount is stipulated as a percentage of the annual base wage (sum of the base monthly wages in the given calendar year). The criteria for awarding the annual bonus and the manner in which the annual bonus amount is dependent on their fulfillment are determined for each manager by his or her direct superior;
- company car – to which the manager is entitled for business and personal use subject to the terms and conditions of a special agreement. Vehicles provided for business and personal use are subject to taxation, and the cost of fuel consumed for personal use is recovered by withholding from pay. In the event the manager uses his or her own automobile in an official capacity, the costs of such use shall be borne by the company in accordance with applicable laws and regulations;
- insurance – the company enters into capital life insurance at its own expense for the benefit of selected managers. Upon the termination of the manager or the company's withdrawal from the capital life insurance policy, said insurance is transferred free-of-charge to the manager. Capital life insurance premiums paid by the company are treated as part of the board member's wages and are subject to taxation as such;
- reimbursement of travel expenses – when traveling on business, Chief Officers are entitled to receive meal allowances and pocket money at rates above those set forth in applicable laws and regulations; other expenses and insurance premiums are reimbursed at face value;
- severance pay – paid in accordance with the Labor Code and the terms set forth in the Collective Agreement;
- cash settlement upon termination of contract – the employer agrees to provide selected managers, upon the termination of their contracts, a cash settlement for a period of six months (as a rule) subject to the fulfillment of conditions set forth in the "No Competition Agreement". The cash settlement is payable monthly in arrears.

Information on cash and in-kind income (gross amounts) and on securities

	Units	Supervisory Board	Board of Directors	ČEZ, a. s. Division and Section Directors
Information on cash and in-kind income				
Base wage [1]	CZK '000	1,783	–	64,078
Bonus depending on company performance [1]	CZK '000	397	–	48,747
Remuneration of company governance bodies	CZK '000	5,660	4,518	–
2004 bonus paid to members of governance bodies [2]	CZK '000	4,133	4,012	–
Severance pay and cash settlement upon termination of employment	CZK '000	–	–	–
Other cash income [1] [3]	CZK '000	143	234	432
Other in-kind income [1] [4]	CZK '000	10,667	2,781	2,182
Income from entities controlled by issuer	CZK '000	11,434	3,131	5,483
Information on securities				
Number of shares to which option applies	pcs	1,060,000	1,750,000	825,000
average option price	CZK	146.47	168.42	298.45
Number of shares on which option was exercised	pcs	310,000	–	–
average option price	CZK	147.99	–	–
resulting in-kind income (taxed by company)	CZK '000	87,643	–	–
Number of share options held as of 31 Dec 2005	pcs	600,000	1,750,000	750,000
average option price	CZK	129.78	168.42	303.94
Number of company shares as of 31 Dec 2005				
held by board members and executives [5]	pcs	110,414	–	711
held by close persons [5]	pcs	30	–	–

[1] All cash and some in-kind income of Supervisory Board members in these items were due to their being employees of the company.
[2] Shown are bonuses paid to members that served on the governance bodies in 2005, less bonuses withheld.
[3] Travel reimbursements over the limit and other consideration under company social policy (see CEZ Group Human Resources, page 60).
[4] E.g., company car and capital life insurance.
[5] Figure is for persons that were members of company's governance bodies or company management as of 31 December 2005.


POISE



The Dlouhé Stráně Hydro Power Plant in Hrubý Jeseník near Šumperk is the biggest of the Seven Wonders of the Czech Republic. In a survey of readers of the iDNES news server, over 100,000 respondents agreed with this statement. This unique wonder of engineering placed first in the survey's final round with 13,555 votes out of a total of nearly 31,000. Over 1,200,000 valid votes were cast in the survey.

The plant, which was designed by architect Ladislav Konečný has three "firsts" – the largest reverse water turbine in Europe (325 MW), the hydro power plant with the largest elevation difference in the Czech Republic (510 meters) and the highest installed capacity of any Czech hydro power plant (2 x 325 MW).

REPORT ON OPERATIONS

CEZ GROUP FINANCIAL PERFORMANCE

CEZ GROUP IN 2005

As of 31 December 2005, CEZ Group consisted of 93 companies, 19 of which were foreign.
A list of the companies in CEZ Group is presented on pages 134–137 of this Annual Report.

EQUITY HOLDINGS

Domestic Equity Stakes
As part of VIZE 2008, CEZ Group's restructuring continued in 2005, spurred on by the statutory requirement that electricity distribution be separated from other operations ("unbundling") and the effort to increase CEZ Group's efficiency as much as possible in the run-up to full liberalization of the electricity market. The latter effort consists in particular of defining individual processes and ensuring they are implemented using best practices through specialized process-based companies which operate throughout the entire Czech Republic and which are expected to reduce costs. As a result, 10 new process-oriented companies have been formed, either as completely new companies or by making over existing ones.
Based on newly amended provisions of the Commercial Code that make it possible to "squeeze out" minority shareholders, ČEZ, a. s. acquired the remaining shares of Severomoravská energetika, a. s., Východočeská energetika, a.s., Západočeská energetika, a.s., and ŠKODA PRAHA a.s. to become the 100% owner of these companies.

In accordance with the approved equity stakes strategy and within the VIZE 2008 framework, the following most significant changes took place in 2005:
- stated capital of ČEZnet, a.s. increased,
- divestiture of telecommunications company Aliatel a.s. completed,
- stake in První energetická a.s. sold,
- stated capital of ČEZData, s.r.o. increased,
- stated capital of KOTOUČ ŠTRAMBERK, spol. s r. o. reduced,
- stated capital of ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o. increased by transfer of portions of regional electricity distribution companies in the form of capital contributions,
- stake in Union Leasing, a.s. sold,
- state's stake in Severočeské doly a.s. purchased by ČEZ, a. s.,
- HYDROČEZ,a.s. merged into ČEZ Obnovitelné zdroje, s.r.o.

Material equity stakes arising from the outsourcing of ancillary operations are owned, in particular, by the regional electricity distribution companies, Severočeské doly a.s., and Ústav jaderného výzkumu Řež a.s.

Foreign Equity Stakes

Bulgaria
On 19 November 2004, an agreement was signed on the purchase of majority stakes in three electricity distribution companies in West Bulgaria. On 18 January 2005, after successfully meeting all conditions precedent, ČEZ, a. s. became the 67% owner of the companies Elektrorazpredelenie Stolichno EAD, Elektrorazpredelenie Pleven EAD, and Elektrorazpredelenie Sofia Oblast EAD, for which it paid EUR 281.5 million (CZK 8.7 billion).
On 30 December 2005, ČEZ, a. s. became the 100% owner of CEZ Trade Bulgaria EAD under a share purchase agreement with the seller, Elektrorazpredelenie Sofia Oblast EAD. CEZ Trade Bulgaria EAD holds a license to sell electricity to CEZ Group eligible customers in Bulgaria.
On 6 June 2005, the company CEZ Bulgaria EAD was registered as a 100% subsidiary of ČEZ, a. s. The primary mandate of this service company is to provide management and other services to members of CEZ Group in Bulgaria and, secondarily, to represent CEZ Group in all aspects of its activity in Bulgaria and to support the corporate parent in any further acquisitions.

Romania
On 30 September 2005, ČEZ, a. s. became the 51% majority owner of the Romanian electricity distribution company Electrica Oltenia S.A. by purchasing a 24.62% equity stake in the company's existing stated capital for EUR 47 million and simultaneously increasing the stated capital by EUR 104 million. In January 2006, ČEZ, a. s. paid an additional amount of EUR 15.5 million for Electrica Oltenia S.A. based on the results of a post-acquisition audit. That was the last payment under the privatization agreement and corresponded to ČEZ's share in the incremental growth in net assets. The total amount paid by ČEZ, a. s. for Electrica Oltenia S.A. is EUR 166.5 million (CZK 5.1 billion).
On 7 December 2005, the company CEZ Romania S.R.L. was established with a fundamental mandate to render service support to the post-acquisition team of managers in Romania, to represent CEZ Group in all aspects of its activity in Romania, and to support the corporate parent in any further acquisitions.

FINANCIAL PERFORMANCE

The financial performance of CEZ Group in 2005 was significantly impacted by its further expansion. The most important change in the consolidation group compared to 2004 occurred with the completion of the acquisitions of one Romanian and three Bulgarian distribution companies. The increase in the stake in Severočeské doly a.s. from 37.2% to 93.1%, on the other hand, did not appear in the financial statements as an expansion of CEZ Group because the figures for 2003 and 2004 were retroactively restated as if ČEZ, a. s. had already exercised control over Severočeské doly a.s. at that time. This use of the "pooling of interests" method is warranted by the fact that, at the time of acquisition, both ČEZ, a. s. and Severočeské doly a.s. were under State control, through the National Property Fund of the Czech Republic.

CEZ Group revenues grew year-on-year by 21.8% to a total of CZK 125.1 billion. Electricity revenues, which account for 93% of total CEZ Group revenues, grew at a similar pace (25.8%) to CZK 115.9 billion. The most significant growth component was revenues from sales of electricity to end customers in the distribution grid, which were up CZK 19.0 billion (36.0%), due in particular to acquisitions of foreign electricity distribution companies. Revenues from sales of electricity to distribution companies increased by CZK 3.2 billion (24.0%) – here the primary contributing factor was price growth. A CZK 2.1 billion decline in revenues from electricity sold abroad, caused in particular by the high price of cross-border transmission capacity, was offset by a CZK 2.4 billion (46.5%) increase in sales to traders in the Czech Republic. Ancillary and other service revenues were up CZK 1.0 billion (18.7%) to CZK 6.3 billion. Coal revenues reached CZK 2.7 billion, or 2.1% of CEZ Group external revenues, while heat sales totaled CZK 1.9 billion, or 1.5% of overall revenues.

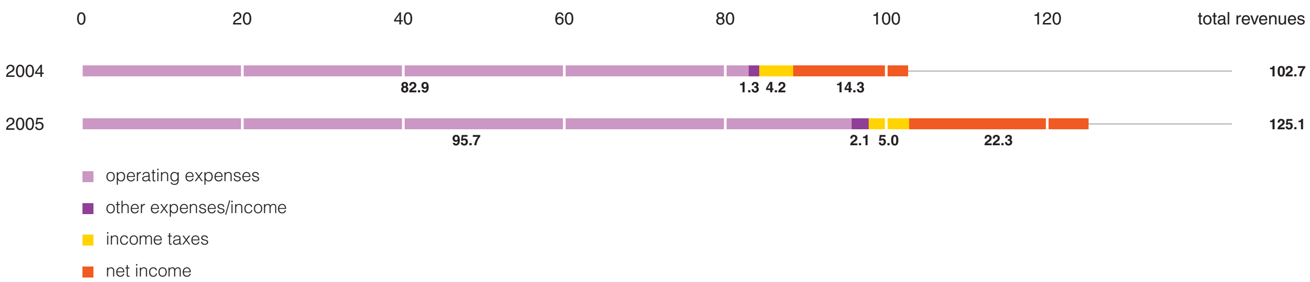
Operating expenses were up CZK 12.8 billion (15.4%) to CZK 95.7 billion. The principal cause for this growth is similar to that given for the growth in revenues, above – the addition of new members to CEZ Group. In particular, this was reflected in expenses to procure electricity and related services, which were up year-on-year by CZK 11.0 billion (41.3%). Personnel expenses increased by CZK 2.1 billion (18.1%) and depreciation and amortization was up CZK 0.9 billion (4.4%). One operating costs component that reduced the overall figure was a CZK 1.1 billion gain on sales of emission permits. Materials costs and repair costs each fell by CZK 0.6 billion, while fuel costs decreased by CZK 0.3 billion. The savings on fuel and emission permits are related, among other factors, to lower generation volume in coal power plants.

Operating income grew by CZK 9.6 billion (48.6%) to CZK 29.4 billion. The main driving factor was growth in the margin on electricity production and sale, which had the largest impact on the growth in operating income of the corporate parent, ČEZ, a. s., but was also evident in the distribution companies. Another Group member that saw significantly increased operating income was Severočeské doly a.s. The Group's foreign subsidiaries and the gain on sales of emission permits also contributed to the higher operating income.

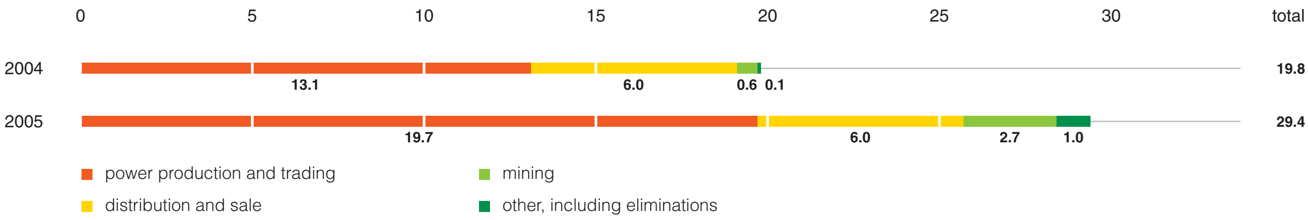
Other expenses (incurred to offset other expenses/income) were up CZK 0.8 billion (63.3%) to CZK 2.1 billion. The most significant factors in their year-on-year growth were a decline in income from associates resulting in particular from the sale of the minority stake in ČEPS, a.s. in 2004, lower gains realized on sales of securities and shares (by CZK 0.5 billion), a CZK 0.3 billion decline in interest received, and a CZK 2 billion increase in the balance of foreign currency gains and losses which was largely offset by a CZK 1.8 billion improvement in the net result of derivative transactions. The settlement of negative goodwill, almost all of which relates to the acquisition of Electrica Oltenia S.A., had a net CZK 1.7 billion positive impact on income. Negative goodwill is the negative difference between the acquisition cost and the share in the fair value of net assets of a purchased subsidiary.

Gross income reached CZK 27.3 billion on growth of CZK 8.8 billion (47.6%). Income tax was up CZK 0.8 billion to CZK 5.0 billion. Net income increased by CZK 8.0 billion (56.2%) to CZK 22.3 billion.

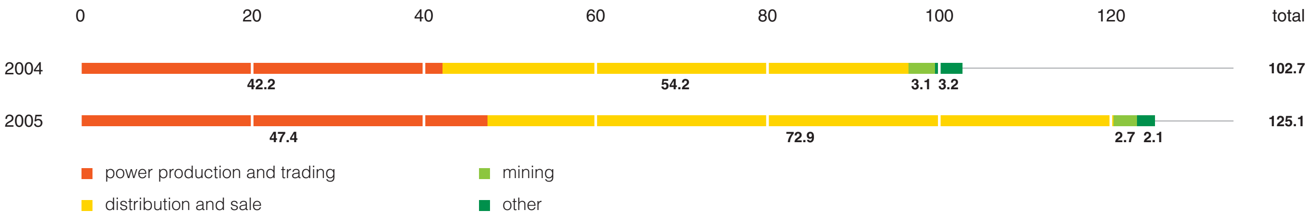
Net Income Breakdown (CZK billions)



Operating Income by Business Segment (CZK billions)



Revenues by Business Segment, After Eliminations of Intersegment Revenues (CZK billions)

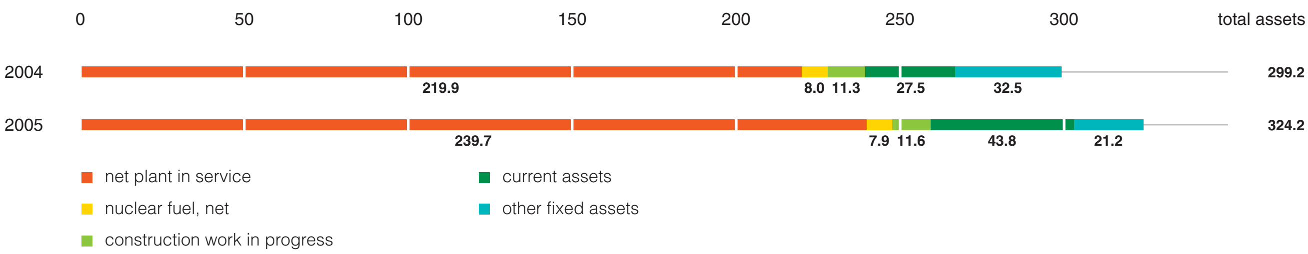


Revenues by Territory, 2005 (CZK billions)

Assets

CEZ Group consolidated assets grew year-on-year by CZK 25.0 billion (8.3%) to CZK 324.2 billion, influenced by the inclusion of new foreign acquisitions. Plant and equipment, including nuclear fuel and construction work in progress, grew at the same pace, reaching CZK 259.1 billion. Other fixed assets were down CZK 11.2 billion, especially in non-current financial assets in progress, in conjunction with the completion of the acquisition of the Bulgarian distribution companies and a reduction in long-term receivables. Current assets were up CZK 16.3 billion (59.2%) to CZK 43.8 billion. Cash and cash equivalents increased by CZK 7.8 billion, due in particular to the inclusion of Electrica Oltenia S.A. in the consolidation group as well as to higher figures for Severočeské doly a.s. and the regional electricity distribution companies, including the newly established companies ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o. Trade receivables increased by CZK 6.2 billion – the incremental growth is attributable primarily to receivables belonging to the new foreign subsidiaries. Income-tax receivables were up, particularly at the corporate parent, ČEZ, a. s.

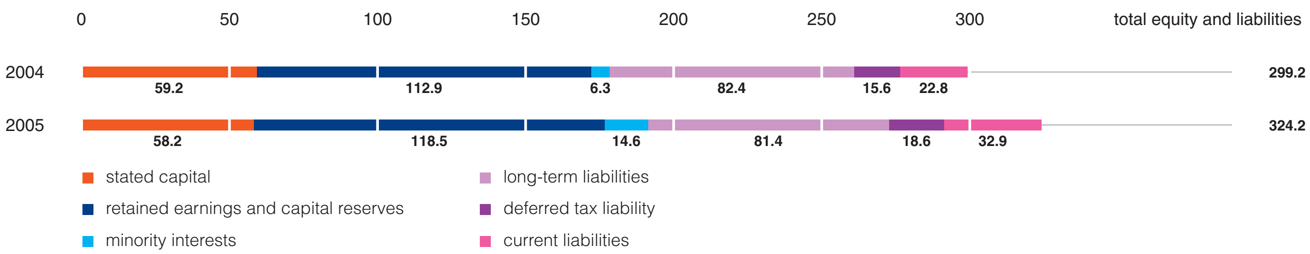
Assets Structure at December 31 (CZK billions)



Equity and Liabilities

Equity (stated capital + retained earnings + capital reserves + minority interests) grew by CZK 12.8 billion (7.2%) to CZK 191.3 billion. Of this growth amount, however, CZK 8.3 billion is attributable to minority interests, which more than doubled. The largest portion is attributable to Electrica Oltenia S.A., in which ČEZ, a. s. holds a 51% stake, while a lesser portion is related to 67% stakes in three Bulgarian electricity distribution companies. Equity attributable to equity holders of the parent increased by CZK 4.6 billion (2.7%) to CZK 176.7 billion due to a CZK 5.6 billion increase in retained earnings. The CZK 1.0 billion difference consists of purchases of treasury shares to cover the parent company's stock options program; these are recorded as a reduction in the basic capital.
Long-term liabilities were down CZK 1.0 billion (1.2%) to CZK 81.4 billion. The CZK 7.6 billion (19.8%) decline in long-term debt was largely offset by a CZK 6.4 billion increase in nuclear provisions. The increase in nuclear provisions relates primarily to a fall in the nominal discount rate from 7.0% to 4.5%. Deferred tax liability grew by CZK 3.0 billion (18.9%) to CZK 18.6 billion. Current liabilities were up CZK 10.1 billion (44.8%) to CZK 32.9 billion. Of this growth, CZK 4.4 billion consists of the 2nd Eurobond issue which were reclassified as current liabilities because they mature in less than one year.
Also up were liabilities to suppliers, mostly due to the inclusion of the foreign subsidiaries. Income tax liabilities were down by nearly one half, to CZK 0.6 billion. Other liabilities were up by one half to CZK 7.9 billion.

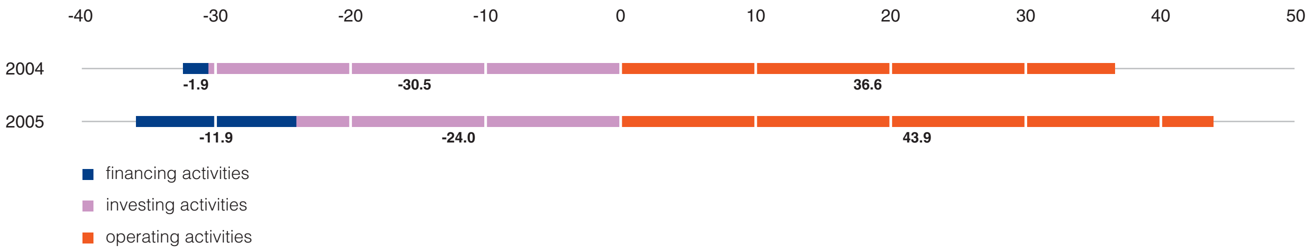
Structure of Equity and Liabilities at December 31 (CZK billions)



Cash Flows

Net cash flows from operating activities were up CZK 7.3 billion (19.8%) to CZK 43.9 billion. Cash used in investing activities declined year-on-year by CZK 6.5 billion (21.4%) to CZK 24.0 billion. Net cash flows from financing activities were in negative territory at CZK 11.9 billion, which is CZK 10.0 billion higher than in 2004, when the 3rd Eurobond issue came out. The decline in cash used in investing activities was caused in particular by lower acquisition of subsidiaries and associates.

Cash Flows (CZK billions)



Key Performance Indicators

	Units	2004	2005
Return on Invested Capital (ROIC)	%	5.0	7.8
Return on Equity (ROE), net	%	7.9	12.3
Return on Assets (ROA), net	%	4.8	7.1
EBIT margin	%	19.3	23.5
EBITDA margin	%	38.6	40.1
Debt/Equity	%	24.3	21.9
Total indebtedness, provisions excluded	%	28.8	27.5
Long-term indebtedness	%	17.7	14.1
Current ratio	%	121.0	133.0
Operating cash flow-to-liabilities ratio	%	44.4	53.9
Assets turnover	1	0.34	0.40
Fixed assets coverage	%	101.8	103.9
Extent of depreciation	%	45.4	45.5

The values of the “return on” indicators and margins reflect the high growth in earnings. Indebtedness, which has long remained at very low levels, continued to fall in 2005. The companies of CEZ Group generate strong cash flows from operating activities. Thanks to the fact that revenues grew at a faster pace than assets, they were able to accelerate assets turnover. Extent of depreciation remained practically unchanged.

Expenses incurred by CEZ Consolidated Group companies in conjunction with external auditor activities in 2005 (CZK millions)

	Audit services	Tax consulting	Economic and organizational consulting	Other	Total
ČEZ, a. s.	13.00	3.62	12.10	0.00	28.72
Fully consolidated CEZ Group companies	35.82	0.80	3.59	0.47	40.68
CEZ Group total	48.82	4.42	15.69	0.47	69.40

Audit firms used by CEZ Group

Audit firm	CEZ Group company
Ernst & Young Audit & Advisory, s.r.o., člen koncernu	ČEZ, a. s. CEZ Bulgaria EAD ČEZ Distribuce, a. s. ČEZ Distribuční služby, s.r.o. ČEZ Logistika, s.r.o. ČEZ Měření, s.r.o. ČEZ Obnovitelné zdroje, s.r.o. ČEZ Prodej, s.r.o. ČEZ Správa majetku, s.r.o. ČEZ Zákaznické služby, s.r.o. ČEZnet, a.s. ČEZData, s.r.o. Severočeská energetika, a.s. Severočeské doly a.s. Severomoravská energetika, a. s. Středočeská energetická a.s. Východočeská energetika, a.s. Západočeská energetika, a.s.
Ernst & Young Accountants	CEZ FINANCE B. V.
Ernst & Young EOOD	Elektrorazpredelenie Pleven EAD Elektrorazpredelenie Sofia Oblast EAD Elektrorazpredelenie Stolichno EAD
Ernst & Young S.R.L.	Electrica Oltenia S.A.
AUDIT PROFESIONAL, spol. s r.o.	Energetika Vítkovice, a.s.
AV-Auditing, spol.s.r.o.	ČEZ Obnovitelné zdroje, s.r.o. (audit of extraordinary financial statements) VČE - montáže, a.s.
BDO CS s.r.o.	Ústav jaderného výzkumu Řež a.s.
BUSINESS VM SERVICE, s r.o.	Energetické opravny, a.s.
Ing. Marcela Cibulková	SD - 1.strojírenská, a.s.
Deloitte s.r.o.	ŠKODA PRAHA a.s.
Deloitte Czech Republic B.V.	STE - obchodní služby spol. s r.o.
Horwath TPA Notia Audit s.r.o.	I & C Energo a.s.
H.B.J. Audit, s.r.o.	ČEZ Obnovitelné zdroje, s.r.o. (HYDROČEZ,a.s.)
Ing. Jiří Jakubík	ČEZData, s.r.o.
MEDVĚD AUDIT s.r.o.	SD - Autodoprava, a.s.
OK - AUDIT, s.r.o.	ePRIM, a.s., “in liquidation”
PRIMASKA AUDIT, a.s.	MSEM, a.s.
Ing. Miloš Rážek	SD - Kolejová doprava, a.s.
LHS GmbH Wirtschaftsprüfungsgesellschaft	rpg Energiehandel GmbH

RISK MANAGEMENT

CEZ Group is systematically developing an integrated risk management system. As part of the Group's transformation in the VIZE 2008 project, this system was expanded to include the new process-based companies. A new, centralized department now conducts unified risk management throughout CEZ Group, including generation, distribution, and trading of electricity.
The Risk Committee receives monthly reports on the states of various risks and their impact on financial performance. The Risk Committee approves all frameworks and limits, decides on action to rectify any deviations from the stipulated risk frameworks, and allocates CEZ Group's overall capital at risk. It also determines the overall strategy for developing the CEZ Group risk management system.
CEZ Group's risks can be divided into four basic categories – market, credit, operational, and business risks. Standard risk instruments are applied to all measurable risks and individual risks are regularly examined to determine their share in the current year's overall capital at risk.

1. Market Risk
- trading area – commodity risks are managed using trading books to hedge and optimize sales of electricity and of emission permits,
- finance area – currency risks are managed in a comprehensive way; overall CEZ Group foreign currency positions are hedged using financial instruments as well as by natural hedging (the presence of electricity revenue streams denominated in foreign currencies). Interest rate and liquidity risks are managed in standard fashion.

2. Credit Risk
End customer credit risk is managed on the basis of annual credit histories and supplemental financial analysis. Credit risk associated with electricity and emissions permit trading partners and risks associated with financial institutions are managed using individual limits derived from the given entity's rating and an internal financial analysis of the partner's credit.

3. Operational Risk
Measured operational risks include the risk that a power plant's actual output will deviate from plan. Another current operational risk is the unbundling process and the transformation of the regional electricity distribution companies into new process-based companies. This risk is managed separately through the VIZE 2008 project. Also managed separately is the risk inherent in plant portfolio renewal. Property and casualty risk is dealt with in standard fashion, including insurance.

4. Business Risk
- regulatory (European Union directives, decisions of the Energy Regulatory Authority and/or the Antitrust Office),
- strategic (acquisition decisions, stipulation of selling prices and procurement decisions),
- legal/legislative (risk of changes in Czech Republic or European Union legal system).

Market and credit risk is continuously quantified, centrally managed, and regularly reported to the Risk Committee. Operational risk management is decentralized; most risks in this category are quantified and reported to the Risk Committee. Business risks are managed and reported in a decentralized fashion.

Insurance of Property and Casualty Risks
The Group's coal and hydro power plants are insured against natural hazards and machine risks.
The insurer of property contracts concerning ČEZ, a. s. nuclear power plants is the Czech Nuclear Pool. Under the Nuclear Act, ČEZ's obligation as operator of nuclear facilities is met 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 both nuclear plants up to a limit of CZK 200 million.
The insurance contract covering liability for damage caused by the company's operations also covers selected companies of CEZ Group.
Statutory and supervisory board member liability insurance carried by the company also covers the governing bodies of selected CEZ Group companies.
For the purpose of providing property and casualty insurance coverage for the former regional electricity distribution companies and the newly established process-based companies, a principle of unified insurance management is being rolled out in all companies of CEZ Group.

Significant Insurance Claims in 2005
An additional CZK 27 million insurance claim recognized in January 2005 completed the adjustment process for damages sustained by the Orlík Hydro Power Station in the flood of August 2002. In December 2005, the power grids owned by ČEZ Distribuce, a. s. were damaged by calamitous winter weather conditions. The damage is estimated at CZK 24 million. The claim adjustment process is to be completed during 2006.
In July 2005, high winds caused damage to power lines owned by Severočeská energetika, a.s. The damage is estimated at CZK 9 million and claim adjustment is to be completed in the second quarter of 2006.

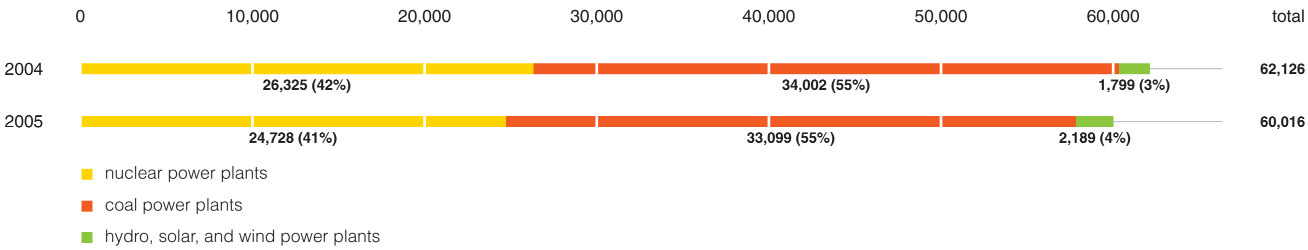
ELECTRICITY

Electricity Generation

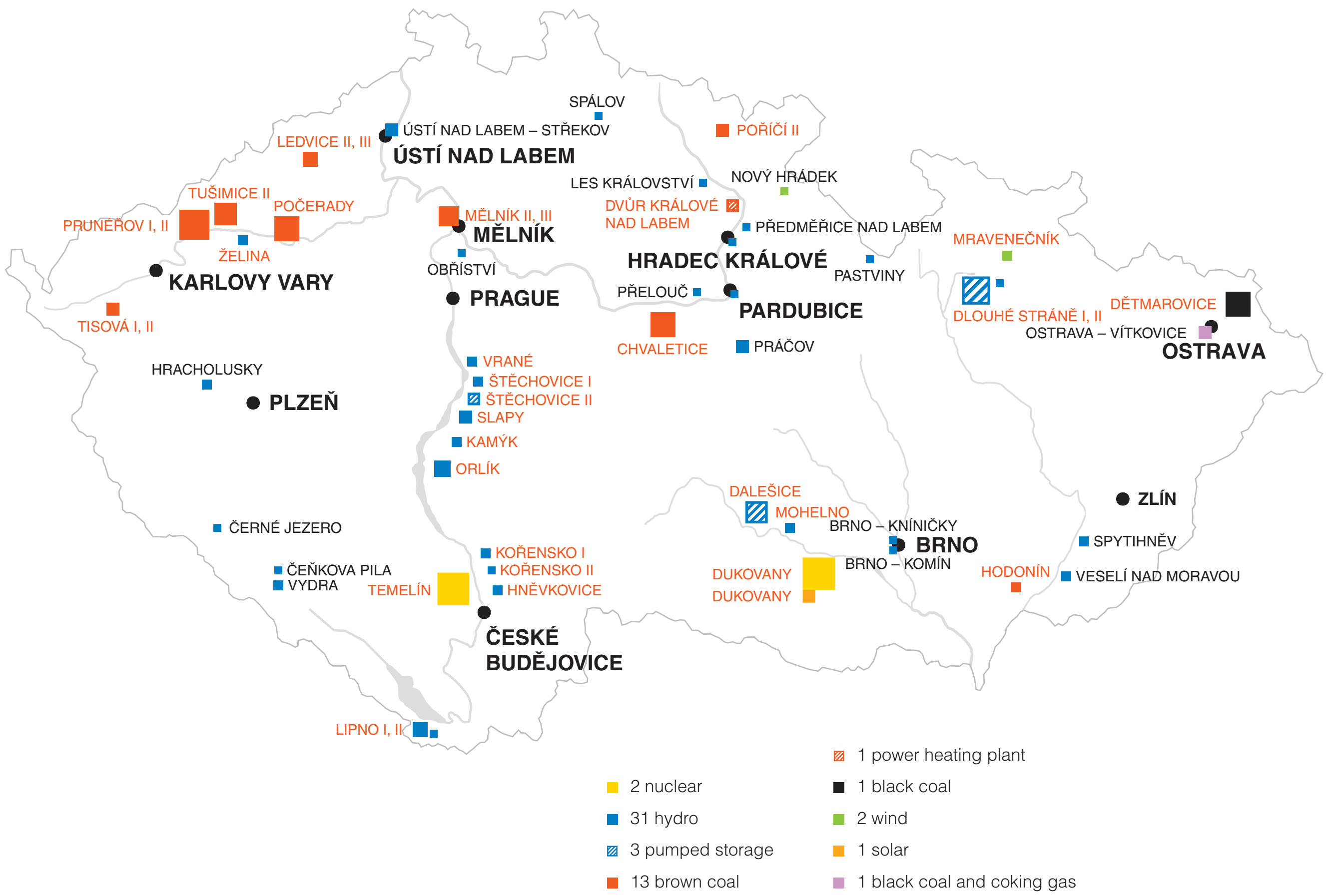
Of the overall volume of electricity generated in the Czech Republic (82,579 GWh), CEZ Group accounted for 72.7%, i.e. 60,016 GWh, and 59,470 GWh of that was produced by ČEZ, a. s.

The 2,110 GWh (3.4%) year-on-year decline in CEZ Group generation and the resulting 1% fall in CEZ Group's share in Czech Republic generation is related particularly to lower exports as CEZ Group focuses more on the domestic market and optimum production economy. The decline in generation volume at conventional and nuclear power plants by 2.7% and 6.1%, respectively, was partially offset by 21.7% higher generation in hydro power plants.

Electricity Generation (GWh)



Location of Generating Facilities



Name in orange letters = owned by ČEZ, a. s.

Name in black letters = owned by other CEZ Group members

Installed Capacity

In 2005, CEZ Group owned generating facilities in the Czech Republic only. The aggregate installed capacity of CEZ Group generating plants grew year-on-year by just 1 MW (due to the refurbishment of two small-scale hydro power plants) to a total of 12,298 MW. Of the total, coal power plants accounted for 53% (6,603 MW), nuclear 31% (3,760 MW), and the remaining 16% (1,935 MW) consisted of hydro, solar, and wind power plants.

Installed Capacity by Facility Type as of 31 December 2005

Coal Power Plants

	Name	Type of fuel	Installed capacity (MW)	Year commissioned	Desulfurized since
ČEZ, a. s.	Mělník II	brown coal	2 x 110	1971	1998
ČEZ, a. s.	Mělník III	brown coal	1 x 500	1981	1998
ČEZ, a. s.	Tisová I	brown coal	3 x 57; 1 x 12.8	1959–1960	1996–1997
ČEZ, a. s.	Tisová II	brown coal	1 x 112	1961	1997
ČEZ, a. s.	Poříčí II	black coal brown coal	3 x 55	1957–1958	1996, 1998
ČEZ, a. s.	Dvůr Králové nad Labem	brown coal	1 x 6.3; 1 x 12	1955, 1963	1997
ČEZ, a. s.	Dětmarovice	black coal brown coal	4 x 200	1975–1976	1998
ČEZ, a. s.	Chvaletice	brown coal	4 x 200	1977–1978	1997, 1998
ČEZ, a. s.	Ledvice II	brown coal	2 x 110	1966	1996
ČEZ, a. s.	Ledvice III	brown coal	1 x 110	1968	1998
ČEZ, a. s.	Tušimice II	brown coal	4 x 200	1974–1975	1997
ČEZ, a. s.	Počerady	brown coal	5 x 200	1970–1971, 1977	1994, 1996
ČEZ, a. s.	Hodonín	lignite	1 x 50; 1 x 55	1954–1958	1996–1997
ČEZ, a. s.	Prunéřov I	brown coal	4 x 110	1967–1968	1995
ČEZ, a. s.	Prunéřov II	brown coal	5 x 210	1981–1982	1996
Energetika Vítkovice, a.s.	Ostrava - Vítkovice	black coal	2 x 16; 1 x 25; 1 x 22	1983–1995	x
Coal power plants total		x	6,603	x	x

Nuclear Power Plants

	Name	Installed capacity (MW)	Year commissioned
ČEZ, a. s.	Dukovany	4 x 440	1985–1987
ČEZ, a. s.	Temelín	2 x 1,000	2002–2003
Nuclear power plants total		3,760	x

Hydro Power Plants

	Accumulation and run-of-river plants	Installed capacity (MW)	Year commissioned
ČEZ, a. s.	Lipno I	2 x 60	1959
ČEZ, a. s.	Orlík	4 x 91	1961–1962
ČEZ, a. s.	Kamýk	4 x 10	1961
ČEZ, a. s.	Slapy	3 x 48	1954–1955
ČEZ, a. s.	Štěchovice I	2 x 11.25	1943–1944
ČEZ, a. s.	Vrané	2 x 6.94	1936
Severočeská energetika, a.s.	Střekov	3 x 6.5	1936
Accumulation and run-of-river plants total		724	x
	Small-scale hydro power plants	Installed capacity (MW)	Year commissioned
ČEZ, a. s.	Lipno II	1 x 1.5	1957
ČEZ, a. s.	Hněvkovice	2 x 4.8	1992
ČEZ, a. s.	Kořensko I	2 x 1.9	1992
ČEZ, a. s.	Mohelno	1 x 1.2; 1 x 0.56	1977, 1999
ČEZ, a. s.	Dlouhé Stráně II	1 x 0.16	2000
ČEZ, a. s.	Kořensko II	1 x 0.94	2000
ČEZ, a. s.	Želina	2 x 0.315	1994
ČEZ Obnovitelné zdroje, s.r.o.	Přelouč	2 x 0.68; 2 x 0.49	1927, refurbished 2005
ČEZ Obnovitelné zdroje, s.r.o.	Spálov	2 x 1.2	1926
ČEZ Obnovitelné zdroje, s.r.o.	Hradec Králové	3 x 0.25	1926
ČEZ Obnovitelné zdroje, s.r.o.	Práčov	1 x 9.75	1953
ČEZ Obnovitelné zdroje, s.r.o.	Pastviny	1 x 3	1938
ČEZ Obnovitelné zdroje, s.r.o.	Obříství	2 x 1.679	1995
ČEZ Obnovitelné zdroje, s.r.o.	Les Království	2 x 1.06	1923, refurbished 2005
ČEZ Obnovitelné zdroje, s.r.o.	Předměřice nad Labem	1 x 2.1	1953
ČEZ Obnovitelné zdroje, s.r.o.	Pardubice	1 x 1.96	1978
ČEZ Obnovitelné zdroje, s.r.o.	Spytihněv	2 x 1.3	1951
ČEZ Obnovitelné zdroje, s.r.o.	Brno - Kníničky	1 x 3.1	1941
ČEZ Obnovitelné zdroje, s.r.o.	Veselí nad Moravou	1 x 0.12; 1 x 0.15	1914, 1927
ČEZ Obnovitelné zdroje, s.r.o.	Brno - Komín	2 x 0.106	1923
Západočeská energetika, a.s.	Vydra	2 x 3.2	1939
Západočeská energetika, a.s.	Hracholusky	1 x 2.55	1964
Západočeská energetika, a.s.	Čeňkova Pila	1 x 0.09	1912
Západočeská energetika, a.s.	Černé jezero	1 x 1.5; 1 x 0.04; 1 x 0.37	1930, 2004, 2005
Small-scale hydro power plants total		63	x
	Pumped-storage hydro power plants	Installed capacity (MW)	Year commissioned
ČEZ, a. s.	Štěchovice II	1 x 45	1947–1949, refurbished 1996
ČEZ, a. s.	Dalešice	4 x 112.5	1978
ČEZ, a. s.	Dlouhé Stráně I	2 x 325	1996
Pumped-storage hydro power plants total		1,145	x
Hydro power plants total		1,932	x

Wind Power Plants

	Name	Installed capacity (MW)	Year commissioned
ČEZ, a. s.	Mravenečník (Jeseníky)	1 x 0.220; 1 x 0.315; 1 x 0.630	1998
Východočeská energetika, a.s.	Nový Hrádek	4 x 0.4	2002
Wind power plants total		2.765	x

Solar Power Plants

	Name	Installed capacity (MW)	Year commissioned
ČEZ, a. s.	Dukovany	0.01	1998, 2003
Solar power plants total		0.01	x

Electricity Generation Outlook

The planned renewal of the plant portfolio and the maintenance program are being carried out by CEZ Group with the objective of ensuring long-term competitiveness. Depending on the development of demand in target markets, their accessibility, and the availability of individual types of primary energy (fuels), we are currently preparing the optimal solution for increasing generating capacity. The plant portfolio renewal project is designed to achieve optimum economic parameters both up-front and during operation, a robust solution that is flexible and can accommodate possible changes in the extent of brown coal mining. This solution is also based on the long-term acceptance of nuclear power as a viable energy source. The growth trend in electricity generation is also being accentuated by acquisitions and the exploration of opportunities to invest in generating facilities in all markets where CEZ Group does business.

Fuel

Nuclear Fuel

Nuclear fuel is supplied to Dukovany Nuclear Power Station under a long-term contract with Russia-based TVEL OAO, which not only fabricates the fuel itself, but also provides conversion and enrichment services. In 2005, reactors were loaded with fuel of optimized construction containing a burn-up absorber and with a lower degree of enrichment – this next-generation fuel is making it possible for Dukovany Nuclear Power Station to gradually transition to a five-year fuel cycle, resulting in substantial cost savings.

Fuel for Temelín Nuclear Power Station is fabricated and supplied by Westinghouse Electric Company LLC (USA) under an agreement that expires in 2010. To ensure fabrication of fuel after that date, a tender was held in which the bidders were Westinghouse Electric Company LLC and TVEL OAO. A contract is to be signed with the tender winner during 2006. Fuel conversion and enrichment services for Temelín Nuclear Power Station are sourced in the world market in accordance with the policy of diversification and to assure maximum reliability of supply.

2005 saw pivotal work take place in the design of the reactor core and fuel cycle management. Preparations were made for a tender to find a supplier of core components and, possibly, a new nuclear fuel supplier. Concurrently, work went forward on optimizing reloadings for both reactors as a basis for fuel supplies, outage durations, and the order in which reactors of the Temelín and Dukovany Nuclear Power Stations are taken off- and on-line.

Nuclear fuel behavior was carefully monitored during reactor operation at Temelín Nuclear Power Station. This related primarily to an increase in fuel rod volume and bending of fuel rods. To ensure rigorous analysis of developments in this area, additional tests and analysis were included in the reactor operation program. Their results proved that the fuel's behavior is not inconsistent with global standards and the experience of other operators of nuclear reactors of similar output. The gradual changes observed in the fuel over time during reactor operation had no impact on operational safety.

ČEZ, a. s. purchases uranium mostly from the domestic supplier DIAMO, státní podnik, but since uranium mining in the Czech Republic is being phased out, these supplies are no longer sufficient to meet the needs of CEZ Group nuclear plants. For this reason, additional uranium is being sourced in the world market under medium-term contracts.

Coal

In 2005, CEZ Group purchased 13.0 million tons of power generation coal (43.2% of total purchasing volume) from outside suppliers. Supplies within CEZ Group covered the other 56.8% (17 million tons).

Three mining companies in the North Bohemia brown coal belt, which is home to the Tisová, Prunéřov, Tušimice, Počerady and Ledvice Power Stations, supply approximately 94% of the total amount of coal consumed by CEZ Group power plants. The largest of the three is Severočeské doly a.s., in which ČEZ, a. s. has held a majority stake since December 2005. Coal from the Most region is supplied by Czech Coal a.s., a subsidiary of Mostecká uhelná a.s. Sokolovská uhelná, právní nástupce, a.s. operates in the western part of the brown coal belt.

The Mělník, Chvaletice and Poříčí Power Stations and Dvůr Králové Heating Plant are located outside the mining area and are supplied with brown coal by rail. An even smaller amount of black coal is supplied to Poříčí Power Stations by GEMEC - UNION a.s. and by OKD, a. s. from the Jan Šverma Mine in Žacléř.

The Hodonín Power Station in South Moravia fires lignite mined by Lignit Hodonín, s.r.o. and, to a lesser extent, coal transported from Most. Black coal, which is mined and supplied by OKD, a. s. , is burned by Dětmarovice Power Station in a mixture with a smaller amount of brown coal from Most. Energetika Vítkovice, a.s. fires natural gas and coking gas in addition to black coal.

Coal supplies take place under medium- and long-term contracts with all the mining companies mentioned above except OKD, a. s. and GEMEC - UNION a.s., with which one-year contracts are the norm. In the case of medium- and long-term contracts, future prices are set using a price agreement that is included in the contract.

Electricity Procurement and Supply

Electricity Procurement and Supply (GWh)

	2004	2005	Index 2005/2004 (%)
Procurement:			
Generated in-house (gross)	62,126	60,016	96.6
Other purchases for resale	11,625	22,912	197.1
Purchased from market operators *)	489	753	154.0
Purchased to cover in-house consumption	11	6	56.7
Imported	152	390	256.6
Traded outside CEZ Group home markets (purchase)	1,977	1,068	54.0
Total procurement	76,380	85,145	111.5
Supply:			
Sold in CEZ Group home markets	54,719	66,250	121.1
Sold to non-CEZ Group regional electricity distributors	14,886	16,054	107.8
Sold to market operators *)	565	764	135.2
Sold to eligible customers	15,604	21,634	138.6
Sold to captive customers	16,066	18,333	114.1
Sold to traders	6,768	8,655	127.9
of which, e.g.: for export	5,885	6,703	113.9
Sold to transmission companies to cover losses	677	782	115.5
Other sales in CEZ Group home markets	153	28	18.3
Exported	10,966	7,115	64.9
Traded outside CEZ Group home markets (sale)	1,977	1,068	54.0
Total sales	67,662	74,433	110.0
Other CEZ Group consumption (including in-house consumption)	5,933	6,031	101.7
Distribution grid losses	2,785	4,681	168.1
Total	76,380	85,145	111.5

*) OTE, a.s. (Czech Republic) and OPCOM S.A. (Romania).

For better utilization of generating capacity and to strengthen CEZ Group companies' positions in new markets, 2005 saw the establishment of sales offices in neighboring countries. Alongside the existing company CEZ Deutschland GmbH (formerly rpg Energiehandel GmbH), based in Munich, organizational units in Slovakia (CEZ Slovakia based in Bratislava) and Poland (CEZ Poland based in Warsaw) and the subsidiaries CEZ Hungary Ltd. (based in Budapest) and CEZ Trade Bulgaria EAD (based in Sofia) were established. The exact legal form of these units is dependent on legislation of the particular country in question. The purpose of the sales offices mentioned above is to contribute to development of CEZ Group's electricity business in markets of Central and Southeastern Europe.

CO_2 Emission Permits (millions of pcs)

	2005
Allocated	37.5
Used	33.3
Sold	3.1
Purchased	0.8
Held over to next year	1.9

Remark: The numbers in the above table are for CEZ Group (ČEZ, a. s. coal power plants, gas boiler room at Temelín Nuclear Power plant, the company Energetika Vítkovice, a.s., including Mohelnice Power System Facility).

As operators of greenhouse gas-emitting facilities, fully consolidated companies of CEZ Group were allocated a total of 37.5 million CO_2 emission permits for each year of the three-year period 2005–2007 by the National Allocation Plan. In 2005, 33.3 million CO_2 permits were used. Unused permits were traded through bilateral contracts or were held over to the next year. In January 2006, ČEZ, a. s. further expanded its know-how in the trading area by becoming a member of the ECX exchange in Amsterdam.

Distribution

Electricity Distribution

	Units	2004	2005
Electricity distributed	GWh	44,119	57,112
Distribution service revenues	CZK millions	26,179	28,226
Grid extended length	km	152,326	259,634
Number of connection points	thousands	3,438	6,774

Gradually – over the period from 1 September 2005 to 1 January 2006 – CEZ Group distribution operations in the Czech Republic, which in previous years and part of 2005 were conducted by five regional electricity distribution companies, passed from these companies to the newly established process-based company ČEZ Distribuce, a. s.
In Bulgaria and Romania, distribution will be unbundled from sales in 2006 and 2007, respectively. Records of these activities in 2005 were not kept separately.

HEAT

CEZ Group Heat Generation

CEZ Group is one of the three largest heat producers in the Czech Republic. Nearly all CEZ Group heat supplies are based on combined heat and power generation. In 2005, CEZ Group supplied heat from all ČEZ, a. s. coal and nuclear power plants (82.9%) and from the coal power plant run by Energetika Vítkovice, a.s. (17.1%).

Heat Sales

CEZ Group heat sales declined by 1.9% compared to 2004.
The lower heat sales figure on a practically unchanged number of customers was caused by the continuing decline in demand for district heat in both the household and business segments. The lower demand is given on the one hand by cost savings measures taken on the consumption side in response to higher energy prices and, on the other hand, by the roll out of energy conservation technologies mandated by new legislative measures driven by the State Energy Policy and harmonization with European Union standards.

CEZ Group Heat Procurement and Sale (TJ)

	2004	2005	Index 2005/2004 (%)
Procurement:			
Generated in-house	13,453	13,535	100.6
Purchased from other producers	13	4	30.8
Total	13,466	13,539	100.5
Supply:			
District heat companies	2,832	3,263	115.2
Distribution companies	1,957	1,419	72.5
Other customers	5,081	5,006	98.5
Exported	138	129	93.5
Total sales	10,008	9,817	98.1
In-house consumption	2,037	2,107	103.4
Useful supply	12,045	11,924	99.0
Losses in supply networks	1,421	1,615	113.7
Total	13,466	13,539	100.5

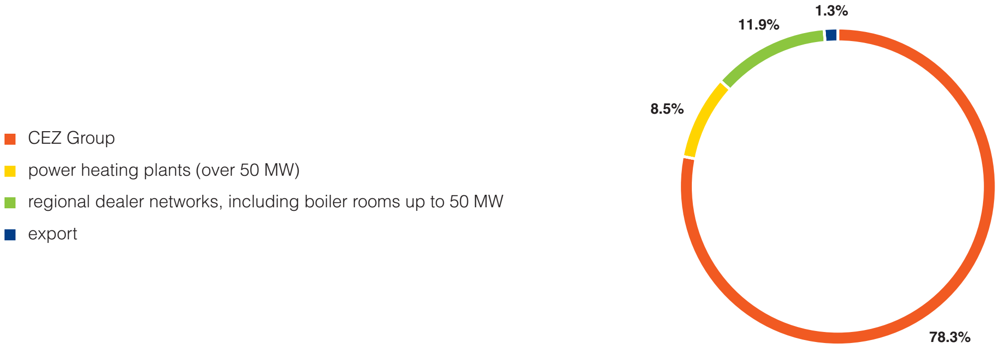
Heat Market Outlook

Long-term heat market figures reveal a sustained downward trend in supplies of heat and this trend can be expected to continue in the near future as well. Measures that have been prepared to mitigate the drop in supplies will help to win new customers, particularly in newly built residential buildings, industrial parks, and shopping centers.

COAL MINING

One of the fully consolidated CEZ Group companies is Severočeské doly a.s., the largest Czech brown coal mining company. Its share in the Czech Republic brown coal market in 2005 was 45.2%. It runs coal extraction operations in the Doly Nástup Tušimice and Doly Bílina mines.
In 2005, Severočeské doly a.s. extracted a total of 22.2 million tons of brown coal, up 1% from the previous year. Coal sales volume was flat at 21.8 million tons, with 1.3% exported. Coal extraction per employee grew year-on-year by 4% (from 5,914 tons to 6,163 tons) due to a decline in the number of employees. CEZ Group power plants consumed 17.056 million tons (78.3%) of the company's coal output, down 0.4%. Supplies to customers outside of CEZ Group grew by 2.0% to 4.719 million tons.

Coal Sales by Customer Segment, 2005 (%)



13.2 million tons of coal were extracted at the Doly Nástup Tušimice mine in 2005. Most of the coal mined here passes through a homogenization facility that ensures consistent quality coal for ČEZ, a. s. power plants. This mine has approximately 307 million tons of extractable coal reserves. Depending on actual extraction volumes, mining operations here are expected to end in the 2030–2035 period.
Doly Bílina yielded 9.0 million tons of coal in 2005. The coal from this mine, which is known for its high heat content and low sulfur content, is further processed in the Ledvice coal processing facility. From here it is supplied either to the Ledvice Power Station or other outside customers. Extractable coal reserves in this mine are approximately 225 million tons.
The extractable coal reserves figure is influenced by Government Resolution No. 444/1991 Sb., which wrote off 301 million tons of coal from Doly Bílina and Doly Nástup Tušimice. Should territorial mining limits be reconsidered, Doly Bílina could yield an additional amount of coal ranging from 60 million to up to 120 million tons. In such a case the useful life of Doly Bílina would be extended to roughly 2052 without threatening surrounding towns.

TECHNIQUE

CEZ Group has drawn up a plan for retrofitting its brown coal-fired power plants and is currently working on its technical specifications, including the possibility of expansion in the remaining portion of its generation portfolio. The specific energy consumption of the retrofitted/new plants would be 15% and 25%, respectively, lower than the existing plants. This would reduce the electricity generation costs and bring about a major reduction in greenhouse gas emissions. The reduction in CO_2 would be in line with the decrease in specific energy consumption (i.e. a 15% or 25% reduction), while NO_X reduction for the retrofitted and new plants would be approximately 60% and SO_2 emissions would fall by approximately 50%. In this way, CEZ Group can guarantee sufficient electricity will be available for the future and at the same time become more competitive.

SHARES,
SHAREHOLDERS AND SECURITIES

SHAREHOLDER STRUCTURE

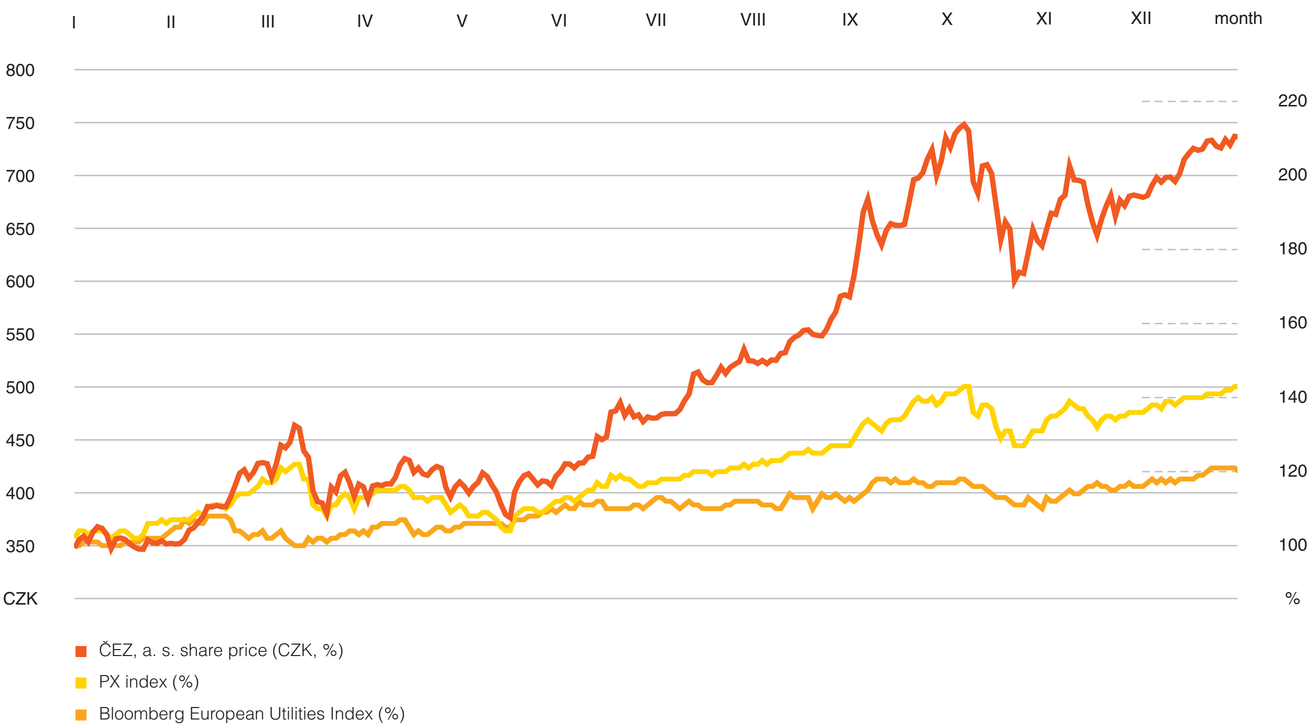
The ČEZ, a. s. basic capital recorded in the Commercial Register as of 31 December 2005 was CZK 59,221,084,300.
Using a list of the company's shareholders as of 31 December 2005 produced by the Prague Securities Center, it was determined that no other entity besides the National Property Fund of the Czech Republic was known to hold a share exceeding 5% of the stated capital of ČEZ, a. s.
As of 1 January 2006, under Section 2 of Act No. 178/2005 Sb. on the Winding Up of the National Property Fund of the Czech Republic and on the Powers of the Ministry of Finance, the assets of the National Property Fund of the Czech Republic, including the ČEZ, a. s. shares owned by it, passed to the State; as of the same date, the State's equity stake is administered by the Ministry of Finance of the Czech Republic.
Československá obchodní banka, a. s. manages the securities of 52 shareholders (total nominal value CZK 1.6 billion) and Citibank a.s. manages the securities of 5 shareholders (total nominal value CZK 442,000).
The percentage of the basic capital of ČEZ, a. s. held by foreign entities (legal entities and private individuals) at 31 December 2005 was 19.88%. There is also the possibility of other foreign shareholders whose shares are managed by asset managers, but ČEZ, a. s. has no means to find out.

Shareholder Structure (%)

	at 31 December 2004	at 31 December 2005
Legal entities, total	95.29	95.35
National Property Fund of the Czech Republic *)	67.61	67.61
Other legal entities	24.45	24.29
of which: domestic	5.25	4.52
foreign	19.20	19.77
Asset managers	3.23	3.45
Private individuals, total	4.71	4.65
of which: domestic	4.54	4.54
foreign	0.17	0.11

*) As of 1 January 2006, the National Property Fund of the Czech Republic was wound up and its equity stake in ČEZ, a. s. was transferred to the State; it is now administered by the Ministry of Finance of the Czech Republic.

ČEZ, a. s. Share Performance in 2005 Compared to the Prague Stock Exchange's PX Index and the Bloomberg Utilities Index



Per-share Indicators

		2000	2001	2002	2003	2004	2005	Index 2005/2004 (%)
Consolidated net earnings per share – basic *)	CZK	12.2	15.4	14.3	16.2	22.3	36.3	162.7
Dividend per share (gross) **)	CZK	–	2.0	2.5	4.5	8.0	9.0	112.5
Dividends declared **)	CZK billions	–	1.2	1.5	2.7	4.7	5.3	112.1
Dividend pay-out ratio ***)	%	–	18	19	34	78	51	65.4
High for year	CZK	125	113	99	146	341	748	219.3
Low for year	CZK	80	58	71	88	146	347	236.7
Share price at year end	CZK	101	78	92	146	341	736	216.1
Number of registered shares (at December 31)	thousands	592,088	592,088	592,211	592,211	592,211	592,211	100.0
Number of treasury shares (at December 31)	thousands	–	1,950	1,935	745	10	2,440	x
Number of shares in circulation (at December 31)	thousands	592,088	590,138	590,276	591,466	592,201	589,771	99.6
Market capitalization (at December 31)	CZK billions	60	46	55	86	202	434	215.2
Book value per share *)	CZK	219	232	243	274	291	300	103.1
Price-to-book value ratio (P/BV)	%	46	33	38	53	117	246	209.7
Price-to-earnings ratio (P/E)	%	8	5	6	9	15	20	132.8
ČEZ share trading volume on PSE	CZK billions	32	20	38	44	108	299	276.5
ČEZ share in overall PSE trading volume	%	12.2	15.2	19.4	17.2	22.5	28.7	127.3

*) Minority interests excluded.
**) Relating to the previous year's net income.
***) Calculated, based on the unconsolidated net income according to IFRS.

Squeeze-outs

Under Section 47(1) of Act No. 256/2004 Sb. on Doing Business in the Capital Market and Section 183i(1) of Act No. 513/1991 Sb., the Commercial Code, as amended, ČEZ, a. s. decided to squeeze out minority shareholders from the companies listed below. Under Section 183n(1) of the Commercial Code, the shares of Východočeská energetika, Severomoravská energetika, Západočeská energetika, and ŠKODA PRAHA were removed from public securities markets by the publication of resolutions of their General Meetings on the passage of the companies' other securities to the majority shareholder, ČEZ, a. s. The passage of equity securities of Středočeská energetická a.s. is the subject of litigation ongoing with shareholder Roman Minarik and KOR BUSINESS Ltd.

Squeeze-out Overview

Company	Východočeská energetika, a.s.	Severomoravská energetika, a. s.	Západočeská energetika, a.s.	Středočeská energetická a.s.	ŠKODA PRAHA a.s.
Extraordinary General Meeting	4 Aug 2005	8 Aug 2005	9 Aug 2005	5 Aug 2005	31 Aug 2005
Recorded in Commercial Register	11 Aug 2005	9 Aug 2005	10 Aug 2005	not recorded	16 Sep 2005
Published in Commercial Bulletin	17 Aug 2005	31 Aug 2005	24 Aug 2005	not published	5 Oct 2005
Original ČEZ stake in company (%)	98.83	99.13	99.13	97.72	97.60
Share price	CZK 3,292.00	CZK 3,811.00	CZK 7,052.00	CZK 2,750.00	CZK 352.00
Consideration	7 Nov 2005 – 31 Dec 2009	16 Nov 2005 – 31 Dec 2009	11 Nov 2005 – 31 Dec 2009	–	15 Dec 2005 – 31 Dec 2009
Strike date	17 Sep 2005	30 Sep 2005	24 Sep 2005	–	5 Nov 2005
Number of shares	29,741	29,778	13,939	73,353	30,201
ISIN	CZ0005076950	CZ0005078352	CZ0005077354	CZ0005078253	CS0005006857
SIN	770950001501	770950000404	770950000818	770950000784	–
SIN	–	770950000677	–	–	–
Pay-out administrator	Česká spořitelna	Česká spořitelna	Česká spořitelna	Česká spořitelna	Česká spořitelna

On 27 March 2006, the General Meeting of Severočeské doly a.s. also approved a squeeze-out (transfer of other shares to the principal shareholder – ČEZ, a. s.).

CREDIT RATINGS

In May 2005, the rating agency Standard & Poor's reaffirmed ČEZ's long-term BBB+ rating and changed the outlook from "stable" to "positive".
In June 2005, the rating agency Moody's changed the long-term rating of ČEZ, a. s. from Baa1 to A3, leaving the outlook unchanged at "stable". The reason for the change was a new methodology for Government-Related Issuers.
In September 2005, Moody's changed the long-term rating of ČEZ, a. s. from A3 to A2; the outlook ("stable") was not changed.

TYPES AND VOLUMES OF SECURITIES AS OF 31 DECEMBER 2005

a) Shares and outstanding bonds of ČEZ, a. s.

Security	ISIN	Issue date	Interest	Maturity	Form
Share issue [1]	CZ0005112300	15 Feb 1999	x	x	booked to owner
6th bond issue	CZ0003501066	26 Jan 1999	zero coupon [2]	2009	booked to owner
7th bond issue	CZ0003501058	26 Jan 1999	9.22% [3]	2014	booked to owner
9th bond issue	CZ0003501348	23 Jun 2003	3.35% [4]	2008	booked to bearer
2nd Eurobond issue	[6]	20 Oct 1999	7.25% [7]	2006	booked to owner
3rd Eurobond issue	[6]	8 Jun 2004	4.625% [7]	2011	booked to owner
Yankee bonds	[6]	17 Jul 1997	7.125% [7]	2007	booked to owner

[1] As of 15 February 1999, the two preceding share issues (with face value CZK 1,000 and CZK 1,100, respectively) were merged and subsequently split into shares with face value of CZK 100. Number of shares issued: 592,210,843. Amount of share capital remaining to be paid in: 0. The shares of ČEZ, a. s. are traded on the Prague Stock Exchange and in the RM-System.
[2] Yield is the difference between value of bond at issue (CZK 1,862,905,005) and face value (CZK 4,500,000,000).
[3] Starting in 2006, the bonds will bear interest at a variable rate defined as CPI + 4.2%.
[4] Offering price: 100.05%.
[5] Bond program with maximum volume of outstanding bonds CZK 30 billion – program to last 10 years and any bonds issued in the program to have a maximum maturity of 10 years.
[6] Issued through CEZ FINANCE B. V., the Eurobonds are listed on the Luxembourg Stock Exchange and the Yankee bonds are registered with the U.S. Securities and Exchange Commission.
[7] In conjunction with a change in the tax regime and the signing of an Advance Pricing Agreement (APA) with the Netherlands tax authority, the method used to finance CEZ FINANCE B.V. was changed. Starting in December 2005, it is financed from the interest rate differential between outstanding bonds and lendings. This difference is 0.0686% p.a. for all three lendings.
[8] Bought back by issuer for USD 22 million.
[9] Chase Manhattan Trustees Limited and The Chase Manhattan Bank were merged in 2001; current name of administrator is J.P. Morgan Chase Bank.

Since Severočeské doly a.s. owns a portion of the 9th bond issue equivalent to CZK 80 million face value, the non-current debt reported by CEZ Group is lower by this amount.
The company ČEZ, a. s. has not issued any convertible bonds.
According to the issue terms, the bonds are not guaranteed by the State or by any bank.
No other CEZ Group company has any outstanding bonds.

b) Shares of other CEZ Group publicly traded companies as of 31 December 2005

Shares	ISIN	Issue date	Form	Face value (CZK)	Number issued
Severočeská energetika, a.s.	CZ0005078055	2 Jun 1998	booked to owner	1,000	2,151,643
Severočeská energetika, a.s.	CZ0005106781	4 Aug 2003	booked, registered	1,000	1,106,024
Středočeská energetická a.s.	CZ0005078253	30 Jun 1994	booked to owner	1,000	2,363,596
Středočeská energetická a.s.	770950000784	11 May 1995	booked, registered	1,000	846,773
Severočeské doly a.s.	CZ0005102350	27 Jun 1994	booked to owner	1,000	7,597,061
Severočeské doly a.s.	CZ0005102467	27 Jun 1994	booked, registered	1,000	1,483,570

The shares are traded on the Prague Stock Exchange and in the RM-System (OTC market).

TREASURY SHARES

Purchases and sales of treasury shares by ČEZ, a. s. in 2005 served to cover the incentive-based options program approved by the General Meeting on 19 June 2001 and amended by resolutions of the General Meetings held in 2003, 2004, and 2005. Option agreements give selected managers and members of the Board of Directors and Supervisory Board of ČEZ, a. s. the right to buy a limited number of the company's shares at stipulated price terms. These options are intended as an incentive for long-term interest in the company's financial performance and stability.
At the beginning of 2005, there were 10,000 treasury shares in the company's Securities Center asset account. During the year 3.21 million shares were purchased for the ongoing option program for an average purchase price of CZK 407.99 (average price including broker commission and exchange fee is CZK 408.79 per share); the lowest price paid was CZK 375.51 and the highest was CZK 600.00. The total amount used to purchase treasury shares in 2005 was CZK 1,310 million, or CZK 1,312 million including broker commission and exchange fee. At the end of 2005, the company held 2.44 million treasury shares.
In 2005, the company sold 310,000 treasury shares to three beneficiaries who exercised options to purchase these shares for an average price of CZK 147.99 (lowest price was CZK 81.06 per share, highest was CZK 213.36 per share). The total amount received from the sale of shares to the beneficiaries was CZK 45.877 million or CZK 45.903 million including interest.
In 2005, the company further sold 470,000 treasury shares to a securities broker for 440 CZK/share.

Face value	Volume	Manager	Administrator
CZK 100	CZK 59.2 billion	x	x
CZK 1,000,000	CZK 4.5 billion	ING Barings Capital Markets	Citibank a.s.
CZK 1,000,000	CZK 2.5 billion	ING Barings Capital Markets	Citibank a.s.
CZK 10,000	CZK 3.0 billion [5)]	Československá obchodní banka, a. s.	Československá obchodní banka, a. s.
EUR 1,000	EUR 200 million	Credit Suisse First Boston	Chase Manhattan Trustees Limited [9)]
EUR 10,000			
EUR 100,000			
EUR 1,000	EUR 400 million	BNP Paribas, Merrill Lynch	J.P. Morgan Corporate Trustee Services Limited [9)]
EUR 10,000			
EUR 100,000			
USD 1,000	USD 200 million [8)]	J.P. Morgan, Merrill Lynch, Salomon Brothers	The Chase Manhattan Bank [9)]

ČEZ, a. s. SHAREHOLDER AND INVESTOR RELATIONS

The companies of CEZ Group comply with the provisions of the Commercial Code concerning protection of shareholder rights and uphold the principle of equal treatment of all shareholders. At pre-planned and announced dates, shareholders have access to quarterly reports on CEZ Group's financial and operational performance.
The Group's relations with shareholders and investors, as well as its corporate governance, are based on the recommendations contained in the country's Corporate Governance Codex, which CEZ Group helped to draft.
The objective is to conduct an intensive, open dialog with all capital market players, going beyond statutory requirements, so that each can assess the performance and future strategy of CEZ Group. The main discussion topics in 2005 were prices in the Central European electricity market, the CO_2 emissions market, and M&A activity in the region of Central and Southeastern Europe.
A separate subject of discussions with analysts and investors was the CEZ Group transformation program, VIZE 2008, and its impact on regulation of Czech Republic distribution operations.
The ČEZ, a. s. senior management met with investors at seven investor conferences, six road shows, four press conferences, and many individual meetings. During the meetings, presentations were given on various topics, elaborating on the key themes mentioned above, and the managers also took questions. CEZ Group intends to continue this dialog with the financial community in 2006 as well.
ČEZ, a. s. is also interested in making greater use of opportunities posed by the highly developed Polish capital market and offer its shares on the Warsaw Stock Exchange. This step will clear the way for Polish pension funds, which otherwise face heavy regulatory restrictions on investments outside of Poland, to invest in the shares of ČEZ, a. s.

ČEZ, a. s. General Meetings

On 21 January 2005, an extraordinary General Meeting of ČEZ, a. s. was held. It approved the following:
- control agreements with the subsidiaries ČEZData, s.r.o., ČEZ Zákaznické služby, s.r.o., and ČEZ Logistika, s.r.o.,
- an amendment of the company's Articles of Association,
- donations budget for 2005 in the amount of CZK 25.6 million, of which CZK 25 million is for the "Duhová energie" Foundation and CZK 0.6 million is an in-kind donation of unutilized assets of ČEZ, a. s. to the City of Prague,
- a change in the company's option program,
- acquisition of treasury shares,
- new text of Supervisory Board member contracts entered into on 22 November 2004 with Jan Ševr and Jiří Jedlička.

On 20 June 2005, the 13th Annual General Meeting was held. It discussed and passed resolutions, in particular, on the following:
- the Report on the Company's Business Activities and the State of Its Assets in 2004,
- the Supervisory Board's report on its activities in the period since the last Annual General Meeting (17 June 2004),
- the ČEZ, a. s. financial statements and the CEZ Group consolidated financial statements for 2004, prepared in accordance with International Financial Reporting Standards, and the audits thereof,
- the distribution of ČEZ, a. s. net income, including decision on dividends and Board member bonuses; the approved 9 CZK/share dividend is the highest yet in the history of ČEZ, a. s.,
- donations budget of CZK 80 million for 2006; CZK 50 million of which for "Duhová energie" Foundation, CZK 30 million for donations to municipalities near nuclear power plants and further amounts in conjunction with the retrofitting of coal power plants and other causes,
- transfer of the part of the ČEZ, a. s. enterprise dealing with sales of electricity to key customers (the sales section) to ČEZ Prodej, s.r.o. as a capital contribution,
- transfer of a part of the ČEZ, a. s. enterprise – the IT section of ČEZ, a. s. – to ČEZData, s.r.o. as a capital contribution,
- decision on changes to the Supervisory Board (removed: Stanislav Kázecký, Václav Srba and Pavel Šafařík, elected: Aleš Cincibus, Jiří Havel and Petr Kousal),
- members of the Supervisory Board no longer eligible for the company's stock options program.

CAPITAL EXPENDITURE

Capital expenditure in 2005 focused on upgrading and developing Dukovany Nuclear Power Station and preparing for renewing the generating base in conventional power.

Acquisition of Fixed Assets (CZK millions)

	2004	2005
Property, plant and equipment	13,676	15,901
of which, e.g.: nuclear fuel	1,771	2,605
Intangible fixed assets	1,288	1,367
Financial investments	222	242
Impact of acquisitions of fixed assets on liabilities	1,739	(1,839)
Total	16,925	15,671

NUCLEAR POWER

Dukovany Nuclear Power Station

The Instrumentation & Control system renewal project is being implemented during standard fuel replacement outages. On Unit No. 3, the installation of generating unit information systems, a reactor control system, and an intrareactor monitoring system were completed. Another significant project on Unit No. 3 was the replacement of low-pressure components in the flow-through section of the turbogenerators, including rotors, to increase efficiency and extend useful life. The result is a 3.4% decrease in unit heat consumption, corresponding to a 16 MW increase in the achievable capacity of this unit. At the same time, the useful life of the low-pressure stage was extended so it will last for the entire period the power plant is to remain in operation.

Spent Nuclear Fuel Storage Facility at Dukovany Nuclear Power Station

When the last CASTOR cask is delivered in early 2006, the existing storage facility will have reached its full design capacity of 60 CASTOR casks. In 2005 a new spent fuel storage facility was under construction. The new facility's capacity of 133 CASTOR casks is amply sufficient to cover the entire period Dukovany Nuclear Power Station is planned to be in operation. The facility will be opened in 2006.

Temelín Nuclear Power Station

2005 saw the beginning of demolition and cleanup work on special-purpose buildings and sites used in the course of the plant's construction. This work is to be completed in 2006. A protective layer of paint was applied to the outer cladding of the Unit No. 2 cooling towers.

A number of measures were taken on generating equipment to upgrade them and increase the reliability and safety of individual operating components. Further, boiler nos. 3 and 4 of the gas-fired boiler island were overhauled and upgraded to allow fully automated operation without human intervention.

Unit No. 1 underwent a final inspection in late 2005 and the building permit authorities issued a positive use permit decision on 15 December 2005. Final inspection of Unit No. 2 will take place in 2006.

Spent Nuclear Fuel Storage Facility at Temelín Nuclear Power Station

In 2005, documentation was drawn up for zoning proceedings and for the facility location permit, as well as the information memorandum for a public tender to find a supplier of casks and an Environmental Impact Assessment of the project in which Austrian and German representatives participated. Both the Ministry of the Environment of the Czech Republic and the European Union issued consenting opinions on the proposed project. The State Office for Nuclear Safety, as the administrative authority with jurisdiction over the matter, issued a nuclear facility location permit.

At the Skalka site, activities necessary for the possible renewal of preparations for a facility to store spent fuel from Temelín Nuclear Power Station, as an alternative solution, are ongoing.

CONVENTIONAL POWER

Plant Portfolio Renewal

In accordance with the Program of Further Operation and Conception of Renewal of the ČEZ, a. s. Plant Portfolio, preparations were begun for the comprehensive retrofits of the Tušimice II and Prunéřov II Power Stations and the construction of new brown-coal generating units, each with 660 MW capacity in the existing sites of Ledvice and Počerady Power Stations.

February saw the approval of the joint business and construction plan for the Comprehensive Retrofit of Tušimice II Power Station, which called for the facility to retain its current generating capacity of 4 x 200 MW. In the fact-finding phase of the Environmental Impact Assessment (EIA) pursuant to Act No. 100/2001 Sb. it was verified that the project is not subject to EIA. Basic engineering documentation of the project was drawn up and in December 2005 an application was filed for a building permit. The actual construction of the project will take place between March 2007 and June 2010.

February 2006 saw the approval of the business plan for the comprehensive renewal of Prunéřov II Power Station. Implementation of this project will follow the retrofit of Tušimice II Power Station. Both stations will be supplied from the adjoining Libouš brown coal mine until approximately 2035.

A second part of the renewal program is the construction of cutting-edge brown coal-fired units utilizing commercially available modern technologies with supercritical steam parameters, ensuring commensurate generating efficiency and compliance with emissions limits prescribed for these facilities.

November 2005 saw the approval of a business plan to construct a 660 MW unit in Ledvice Power Station to be fired by brown coal from the Doly Bílina mine with a planned commissioning date in late 2011. In April 2006, a business plan for a second project with the same capacity in Počerady was completed and submitted for approval.

ENVIRONMENTAL INVESTMENTS

In accordance with Ordinance of the Government of the Czech Republic No. 406/2004 Sb., preparations were begun for technical measures leading to increased plant operational safety, especially by reducing dust levels. Projects will continue in the area of improving conditions for utilization of Energy Generation By-Products in the production of construction materials and in cleaning up and reclaiming repositories of such by-products.

Modifications were made to selected coal power stations to enable them to fire an increased proportion of biomass in mixture with coal in fluidized-bed and fire-grate boilers. A number of technical and biological reclamation projects have been implemented at coal power stations to reclaim energy generation by-product landfills and revitalize the countryside. In 2005, reclamation work was ongoing or completed in the vicinities of Mělník, Poříčí, Chvaletice, Ledvice, Tušimice, and Hodonín Power Stations. Starting in 2005, emissions measurement technology is being upgraded in all power stations and CO_2 emissions measurement got underway. This will ensure that pollutants emitted into the air will continue to be measured accurately in the future.

At the hydro power plants, preparations were made for modifying the dispatching control station of the Vltava River Cascade and a turbine wheel was replaced at Dalešice Power Station.

EXPENDITURES ON THE CEZ GROUP INFORMATION SYSTEM

In 2005 CEZ Group spent CZK 1.83 billion on its information system. The largest component was the implementation of SAP and related infrastructure. CEZ Group IT infrastructure was developed through roughly 30 projects, the most important of which are the projects to implement a Financial Information System (FIS) and a Customer Information System (CIS).

In accordance with the roll-out of the unified SAP information system, the following efforts continued in 2005 within the VIZE 2008 project framework:

- implementation of basic systems for ČEZ Zákaznické služby, s.r.o., ČEZ Prodej, s.r.o., ČEZ Distribuce, a. s., ČEZ Měření, s.r.o., and ČEZ Obnovitelné zdroje, s.r.o.,
- implementation of planning, reporting, and strategic indicators products for the five regional electricity distribution companies and eight of the new process-based companies,
- full development of a system for the core businesses of ČEZ Prodej, s.r.o., ČEZ Distribuce, a. s., and ČEZ Logistika, s.r.o.

A new CEZ Group Data Center was built in the Temelín Nuclear Power Station compound. The new data center will be operated by ČEZData, s.r.o.

KEY CAPITAL EXPENDITURES OF SUBSIDIARIES

Severočeské doly a.s.
2005 saw the completion of an extensive refurbishment and modification of an existing mine water treatment plant that doubled the facility's capacity to 80 liters/second. A new feature is the ability to discharge treated minewater in a controlled fashion even when the treatment plant is not operating, for a period of 14 days at an average flow rate of 13 l/s into the public waterway, thereby ensuring the public-health minimum flow needed by the town of Březno. Total expenditures were CZK 159 million.
Also completed in 2005 was the assembly of a SchRs 1320 large-scale excavator for the Doly Nástup Tušimice mine at a total project cost of CZK 802 million.

ČEZ Distribuce, a. s.
2005 saw the beginning of a project to build a 110 kV high voltage power line and a 400/110 kV transformer station in Krasíkov. The project's total budget is CZK 100 million.

ČEZData, s.r.o.
An ERP (Enterprise Resource Planning) development project began for ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s. The total budget is CZK 150 million.
An information unbundling project included a major overhaul of the Customer Information System at total budgeted cost of CZK 126 million.

Severočeská energetika, a.s.
Automation of the Střekov Hydro Power Station began on 1 July 2002 with the refurbishment of the TG 3 turbogenerator. In 2005, the machine was disassembled and its main portion was transported to a sub-contractor. In 2003, the machinery portion of TG 3 was refurbished, a control system was installed, and a cleaning machine was purchased. TG 3 was commissioned on 25 November 2003. TG 2 was refurbished in 2004 and recommissioned on 8 February 2005. TG 1 was refurbished in 2005 and reassembly and reinstallation were completed on 31 December 2005. The total expenditures were CZK 172 million.

Severomoravská energetika, a. s.
CZK 160 million was expended to purchase a 110 kV power line that connects the Dětmarovice Power Station to the grid.

Východočeská energetika, a.s.
Construction work continued on a new 110 kV double power line between the Mírovka 400/110 kV and Hlinsko 110/35/10 kV transformer stations. Preparatory work on the project began in 1998 and completion is planned in 2007. Total budget costs are CZK 190 million.
Also continued was the project to install remote-controlled section switchgears that reduce shutoff times when localizing grid faults, thereby substantially improving the grid availability parameter. The total cost of the project is CZK 209 million.

Elektrorazpredelenie Pleven EAD
A capital project was executed involving the shifting of electrical panels and electric meters to the outer perimeters of land parcels at a total budgeted cost of BGN 11 million (CZK 168 million). The principal aim is to reduce the amount of electricity consumed but not metered.

Elektrorazpredelenie Sofia Oblast EAD
Capital expenditures – shifting of electrical boxes and electric meters to land parcel perimeters – were executed at a total budgeted cost of BGN 12 million (CZK 184 million).

Elektrorazpredelenie Stolichno EAD
The following capital projects were implemented in 2005:
- shifting of electrical boxes and electric meters to land parcel perimeters at a total budgeted cost of BGN 52 million (CZK 785 million),
- construction of medium- and low-voltage equipment at a cost of BGN 41 million (CZK 631 million) and BGN 28 million (CZK 428 million), respectively,
- a project to upgrade substation equipment at a total cost of BGN 23 million (CZK 346 million).

SAFETY, QUALITY
AND ENVIRONMENTAL MANAGEMENT

SAFETY, QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEM

Safety, quality, and environmental management is an integral part of the management of CEZ Group.
Established management systems meet the requirements of Czech Republic legislation, which is continuously harmonized with European Union directives and recommendations of other major world organizations such as the International Atomic Energy Agency, the Nuclear Energy Agency (within the OECD), the Western European Nuclear Regulators' Association, etc.
An important element is the occupational health and safety system, which is compliant with the "Safe Enterprise" program and which has been implemented in all ČEZ, a. s. power stations. Its content and structure is analogous to the OHSAS 18001 standard. In audits conducted in 2005, Dukovany Nuclear Power Station and all coal and hydro power stations defended their existing Safe Enterprise titles, and Temelín Nuclear Power Station obtained this certification for the first time in 2005. The increasing level of work safety is demonstrated by a steady decline in injury rates in CEZ Group.
In order to protect the environment, ČEZ, a. s. has implemented an Environmental Management System (EMS) in accordance with the international ISO 14001:2004 standard. The environmental policy program is based on the principles of prevention and continual improvement in the area of environmental protection. It includes compliance with all statutes and stipulates targets for CEZ Group to achieve.

Air Protection
CEZ Group has continuously complied with the requirements of the Clean Air Act since it was originally passed in 1991. As of 2002, we also comply with requirements given by the process of harmonization with applicable European Union regulations.
The amount of emissions from CEZ Group coal power plants and air pollution in their surroundings are monitored continually. Measurements of emissions, ground-level concentrations, and the proportion of air pollution attributable to coal power plants are available through CEZ Group websites.
In conjunction with a directive of the European Parliament and Council stipulating a scheme for trading in greenhouse gas emission permits, monitoring began of emissions of greenhouse gases (carbon dioxide) in the first trading period, i.e. 2005–2007.

Air Emissions of Pollutants in 2005 and Comparison with 1993

	Units	Solids	Sulfur dioxide	Nitrogen oxides	Carbon monoxide	Carbon dioxide
1993	tons	55,764	724,052	124,633	17,497	35,568,898
2005	tons	2,928	58,532	60,476	3,712	33,321,440 **)
Change	%	(94.7)	(91.9)	(51.5)	(78.8)	(6.3)
1993	kg/GJ *)	0.1793	2.3281	0.3956	0.0554	114.14
2005	kg/GJ *)	0.0096	0.1924	0.1988	0.0122	109.55 **)
Change	%	(94.6)	(91.7)	(49.7)	(78.0)	(4.0)

*) Unit emissions are expressed per GJ of heat generated in the boilers.
**) The decline in carbon dioxide emissions in 2005 compared to 1993 is influenced, among other things, by a methodology change (now calculated according to carbon content in fuel as opposed to the correlation coefficients of heat content used in the past).

Remark: The numbers in the above table are for CEZ Group (ČEZ, a. s. coal power plants, gas boiler room at Temelín Nuclear Power plant, the company Energetika Vítkovice, a.s., including Mohelnice Power System Facility).

Measures to reduce dust levels are being taken at Severočeské doly a.s. The coal processing facility is equipped with highly efficient level separators that prevent dust from escaping into the surrounding area when coal is processed. Monitoring stations have been set up in the affected municipalities, where ground-level dust concentrations are measured continually. The stations are operated by an independent accredited laboratory and the results are reported to the municipalities on a monthly basis.

Water Protection and Management

CEZ Group approaches water protection pursuant to the Euro-amendment of the Clean Water Act and implementing decrees. Water use and wastewater discharge are governed by the terms stipulated in decisions of authorities and/or in integrated permits issued by regional authorities.

In 2005, CEZ Group diverted 372.3 million m^3 of surface water. Underground water, in an amount equivalent to less than 0.1% of surface water diversion, was used primarily to produce potable water. Other applications account for at most 3% of the total amount of underground water used.

Surface Water Diverted (millions of m^3)

Waste Management

In accordance with the requirements of Act No. 185/2001 Sb. on Waste, 2005 saw waste management plans drawn up and sent to the appropriate Regional Authorities by the stipulated deadlines. Plans for the Mělník, Počerady, Tušimice, Ledvice, and Prunéřov Power Stations and certain hydro power stations will be submitted in 2006. The objective is to determine the amount of waste produced during the period since 2000 and propose a way to gradually minimize waste production over the next five years in accordance with the master plans of the region in question.

The radioactive waste disposal philosophy is based on internationally recognized principles. CEZ Group complies with Act No. 18/1997 Sb., as amended (the Nuclear Act). The principal objectives are to protect health and the environment from the negative consequences of ionizing radiation, to take into account the necessity of minimizing production of radioactive waste, and to protect future generations from undesirable burdens. Handling of radioactive waste in nuclear power plants is subject to regulation and supervision by the State Office for Nuclear Safety, which conducts inspections to determine compliance with the provisions of the Act and the terms of decisions issued by the Office in areas related to radioactive waste handling. Inspections conducted in 2005 did not find any breaches of legislation on the part of CEZ Group members.

Cleanup and Reclamation

No accidents requiring cleanup occurred in 2005.

2005 saw continued work, in implementation of approved projects, to reclaim land (landfills, settling ponds, dumps, etc.), including demolition of special-purpose buildings left over from the construction of Temelín Nuclear Power Station.

Reclamation of land affected by mining activity is preceded by a preparation phase that deals with protection of agricultural and forest land, the impact mining activity had on the environment, and measures toward creating a new landscape after termination of mining activity. In 2005, the reclamation process began on 400 acres. In total, reclamation work is ongoing on 6,588 acres of land. Reclamation of land affected by mining activity has been ongoing since the 1950s; since then, 7,638 acres have been reclaimed. Reclamation outlays in 2005 totaled CZK 216 million.

Noise

Considerable attention is paid by CEZ Group power plants to the reduction of noise.
Most power plants are situated in remote areas and noise measurements taken in their surroundings are within the limits valid for these areas. Minor problems are posed by certain older coal power plants situated near urban areas. In these cases, regional public health authorities have set conditions for further operation, including measures that CEZ Group is complying with. A total of CZK 17.6 million was spent to implement anti-noise measures in 2005 and other noise-reducing projects are planned for the years to come.
Noise levels in the workplace are continually monitored and isolated cases of increased noise levels having negative effects are being eliminated via organizational and technical measures with good results.
In most power plants, noise maps have been drawn up of all relevant buildings, employees' exposure to noise is monitored, and noise levels are also continually supervised by public health authorities. These authorities did not find any cases of non-compliance in 2005.
In surface coal mining operations, long-distance belt conveyors are a significant source of noise. In order to reduce noise caused by mining plant and equipment, various measures are being taken, including among others strict, regular maintenance of extraction equipment and ancillary mechanization.
Noise levels are monitored by an independent accredited laboratory and results are submitted to municipalities in monthly reports. The construction of an anti-noise barrier in Ledvice was completed and measurements have confirmed that it is having a positive impact in the town, not only on noise, but also on dust levels.

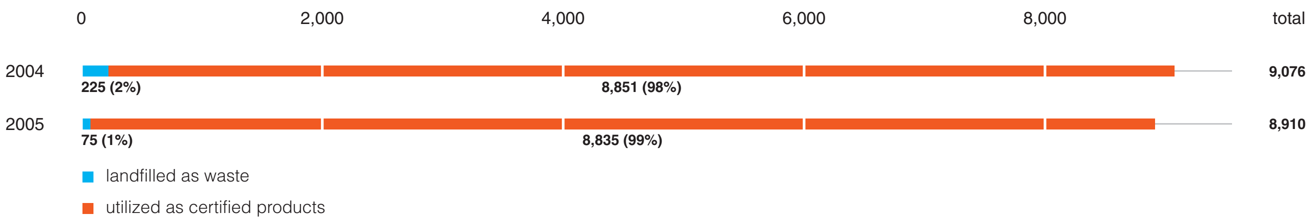
Integrated Pollution Prevention

In order to comply with the requirements set forth in Act No. 76/2002 Sb. on Integrated Prevention, CEZ Group obtained 9 out of a total of 12 integrated permits that it must have by 30 October 2007 in order to operate facilities that fall under the category "Combustion equipment with a nameplate heat input of over 50 MW". Permit applications have been completed for the remaining three facilities and during 2005 they were filed with the appropriate regional authorities, which have commenced administrative proceedings.
In conjunction with the fulfillment of requirements set by Act No. 76/2002 Sb. to record, assess, and report emissions and movements of pollutants in the Integrated Pollution Register of the Ministry of the Environment of the Czech Republic, on 15 February 2006 a disclosure report for 2005 was made through the Central Reporting Office for all CEZ Group coal and nuclear power plants.

Utilization of Energy Generation By-Products

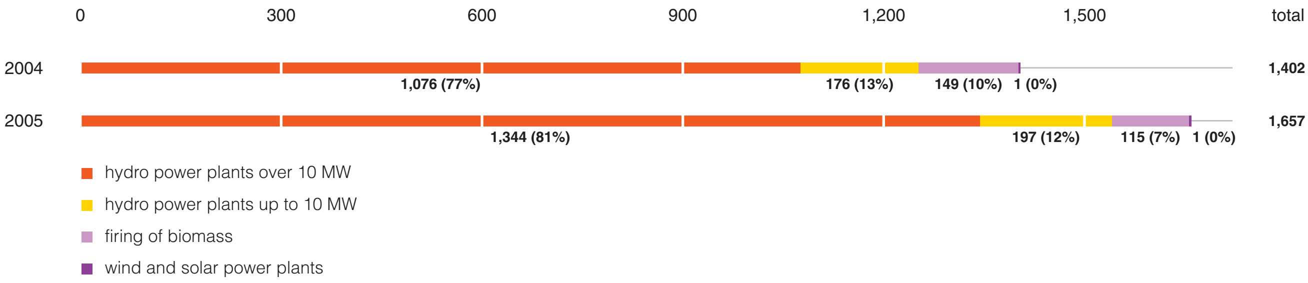
Energy generation by-products, the most important of which are ash, semi-dry FGD product, and synthetic gypsum produced by the wet limestone scrubbing FGD method, are used in various applications such as in reclaiming land affected by coal mining and in reclaiming settling ponds.
Certain components of ash are used to produce cement, concrete mixes, asphalt-based insulation materials, etc. Specially modified ash serves as a construction and sealing material.
In 2005, CEZ Group produced a total of 8.9 million tons of by-products from the generation of electricity and heat. Of the total amount so produced, over 99% was utilized in the form of certified products. Of the total percentage, 76% was used in reclamation and landscaping, and 23% was sold to outside companies. Unutilized energy generation by-products (67% less than in the previous year) were landfilled in accordance with the Waste Act.

Handling of Energy Generation By-Products (thousands of tons)



CEZ Group Electricity Generation from Renewable Energy Sources

Electricity Generation from Renewable Energy Sources (GWh)



CEZ Group – Electricity Generation from Renewable Energy Sources (MWh)

	2004	2005	Index 2005/2004 (%)
Hydro power plants total (pumped storage excluded)	1,251,828	1,541,642	123.2
ČEZ, a. s.	1,065,040	1,333,384	125.2
of which: plants with installed capacity up to 10 MW	53,917	58,153	107.9
Other CEZ Group members *)	186,788	208,258	111.5
of which: plants with installed capacity up to 10 MW	122,416	139,341	113.8
Wind power plants, total	536	474	88.5
ČEZ, a. s.	478	458	95.8
Other CEZ Group members **)	58	16	28.1
Solar power plants, total	7.85	7.16	91.2
ČEZ, a. s.	7.85	7.16	91.2
Firing of biomass, total	149,163	115,337	77.3
ČEZ, a. s.	149,163	115,337	77.3
Renewable energy sources, total	1,401,535	1,657,460	118.3
ČEZ, a. s.	1,214,689	1,449,186	119.3
Other CEZ Group members	186,846	208,274	111.5

*) ČEZ Obnovitelné zdroje, s.r.o. (formerly HYDROČEZ,a.s. and VČE - elektrárny, s.r.o.), Severočeská energetika, a.s., Západočeská energetika, a.s.
**) Nový Hrádek farm of wind power plants owned by Východočeská energetika, a.s.

Generation of electricity from renewable sources of energy in 2005 totaled 1,657 GWh (year-on-year increase of 18.3%), or 2.8% of total CEZ Group electricity generation. Most of this amount (93.0%) was generated by hydro power stations (not including pumped storage facilities), 6.9% was generated from biomass, and other techniques (wind and solar power plants) accounted for less than 0.1%.

The increased utilization of hydro power plants is due (aside from higher flow rates and the completion of repairs following the flood of 2002) to existing plants with installed capacity up to 10 MW, some of which have been completely overhauled to increase efficiency. CEZ Group power plants equipped with fluidized-bed and fire-grate boilers are engineered to enable firing of biomass. As renewable energy source utilization develops in the European Union, both in terms of technologies and structures, the most significant form of this energy that is emerging is biomass, which can take the form of wood chips, dedicated energy crops, or fuels obtained from these products.

The year-on-year decline in generation of electricity by firing biomass in mixture with coal to 115 GWh (by 22.7%) was caused by reduced support for this production, which caused a shortage of biomass at the lower price level.

RESEARCH AND DEVELOPMENT

ČEZ, a. s. and its subsidiaries outsource certain research projects. For this purpose, they prepare technical specifications and evaluations, verify progress, and provide documentation, technical information, data, measurement results, etc. as needed. Work in 2005 focused on the following:

- Nuclear power, including compiling project safety fundamentals down to the level of components in individual pieces of equipment at Temelín Nuclear Power Plant, technical support in the areas of reactor physics and thermohydraulics, safety analyses, a methodology for the new Gd-2 fuel type being used at Dukovany Nuclear Power Plant, a reactor surveillance program, applied research in nuclear power plant and equipment life cycles, etc. With the support of programs run by the Ministry of Industry and Trade of the Czech Republic, studies were undertaken, for example, to ensure long-term nuclear safety, increase useful life and operating efficiency of nuclear power plants in the Czech Republic, etc. With support from PHARE programs, a project is underway to qualify non-destructive testing and operational inspections.
- Conventional power, in particular the creation of a general model to simulate static regimes of fluidized-bed boiler operation – data gathering and creation of a model of boiler convection draft.
- Regional electricity distribution companies, including among other items an analysis of protection settings for parallel operation of 110 kV grids, evaluation of retroactive influences on equipment connected to the distribution grid, evaluation of distribution grid reliability, comparative mechanical tests of conductors, monitoring of ice build-ups on conductors and an analysis of mass remote control signal propagation.
- Coal mining R&D, which is focused on technical innovation, evaluation of overburden, and mine water (Severočeské doly a.s.).
- Other subsidiaries, including R&D on an advanced generating unit operation and maintenance planning system (ŠKODA PRAHA a.s.).

One of ČEZ's subsidiaries, Ústav jaderného výzkumu Řež a.s., occupies a special position within CEZ Group. Among other things, this institution has been hired by the Ministry of Industry and Trade of the Czech Republic to design a concept for a new nuclear power plant, increase the safety and effectiveness of conducting difficult and/or risk-classified human activities, R&D on new materials and techniques for treating radioactive and hazardous wastes, research into barriers for radioactive waste repositories, reactor physics experiments on improved reactor designs and new types of reactors, materials and technologies for fusion reactor components, hydrogen technologies for fuel cells, transportation and utilization for power generation, development of new-generation tools for implementing and intensifying the utilization of advanced types of nuclear fuels in nuclear reactors within Czech power plants.
Furthermore, this organization works for the Ministry of Health, Youth, and Physical Education of the Czech Republic, e. g. on an OECD – CABRI assignment (Transfer and application of Czech Republic science and technology results) and has been asked to propose ways to utilize the results obtained in the OECD Halden Reactor Project and those of the Czech Republic's research base in the EDFA program. It is also involved in the international research program Phebus FP, the LTD (Long Term Diffusion) project, in the utilization of research results, and in the targeted therapeutics center.

For the State Office for Nuclear Safety, Ústav jaderného výzkumu Řež a.s. is engaged in R&D work on a methodology for assessing the human factor in nuclear facilities operation, determining the actual course of radiation damage over the thickness of a VVER energy reactor pressure vessel wall, assessing the probability of a sudden compromise of the reactor pressure vessel, R&D on possibilities for mitigating risks and consequences of serious nuclear plant accidents in the Czech Republic based on advanced experimental and analytical methods, and developing software for evaluating the radiological consequences of serious accidents. Under a grant from the Czech Republic Grant Agency, the institute is conducting, e.g., an analysis of extraction methods of isolating fission products from nuclear waste. For the Ministry of Defense of the Czech Republic it is involved in tasks assigned through the national program of research, security, and defense.

Expenditures on R&D and on protection of copyright and other intellectual property rights
Total R&D expenditures in 2005 were CZK 233.1 million (of which ČEZ, a. s. accounted for CZK 149.6 million).

Fees paid by ČEZ, a. s. to register trademarks in 2005:

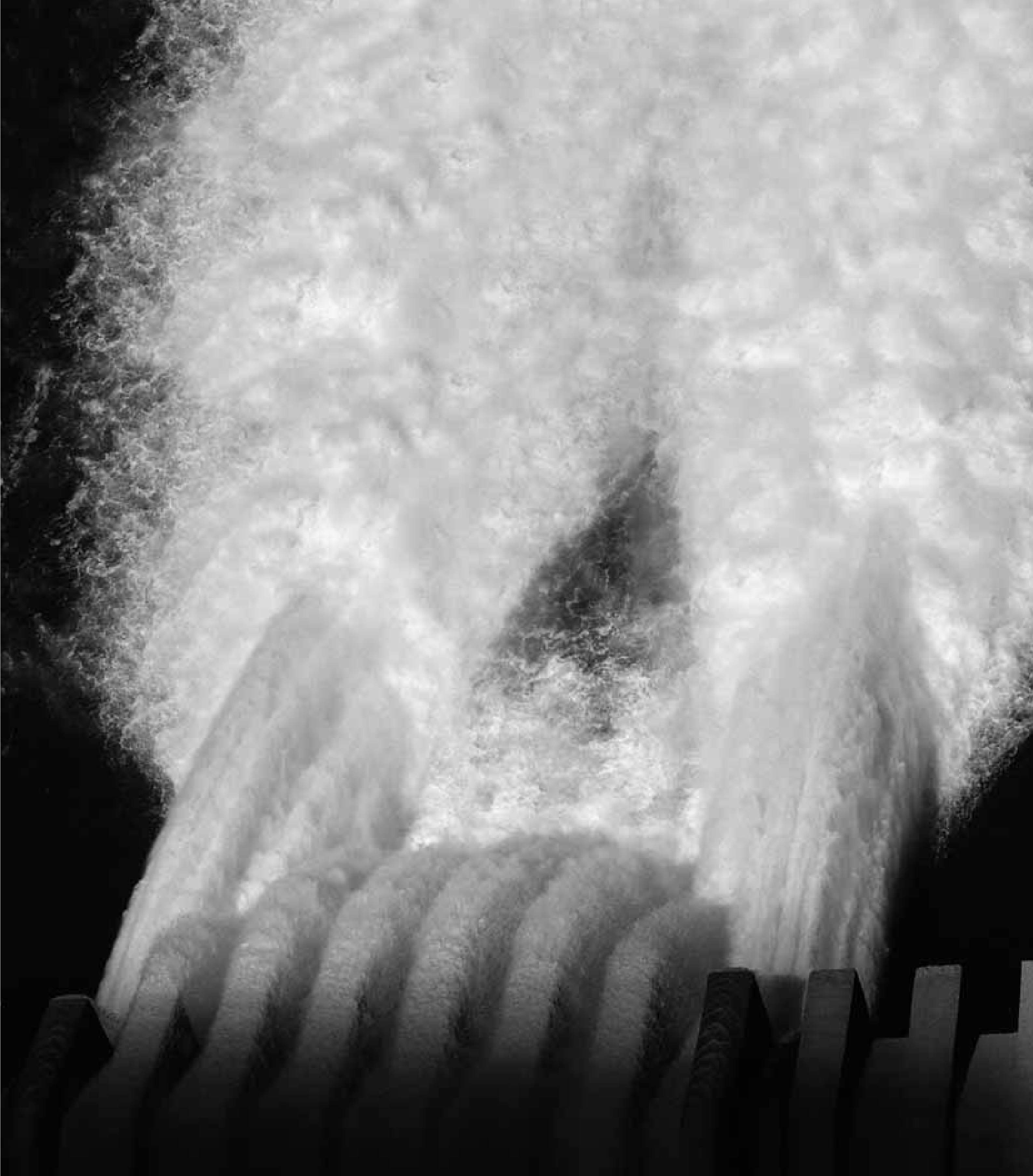
► Fees to patent representatives	198,000 CZK
► Fees to Industrial Property Office for registering trademarks, extending registrations, and trademark license fees in the Czech Republic	80,000 CZK
► International trademark registration fees to the International Bureau of the World Intellectual Property Organization in Geneva under the Madrid Treaty and individual registrations in individual States	119,000 CZK
► Total	397,000 CZK

Total fees paid by CEZ Group relating to trademark registrations in 2005: CZK 25.5 million.

Supplementary information regarding utilization of improvement proposals:

► Benefits from utilization of improvement proposals at ČEZ, a. s. in 2005:	134,000 CZK
► Rewards paid in 2005 based on improvement proposals utilized by ČEZ, a. s.:	58,000 CZK

PERFORMANCE



Over the past few years, the optimizing program has led to a major increase in generation productivity at ČEZ, a. s. power plants. While in 2000 the productivity figure was 467 MWh per employee per month, by 2005 it had risen to 749 MWh per employee per month. In just five years, then, productivity increased by nearly 60%. Long-term cost reductions and increasing efficiency are the cornerstones of CEZ Group’s success in the liberalized electricity market.

Currently, CEZ Group operates 2 nuclear power plants, 15 coal power plants, 34 hydro power plants including three pumped-storage hydro power plants, 2 sites with wind power plants and one photovoltaic (solar) power plant. The diverse portfolio of power plants allows the Group to react flexibly to customer demands, satisfy all their wishes and, at the same time, provide services necessary for reliable operation of the Power System.

STRATEGIC OBJECTIVES
OF CEZ GROUP

BRIEF POWER INDUSTRY DEVELOPMENT FORECAST FROM CEZ GROUP'S PERSPECTIVE

The Czech Republic's power sector will continue to develop on a backdrop of integration in the European Union economy. Through technical measures, the degree of interconnection with neighboring markets will increase and within the next few years we can expect to see wholesale electricity prices level out throughout Central Europe. The results of a sector inquiry conducted by the Commission in 2005 support the creation of a unified European electricity market. State regulation will continue to operate concurrently, to ensure that European Union Member States' economies are competitive, to protect consumers, and to protect the environment. This will result in continuing energy conservation measures.

In order to verify the availability of primary fuels in a situation where energy demand is rising and the business environment is forcing investors to be cautious, the European Commission is preparing to update the documents governing cooperation among Member States in energy policy.

As Europe does not possess sufficient primary energy resources or stockpiles, it is obvious that the associated risk can be mitigated only by appropriate diversification in global markets, resource types, and the geographic areas from which they originate. In view of recent irregularities in the supply of Russian natural gas, it is clear that the previous assumption that European Union Member States would depend on a single supplier and the outlook for reliable development of an energy industry based on this type of fuel will be subjected to review and policymakers will look into possibilities for broader use of nuclear energy. The energy policy of the United States of America will be led by similar priorities, including State-supported pilot projects for new developments in nuclear power.

In the years to come, the power industry will be substantially impacted by future decisions on how to regulate emissions of carbon dioxide and, to a lesser extent, other pollutants. The current state of political negotiations does not permit any prediction of whether the European emissions trading scheme will be expanded to the world's major polluters after 2012 or whether the European Union will compromise its approach to meet their less strict standards. In view of the role played by the choice of fuel and its emissions in the economics of capital expenditures, this uncertainty and the difficulty in predicting the future movements of oil and gas markets are two of the most serious problems currently faced by the European energy industry.

The Czech power industry is stabilized by the domestic brown-coal fuel base, a high proportion of nuclear power in electricity generation, and low dependence on imported fossil fuels. In order to increase the predictability of development in the coming decades, it is necessary to quickly come to a decision on the possible utilization of coal reserves that lie outside the "territorial extraction limits" and on the possible construction of a new nuclear power plant in the Czech Republic. Until these decisions are taken, several different plans for the Czech power industry's optimal development will have to be considered, to ensure all the alternatives are covered.

New UCTE rules allow transmission grid operators to agree to share responsibility for operation of a wider regional power system. This approach could become a major stimulus for further growth in energy sector economies in the region, thanks in particular to the possibility for individual plants to specialize more in providing particular energy products and decreased need for reserve generation capacity to ensure overall system reliability. However, this potential advantage and the business outlook in general are becoming more and more restricted by the load being placed on the Central European power system by the rapidly growing frequency and intensity of random electricity flows caused by sharp fluctuations in the output of wind power plants in northern Germany, which are impossible to regulate either commercially or even technically. Available transmission capacity will be further influenced by progress being made in bringing power plants in Poland and the Balkans up to current environmental standards.

Despite sufficient capital, the pace of consolidation in the ownership structure of the European power sector is expected to slow, with the exception of certain new Member States, due to the declining number of potential acquisition targets and increasing emphasis on protection of market competition.

CEZ GROUP BUSINESS POLICY

The Group's Business Policy, usually approved by the General Meeting, is one of the fundamental management documents of ČEZ, a. s. and, indeed, the entire CEZ Group. It defines the company's business framework, values, and goals along with the basic responsibilities of the company's governance bodies and senior management.

The principal mission of CEZ Group is to deliver its shareholders sustained, reasonable profits through successful business, primarily in the electricity market in the Czech Republic and abroad. This mandate will only be met if the fundamental vision – to become the leader in the electricity markets of Central and Southeastern Europe – is fulfilled. In addition to operating successfully in the regional electricity market, the means for achieving this goal may include, in particular, acquisition of ownership stakes in foreign power companies and/or secondary interests in companies that are already controlled by private owners in cases when the current owners change their core focus.
The key business activities of CEZ Group are the generation, purchase, distribution, and sale of electricity to end customers, including the provision of ancillary services. A large portion of revenues is generated by supplying electricity from the Group's efficient and economically viable in-house power plants, which are run at a high degree of reliability and with minimal safety risk and environmental impact. Optimizing of electricity generation and CO_2 emissions permit trading through the European trading scheme are both important aspects of our business. In nuclear plant operation, the highest priority is nuclear safety.

STRATEGIC OBJECTIVES OF CEZ GROUP

With the objective of fulfilling its strategy, CEZ Group will focus on the following most important initiatives:

- To complete the VIZE 2008 project, transitioning to the most effective system for managing the integrated CEZ Group in the Czech Republic and taking advantage of the successful launch of key subsidiaries in 2005 to fully leverage synergies. This will entail ensuring transparency at all levels of management and creating conditions for high performance through quality communication, thereby upholding the long-term prosperity of the company and all members of CEZ Group.
- To prepare for the retrofit of Czech fossil power plants and create conditions for extending the useful lifespans of our nuclear plants. 2005 was the first year of preparation for the comprehensive renewal of selected generating units, including Tušimice, Prunéřov, and part of Počerady Power Station, and the construction of new, supercritical generating units (with increased efficiency) with a total output of 660 MW in the Ledvice and Počerady Power Stations, based on cutting-edge technology. The useful lifespans of existing plants will be managed to ensure optimum economic utilization of available fuel reserves. In the event additional coal reserves are made available for exploitation, projects are being prepared for new generating facilities and options for building gas and/or black coal-fired plants will continue to be considered throughout. Conditions for the construction of new nuclear generating facilities will be analyzed. Periodically the program of capital expenditures will be updated to take into account new developments in the market and in environmental protection, regulation of CO_2 emissions in particular. ČEZ, a. s. plans to build a portfolio that will be fully utilizable and flexible to meet the needs of the internal electricity market in European Union Member States while respecting the necessity of ensuring safe, low-cost, and environmentally optimal supplies for the Czech Republic.
- To continuously integrate foreign subsidiaries, continue in the program of acquisitions in Central and Southeastern Europe, expand our activities in the international electricity market for all types of trades, and strengthen our presence in target countries through local representation offices.
- To continually build a corporate culture focused on performance.

Other tasks include:

- To maintain ČEZ's position in the heat supply market, and possibly enter into advantageous investments and/or acquisitions.
- To investigate and pursue practical and economically justifiable projects for utilization of renewable resources, especially in the areas of wind energy, biomass, and hydro power, as well as for reductions in CO_2 emissions both at in-house plants and through the Joint Implementation or the Clean Development Mechanism.
- To contribute as a respected partner to the creation of an effective business environment in the power sector in both the Czech Republic and the European Union.
- To continue to improve the company's media image, so that it is perceived as a reliable partner and serious competitor that efficiently utilizes its capabilities for the benefit of not only its shareholders and employees, but its suppliers and customers as well.

THE VIZE 2008 PROJECT

In mid-2004, CEZ Group integration efforts were intensified with the launch of the VIZE 2008 project, which is one of the three pillars supporting the implementation of the CEZ Group's vision – to be the leader in the electricity markets of Central and Southeastern Europe. To date this is the largest integration project in the power sector in Central Europe.

The principal objectives of VIZE 2008 for 2006 are focused on completing the transformation and beginning to steadily enhance performance.

ČEZ, a. s. + five Czech regional electricity distribution companies	2004 "Big Bang"	2005 Transformation	2006 Performance enhancing	2007 Project completion	2008 ČEZ, a. s. + ten process-based companies

Complete transformation of regional electricity distribution companies into new process-based companies

Wind up the regional electricity distribution companies

Enhance performance, implement CEZ Group best practices

As early as 2004, the project yielded a number of results, including a redesigned Group organization and the beginning of its implementation. Within CEZ Group, information technologies were spun off to ČEZData, s.r.o. and telecommunications services were outsourced to ČEZnet, a.s. Also, as of 1 January 2005, human resources management was centralized.

2005 – the year of transformation
2005 saw the biggest transformation related changes in CEZ Group. In a series of steps, a key portion of the assets, employees and functions of the five regional electricity distribution companies was transferred to newly established process-based subsidiaries and centralized departments of ČEZ, a. s.

Transfer of operations from regional electricity distribution companies to new established process-based companies

Regional electricity distribution companies	Newly established process-based companies					
	ČEZ Zákaznické služby, s.r.o.	ČEZ Měření, s.r.o.	ČEZ Logistika, s.r.o.	ČEZ Prodej, s.r.o. ČEZ Distribuce, a. s.	ČEZData, s.r.o. ČEZnet, a.s.	ČEZ Správa majetku, s.r.o. ČEZ Distribuční služby, s.r.o. ČEZ Obnovitelné zdroje, s.r.o.
Severočeská energetika, a.s.	1 May – 1 Jul 2005	1 Jun 2005	1 Nov 2005	1 Nov 2005	1 Jan 2005	1 Jul 2006
Severomoravská energetika, a. s.	1 Jul 2005	1 Jun 2005	1 Jul 2005	1 Jan 2006	1 Jan 2005	1 Jul 2006
Středočeská energetická a.s.	1 Jun – 1 Jul 2005	1 Jun 2005	1 Dec 2005	1 Dec 2005	1 Jan 2005	1 Jul 2006
Východočeská energetika, a.s.	1 Apr – 1 May 2005	1 Jun 2005	1 Oct 2005	1 Oct 2005	1 Jan 2005	1 Jul 2006
Západočeská energetika, a.s.	1 Jan 2005	1 Jun 2005	1 Sep 2005	1 Sep 2005	1 Jan 2005	1 Jul 2006

Between January and July, a portfolio of 3.4 million customers was transferred from the Group's five regional electricity distribution companies to ČEZ Zákaznické služby, s.r.o. Thus, as of 1 July 2005, household and small business customers are served from a single location, bringing increased quality and more efficient customer care.
Effective 1 June 2005, electricity metering activities were spun off from all the CEZ Group's regional electricity distribution companies to the new process-based company ČEZ Měření, s.r.o. While most employees remain in their home regions, under the new organization setup, procedures are determined and operations managed from a single location for the entire CEZ Group.
On 1 July 2005, ČEZ Logistika, s.r.o. began providing selected procurement services for Severomoravská energetika, a. s. During the autumn, ČEZ Logistika, s.r.o. took over procurement services from the other electricity distribution companies and today it handles all CEZ Group purchasing in the distribution service area.
In one-month cycles over the second half of 2005, the Sales and Distribution operations of the regional electricity distribution companies were transferred, as capital contributions consisting of parts of the respective enterprises, to the newly established process-based companies ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s. This achieved the separation of the licensed distribution function from sales, thereby meeting the statutory "unbundling" requirement. Subsequently, as of 1 December 2005, the ČEZ, a. s. units involved in sales of electricity were folded into ČEZ Prodej, s.r.o. The process of separating distribution operations culminated on 28 February 2006, when an increase in the stated capital of ČEZ Distribuce, a. s. to reflect the part-of-enterprise capital contributions was recorded in the Commercial Register.

2005 also saw the centralization of financial, accounting, and tax services within CEZ Group. The financing functions of all the regional electricity distribution companies were folded into ČEZ, a. s. as of 1 July 2005 and the accounting and tax functions followed as of 1 January 2006. Also as of 1 July, a central CEZ Group risk management department was created.
As of 1 January 2006, all external and internal communications functions were transferred from the regional electricity distribution companies to ČEZ, a. s. and the centralization of IT administration was completed by transfer of the corresponding part of the ČEZ, a. s. enterprise to ČEZData, s.r.o.
In order to meet the targets, intensive and continual work with the employees was necessary. During the reorganization, employees from the Group were given priority in filling vacancies in the new companies, and internal job searches were conducted. Labor organizations were given regular updates of the reorganization's progress, and the valid Collective Agreements and the Labor Code were complied with strictly at all times.
A merger of ČEZ Obnovitelné zdroje, s.r.o. and HYDROČEZ,a.s. was completed on 31 December 2005.

Objectives for 2006
The transformation of the regional electricity distribution companies will be completed in 2006, when their remaining employees, businesses and assets will be transferred to ČEZ Distribuční služby, s.r.o., ČEZ Správa majetku, s.r.o., and ČEZ Obnovitelné zdroje, s.r.o. Also, the VIZE 2008 project will focus on further increasing performance and implementing best practices in the new companies and centralized departments of ČEZ, a. s.
In 2006, CEZ Group begins a process of divesting itself of stakes that lie outside the Group's declared core business framework, as well as activities that can be sourced using outside suppliers. The Group will be assisted in this process by a leading investment bank operating in the Czech Republic and selected in a tender, and by other specialized firms.

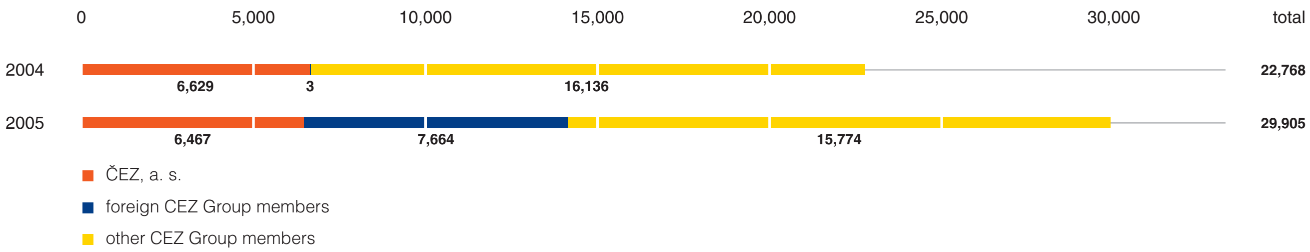
ANTICIPATED ECONOMIC AND FINANCIAL SITUATION IN 2006

In 2006, ČEZ will continue to manage its portfolio of power plants by optimizing electricity generation and selling CO_2 permits while leveraging the experience gained in the first year in which operations were conducted in this manner. The foundations for the 2006 earnings were laid in the electricity sales campaign that took place in the second half of 2005.
For 2006, CEZ Group's goal within the VIZE 2008 project is to complete the reorganization and optimize the activities of the new process-based companies by implementing best practices. The portfolio of domestic equity holdings will be streamlined and certain activities that are readily available in the market will no longer be sourced within CEZ Group.
Acquisitions, of foreign targets in particular, will continue to play a major role in 2006. In the companies that joined CEZ Group in 2005 (Bulgarian and Romanian distributors and Severočeské doly a.s. in the Czech Republic), business processes will be gradually aligned with Group best practices. In 2006 we expect to see the addition of more companies such as the Polish black-coal power plants ELCHO and Skawina, the purchase agreements for which were signed in late January 2006, the Varna black-coal power plant in Bulgaria (deal currently being negotiated), as well as others arising from ongoing and anticipated tenders in Central and Southeastern Europe.
In preparation for the renewal of coal power plants, in 2006 we expect to sign basic contractual documents for the retrofit of a total of eight 200 MW generating units in the Tušimice II and Prunéřov II Power Stations. A project for a new 660 MW unit at Počerady Power Station, similar to the already approved project for Ledvice Power Station, is being submitted for approval in April 2006.
In 2006 CEZ Group expects to further improve its financial performance. For example, EBIT is projected to grow by 25% to CZK 36.8 billion accompanied by a 16% anticipated increase in EBITDA (EBIT + Depreciation and Amortization), bringing that indicator to CZK 58.1 billion. CEZ Group net income is forecasted at CZK 26.7 billion, an improvement of 20%. The principal factors we see contributing to earnings growth are: first, an improvement in the gross margin on production and trade and, second, savings brought about by the ongoing VIZE 2008 project. The growing international side of the business (Bulgaria, Romania and, possibly, Poland) is expected to contribute at least CZK 2 billion to Group EBIT.
CEZ Group expects to incur approximately CZK 23 billion in capital expenditures in 2006, slightly under CZK 10 billion of which by the parent company. Subsidiaries are planning capital expenditures of over CZK 13 billion, and CZK 3 billion of that is attributable to foreign companies. Total M&A expenditures will probably be determined by successes in ongoing and upcoming tenders.
Similarly, we are expecting the parent company, ČEZ, a. s., to post improved earnings results: EBIT is projected to rise 33% to CZK 26.1 billion and EBITDA by 16% to CZK 38.7 billion, with net income to grow by 15% to over CZK 20.3 billion.

CEZ GROUP
HUMAN RESOURCES

Work Force Size and Structure
The overall employee head count of the 36 fully consolidated CEZ Group companies (ČEZ, a. s., and 35 subsidiaries) as of 31 December 2005 numbered 29,905 persons. This represents a year-on-year increase of 7,137, primarily as a result of the acquisition of distribution companies in Bulgaria and Romania. In accordance with the "pooling of interests" principle, Severočeské doly a.s. is shown as if it had been a member of CEZ Group in 2004.

Employee Head Count as of December 31 of the Given Year



Corporate Culture
The company's culture is based on the business strategy and the CEZ Group fundamental principles which determine the standards of behavior expected of employees and rules, written and unwritten.

The fundamental principles are seven:
- creation of value,
- individual accountability for achieving ambitious results,
- building of a sense of community within CEZ Group,
- development of human potential,
- creation of an international organization,
- acceptance of constant change,
- moral integrity.

Important elements in the development of corporate culture are: strengthening of a sense of community and cooperation among all companies within CEZ Group, utilizing the potential of each employee to the fullest, and focusing on performance.

Training Program
The aim of the training and development system is to encourage and build teamwork, professionalism, and each employee's personal quality. Training of nuclear power plant personnel forms a special part of the program – in addition to systematic in-house training, a number of ancillary international programs were implemented under the auspices of the State Office for Nuclear Safety, the International Atomic Energy Agency, and the World Association of Nuclear Operators.
In the VIZE 2008 project, knowledge transfer and learning were given maximum support and encouragement in the organizational changes, which placed high demands on transferred employees, many of whom saw their jobs change significantly.

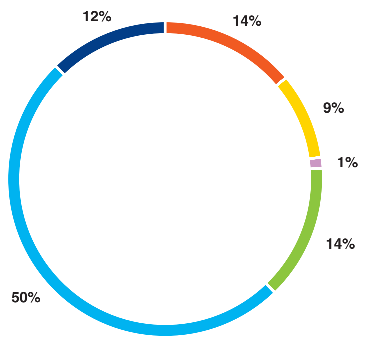
Social Policy
CEZ Group employee benefits cover a wide range, including monetary and non-monetary items such as wage components, a 37.5 hour work week, an extra week of paid vacation per year, paid personal days above and beyond what is required by law, personal accounts to pay for recreational sojourns, electricity contributions, Supplemental Pension Insurance contributions linked to the number of years the employee has worked in the power sector, life insurance, an employee meal plan, and, in extraordinary cases, one-off social aid grants.
In 2005, Collective Agreements were signed by the newly established process-based companies.

DONORSHIP
AND SPONSORSHIP PROGRAM

CEZ Group is one of the largest corporate donors in the Czech Republic and in 2005 it was ranked first in the TOP CORPORATE PHILANTHROPIST competition in terms of the absolute amount of funds distributed. In 2005 alone, CEZ Group donated CZK 220.5 million to various public-benefit causes.
CEZ Group's sponsorship partner is ČEZ Foundation, which was established in 2002 under its original name, the "Duhová energie" Foundation, and which commenced operating in February 2003. In addition to children and youth projects, the Foundation supports handicapped citizens and its donations help to finance projects relating to education, science and research, culture and the arts, sports, health care, social needs, and the environment.
Through the Foundation, the companies of CEZ Group donated a total of CZK 159.1 million in 2005.

ČEZ Foundation – Distribution of Sponsorship Donations by Cause in 2005

- ČEZ Foundation for the needy
- ČEZ Foundation for culture and the arts
- ČEZ Foundation for the environment
- ČEZ Foundation for regional development
- ČEZ Foundation for children and youth
- ČEZ Foundation for health



ČEZ Foundation's largest projects included:
- "We help where we operate" – a project to support regions – received a total of CZK 88.2 million from ČEZ Foundation in 2005,
- support for the construction of new playgrounds for children and sports facilities – since the project commenced in 2002, forty facilities have been built and CEZ Group has donated a total of CZK 78 million, CZK 24 million of which in 2005 alone,
- the "Orange Bike" program in which the performance of volunteer cyclists is converted into cash donations to support social care institutions and orphanages; total expenditures for this project in 2005 were CZK 3.2 million,
- nationwide projects selected by ČEZ Foundation in the areas of health care, culture and the arts – total distribution CZK 43.7 million.

In addition to the parent company, ČEZ, a. s., all the CEZ Group regional electricity distribution companies contributed to ČEZ Foundation in 2005. Starting in 2006, the obligations of the regional electricity distribution companies are being taken over by the newly established companies ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o., as well as other CEZ Group companies such as I & C Energo a.s.
ČEZ Foundation entered 2006 in new, orange colors which symbolize energy.

In addition to supporting ČEZ Foundation, CEZ Group companies contributed CZK 61.4 million to the following:

► regional development	CZK 18.2 million
► health care, social and charitable causes	CZK 18.0 million
► leisure time, youth, sports	CZK 8.9 million
► science and education	CZK 6.8 million
► culture and the arts	CZK 6.5 million
► Bulgaria flood rebuilding effort	CZK 3.0 million

In view of planned retrofits of fossil power plants and brown coal mining (Severočeské doly a.s.), CEZ Group pledged to support the North Bohemia region by investing CZK 100 million per year to develop it over the next 10 years.
ČEZ, a. s. supported the introduction of an international system for evaluating corporate donorship in the Czech Republic. Thanks to this initiative, the first evaluations of donors pursuant to the relevant international standard took place in 2005.

Advertising Projects
CEZ Group is a major advertising partner of the following projects:
Karlovy Vary International Film Festival, International Film Festival for Children and Youth (in Zlín), České divadlo, Prague State Opera, ČEZ Koloseum – tennis courts on Prague's Štvanice Island, Zlatá tretra, ČEZ Basketball Nymburk, ČEZ Arena Vítkovice, ČEZ Arena Plzeň, ČEZ Arena Pardubice.
In addition to regional projects, CEZ Group also sponsors major nationwide projects such as the Czech Athletics Union and the Czech Olympic Team.

LITIGATION

The companies of CEZ Group were not and, as of the Annual Report closing date are not, involved in any litigation that could have a material impact on their earnings.

Czech Republic

ČEZ, a. s.

1. 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 Holcim (Slovakia) a.s. continued to take legal action aiming to nullify measures taken by ČEZ, a. s. Once again, it formally withdrew from a 1997 agreement entered into with ČEZ, a. s. For its part, ČEZ, a. s. filed suit with the Prague Arbitration Court seeking to have the complainant's withdrawal from said agreement declared null and void.
2. Active litigation, commenced in 1997, with certain regional electricity distribution companies seeking payment of contractual penalties or late-payment interest:
   - 2.1 In early 2006, the Prague High Court decided an appeal filed by the defendant, Pražská energetika, a.s., against a decision of the Prague Municipal Court ordering it to pay ČEZ, a. s. CZK 49.2 million. The Prague High Court granted the appeal of Pražská energetika, a.s. and rejected ČEZ's suit. ČEZ, a. s. intends to appeal this decision to the Supreme Court.
   - 2.2 An amicable settlement was reached at the Olomouc High Court between ČEZ, a. s. and Jihomoravská energetika, a.s. under which the defendant's legal successor, E.ON Česká republika, a.s., paid ČEZ, a. s. an amount of CZK 38.5 million.
   - 2.3 In a dispute with Severomoravská energetika, a. s., the Olomouc High Court approved an amicable settlement under which Severomoravská energetika, a. s. paid ČEZ, a. s. CZK 19.3 million.
3. Proceedings ongoing before Austrian courts based on suits filed by Austrian entities were suspended indefinitely during the year in question, until the Court of Justice of the European Communities decides a preliminary issue regarding the jurisdiction of Austrian courts. At the Court of Justice, an opinion of the General Advocate was heard, according to which Austrian courts have jurisdiction over the matters in question. Should the Court take his opinion as its own, Austrian courts would decide on the merits of the suits in question.
4. In a court dispute in which the complainant, VÍTKOVICE, a.s., is suing ČEZ, a. s. for CZK 36.8 million plus interest, the Prague High Court nullified the initial decision of the Prague Municipal Court and returned the case to that court for retrial. The subject matter of the dispute is an amount that ČEZ, a. s. offset against a debt owed by the complainant. The debt was for a contractual penalty that arose due to the complainant's failure to provide contractual performance on time.

ČEZ Prodej, s.r.o.

Mr. Milan Grozdík filed suit with the Hradec Králové Regional Court for compensation of CZK 1 billion in damages allegedly caused by non-supply of electricity. The court is currently examining its jurisdiction in the matter, and no hearing date has been set. The respondent deems the suit entirely baseless.

I & C Energo a.s.

In 2001, I & C Energo sued Dalkia Morava, a.s. (current name is Dalkia Česká republika, a.s.) for failure to pay an amount of CZK 2.1 million for an unreturned security deposit. In the same manner, Dalkia Morava is suing I & C Energo a.s. for CZK 3.1 million and CZK 7.1 million for failure to comply with agreed parameters and lost income, respectively. These cases are still pending.

ŠKODA PRAHA a.s.

1. ŠKODA PRAHA a.s. filed a suit against ŠKODA POWER s.r.o. seeking payment of CZK 30.9 million for defective performance. So far, no hearing has been ordered. In 2004, another two suits were filed, for CZK 10.4 million and CZK 15.4 million in damage compensation due to defective performance. On 2 November 2004, an agreement was reached on a settlement of all three suits. Once the terms stipulated in the agreement are met, the company is planning to withdraw the lawsuits.
2. ŠKODA PRAHA a.s. filed suit against ČKD PRAHA DIZ, a.s., seeking CZK 16.0 million for an unpaid loan. The respondent filed a countersuit for CZK 12.4 million, 84% of which is for an alleged unauthorized offset and the remainder is for unjustified withholding of a security deposit. Currently proceedings have been suspended temporarily in an attempt to reach an amicable settlement.
3. ENERGO KD s.r.o. (formerly Králodvorské železárny ENERGO s.r.o.) filed suit against ŠKODA PRAHA a.s. for payment of approximately CZK 51 million, which it later reduced to CZK 48.9 million. ŠKODA PRAHA a.s. considers the claim unjustified.
4. JUDr. Jaroslava Vaňková filed suit against ŠKODA PRAHA a.s. seeking payment of CZK 4.6 million for legal services. ŠKODA PRAHA a.s., for its part, filed suit against JUDr. Jaroslava Vaňková for CZK 20.9 million on the grounds of unjustified enrichment committed by receiving performance under an absolutely invalid contractual understanding. The company further proposed that the court reject JUDr. Jaroslava Vaňková's suit. In January 2006 an interim decision was issued affirming the legal basis of JUDr. Jaroslava Vaňková's suit.

Středočeská energetická a.s.

1. Středočeská energetická a.s. filed suit against Pražská energetika, a.s. for payment of CZK 172 million for electricity transmission and reserved capacity in 2001. The suit is pending.
2. Mr. Roman Minarik and KOR BUSINESS Ltd. have filed a lawsuit against Středočeská energetická a.s. in which they are asking the court to declare null and void a resolution of the General Meeting of 5 August 2005 on passage of remaining shares to the principal shareholder. They are further asking the court to declare null and void a resolution of the General Meeting of 17 October 2005 on transfer of the "Sales" and "Distribution" parts of the enterprise to ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s., respectively, as capital contributions.

Romania

1. S.C. VALNEFER Rm. Valcea is suing Electrica Oltenia S.A. for RON 23.1 million (CZK 184.8 million) in damages due to a power outage.
2. Electrica Oltenia S.A. appealed against the tax authority, which is demanding payment of RON 12.8 million (CZK 102.3 million) in back development taxes, including interest.
3. Further, Electrica Oltenia S.A. is involved in litigation seeking payment of RON 3.3 million (CZK 25.7 million) owed by the company SNIF for electricity. Similar litigation seeks RON 2.1 million (CZK 16.7 million) from the company EDILUL Alexandria.

Bulgaria

1. Elektrorazpredelenie Stolichno EAD is involved in litigation with the Bulgarian tax authority concerning a total of BGN 1.4 million (CZK 20.6 million) in back taxes for the years 2000–2002. However, on 31 December 2005 the court ordered it to pay another BGN 0.7 million (CZK 10.2 million) in interest on the back taxes.
2. Elektrorazpredelenie Sofia Oblast EAD is suing the tax authority seeking a refund of BGN 4.0 million (CZK 59.3 million) in VAT for 2004 due to an unclear interpretation of regulation of technological losses.
3. Elektrorazpredelenie Pleven EAD is suing the tax authority for BGN 2.6 million (CZK 38.6 million) in VAT. The tax authority did not recognize work clothing expenditures for tax purposes in the 2002–2003 tax period.


PACE

During 2005, the ČEZ, a. s. share price grew by 116%, from CZK 341 to CZK 736, and the market value of the company's assets for shareholders grew by CZK 232 billion. CEZ Group revenues were up 21.8% year-on-year, i. e. to a total of CZK 125.1 billion. Electricity revenues, including ancillary services, comprise 93% of CEZ Group revenues and they grew at a similar rate, by 25.8% to CZK 115.9 billion. Operating income increased by CZK 9.6 billion, or 48.6%, to CZK 29.4 billion. Consolidated net income was CZK 22.3 billion, up 56.2% from the previous year.

ACTIVITY AREAS
OF CEZ GROUP

CZECH REPUBLIC

Business Environment in the Power Sector

The process of liberalizing the electric power sector began on 1 January 2002 and, as of 1 January 2006, the electricity market is fully open. In 2005 the market was opened to all participants except households.

The market is based on regulated third-party access to the transmission and distribution grids.

As required by law, activities that represent a natural monopoly are separate – in CEZ Group, distribution operations have been spun off to a separate company, ČEZ Distribuce, a. s., and transmission operations are the domain of an independent, separate, State-controlled company, ČEPS, a.s.

Electricity producers, including ČEZ, a. s., have been subject to full competition ever since the beginning of 2002. As a result, electricity price levels in the domestic market are heavily influenced by prices in neighboring countries, especially Germany, whose market is very liquid.

The bulk of electricity trading takes place under bilateral contracts. In CEZ Group, these are one-year contracts, as a rule.

In the spot market run by OTE (Operátor trhu s elektřinou, a.s.), relatively smaller volumes of electricity are traded to top off trading diagrams.

OTE evaluates, offsets, and settles deviations between actual and contracted-for values of electricity purchase and supply. Since 2002, the Czech Republic's system of electricity trading has been expanded to include a commodities exchange and, since 2004, there is also the option of utilizing the Intra-day Market and the Balancing Market for regulation work.

Development of the Power Industry Legislative Framework

Of fundamental legislative importance for the business of ČEZ, a. s. is the Commercial Code (Act No. 513/1991 Sb.), as amended. After undergoing extensive revisions in past years, 2005 saw this key law stabilized, bringing a greater degree of legal certainty to the area of business law. The only substantial change in 2005 was Act No. 216/2005 Sb., which amended the portion of the Commercial Code relating to the Commercial Register.

In the power sector, the legislative framework continues to be based primarily on the following: Act No. 458/2000 Sb. (the Energy Act) and the amendment thereto, Act No. 670/2004 Sb., Act No. 406/2000 Sb. (the Act on Energy Management), Act No. 18/1997 Sb. (the Nuclear Act), and the new Act No. 180/2005 Sb. on Promotion of Electricity Produced from Renewable Sources. Also passed in 2005 was the new Act No. 472/2005 Sb., a consolidated version of Act No. 86/2002 Sb. (the Clean Air Act), as amended by Act No. 521/2002 Sb., Act No. 92/2004 Sb., Act No. 186/2004 Sb., Act No. 695/2004 Sb., Act No. 180/2005 Sb., and Act No. 385/2005 Sb. – the Clean Air Act stipulates conditions for air protection related to the operation of fossil power plants.

Other laws that have been passed in prior years that have a direct impact on the company's business include, in particular, Act No. 100/2001 Sb., on Environmental Impact Assessment, Act No. 185/2001 Sb. on Waste, which was amended by Act No. 7/2005 Sb., Act No. 76/2002 Sb. on Integrated Prevention, Act No. 86/2002 Sb. (the Clean Air Act), and Act No. 254/2001 Sb. (the Clean Water Act), all as amended.

In the year in question, additional supplementary regulations implementing Act No. 458/2000 Sb., as amended, were promulgated. These, together with decrees already promulgated and commented on in previous years, are gradually supplementing and updating the legislative framework of the power sector in the conditions of the liberalized market.

Implementing decrees promulgated by the Ministry of Industry and Trade of the Czech Republic:

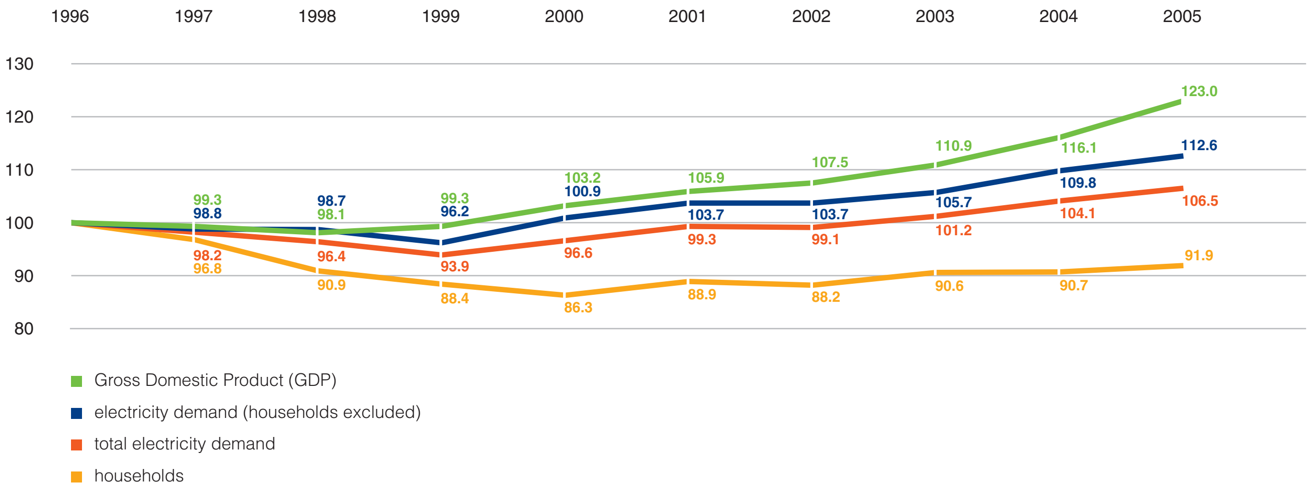
- Decree No. 326/2005 Sb. amending Decree No. 218/2001 Sb., which stipulates details concerning electricity measurement and transfer of technical data, as amended by Decree No. 450/2003 Sb.,
- Decree No. 439/2005 Sb., which stipulates details concerning the method for determining the amount of electricity from combined heat and power generation and determining the amount of electricity from secondary energy sources,
- Decree No. 478/2005 Sb. amending Decree No. 150/2001 Sb., which in implementation of Act No. 406/2000 Sb. on Energy Management stipulates the minimum efficiency for utilizing energy.

In 2005, Act No. 695/2004 Sb. on the Conditions for Trading in Greenhouse Gas Emission Permits with its related implementing Decree of the Ministry of the Environment No. 696/2004 Sb., which stipulates the procedure for determining, reporting, and verifying the amount of greenhouse gas emissions, was expanded with the addition of Government Directive No. 315/2005 Sb. on the National Allocation Plan of the Czech Republic for the Years 2005–2007.

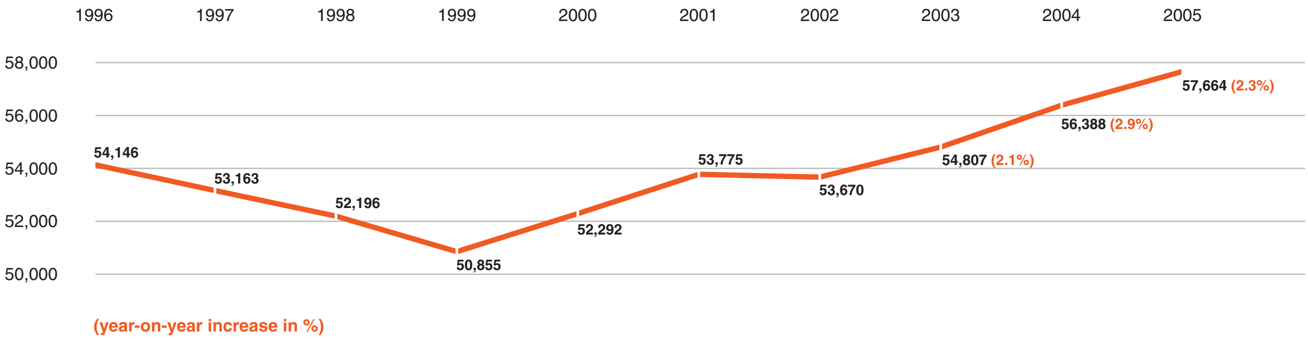
The legal framework for doing business and conducting State administration in the energy sectors is determined by Act No. 91/2005 Sb. Detailed rules for organizing the electricity market in the Czech Republic are set forth in Decree of the Energy Regulatory Authority No. 541/2005 Sb., which stipulates rules for organizing the electricity market, price setting principles, and activities of the market operator.

Selected Czech Republic Macroeconomic Indicators Over Time

Comparison of Czech Republic GDP Growth and Electricity Demand Growth (index, 100% = 1996)

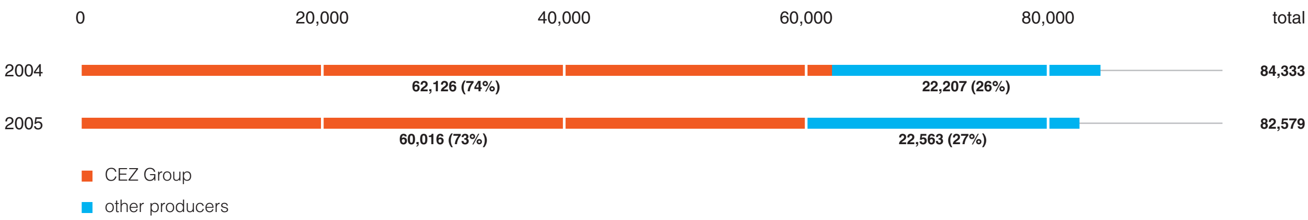


Czech Republic Electricity Demand (GWh)



2005 saw a continuation of the trend toward higher demand for electricity; demand was up 2.3% primarily as a result of increased industrial consumption. The average annual growth in electricity demand in the years 1999 through 2005 was 2.1%. CEZ Group expects average annual growth of approximately 2% in the next few years.

Czech Republic Electricity Generation, Gross (GWh)



ČEZ, a. s.

The joint stock company ČEZ was established by the National Property Fund of the Czech Republic, as sole founder, under a Founder's Deed (containing a decision of the founder pursuant to Section 172(2), (3) and 171(1) of Act No. 513/1991 Sb., the Commercial Code) dated 30 April 1992 in the form of a notarial record. The joint stock company ČEZ was incorporated on 6 May 1992 by registration in the Commercial Register. The majority shareholder of ČEZ, a. s. in 2005 was the National Property Fund of the Czech Republic (NPF CR). Upon the NPF CR's dissolution effective 1 January 2006, the equity stake owned by it passed to the State and has been administered by the Ministry of Finance of the Czech Republic since the same date.
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 generation, distribution, and sale of heat. The Articles of Association give a more detailed description of the core businesses.

ČEZ, a. s. – Key Figures (IFRS individual)

	Units	2004	2005	Index 2005/2004 (%)
Installed capacity	MW	12,153	12,153	100.0
Electricity generated	GWh	61,602	59,470	96.5
Electricity sold	GWh	62,734	59,613	95.0
Electricity purchased	GWh	6,802	5,920	87.0
Heat sold	TJ	8,216	7,856	95.6
Employee head count at December 31	persons	6,629	6,467	97.6
Operating revenues	CZK millions	62,214	67,644	108.7
of which, e.g.: electricity revenues	CZK millions	54,704	58,937	107.7
revenues from ancillary and other services relating to electricity sales	CZK millions	5,293	6,262	118.3
EBITDA	CZK millions	26,723	33,379	124.9
EBIT	CZK millions	12,888	19,609	152.1
Net income	CZK millions	10,392	17,635	169.7
Earnings per share – basic	CZK/share	17.6	29.9	170.2
Dividend per share, gross *)	CZK/share	8.0	9.0	112.5
Total assets	CZK millions	255,496	274,208	107.3
Shareholders' equity	CZK millions	162,477	174,276	107.3
Debt	CZK millions	39,880	38,250	95.9
Capital expenditure (CAPEX)	CZK millions	10,834	7,701	71.1
Financial investments **)	CZK millions	18,110	17,450	96.4
Operating cash flow	CZK millions	24,261	32,202	132.7
Return on Invested Capital (ROIC)	%	4.4	7.4	170.5
Return on Equity (ROE), net	%	6.6	10.5	158.9
Return on Assets (ROA), net	%	4.1	6.7	161.4
EBIT margin	%	20.7	29.0	139.9
EBITDA margin	%	43.0	49.3	114.9
Debt/equity	%	24.5	21.9	89.4
Total indebtedness, provisions excluded	%	23.9	22.4	93.7
Long-term indebtedness	%	14.9	11.2	75.0
Current ratio	%	75.4	75.6	100.2
Operating cash flow-to-liabilities ratio	%	36.0	48.5	134.8
Assets turnover	1	0.25	0.26	103.4
Coverage of non-current assets	%	98.6	98.1	99.4
Extent of depreciation	%	42.2	44.8	106.1

*) Paid for the previous year.
**) Acquisitions of subsidiaries and associates less cash purchased in said acquisitions.

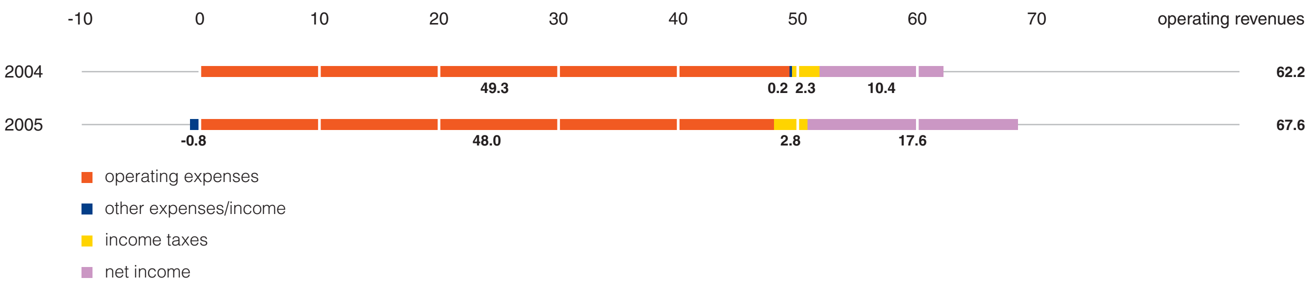
The values of the "return on" indicators reflect the high growth in earnings. Indebtedness, which has long remained at very low levels, continued to fall in 2005. The company generates strong cash flows from operating activities and thanks to them and higher revenues, it was able to accelerate assets turnover. Extent of depreciation grew slightly as the pace of depreciation was faster than that of new capital expenditures.

ČEZ, a. s. FINANCIAL PERFORMANCE COMMENTARY

Revenues, Expenses, Income

Earnings in 2005 reflect positive developments in both the operating and financial sides of the company's performance.

Revenues, Expenses, Income (CZK billions)



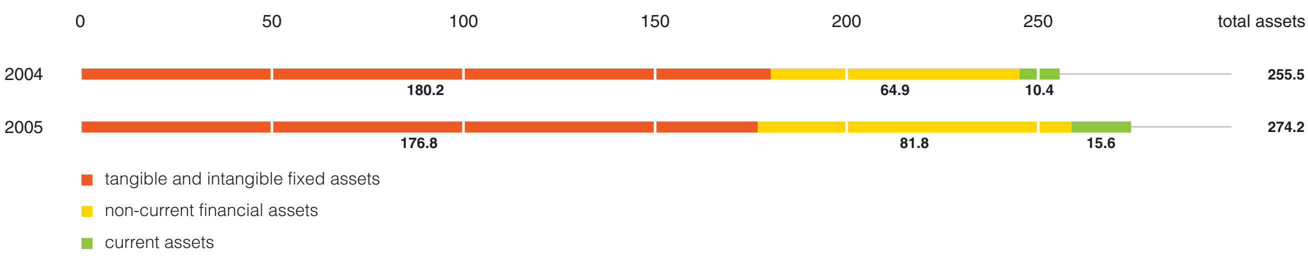
Operating income was up year-on-year (by 52.1%) thanks to higher electricity and ancillary service revenues (by 8.7%) accompanied by a drop in operating costs (by 2.6%). In order to optimize the sales margin, the company in 2005 utilized CO_2 emissions permit arbitrage, which reduced exports while maintaining growth in sales for domestic consumption. In the overall revenues structure, sales of electric power grew – despite lower volumes – due to higher prices. The average selling price was up 14.5% year-on-year. Electricity export revenues declined as the drop in direct export volumes exceeded the impact of price growth. The highest sales revenue growth was seen in the electricity distributors category (up CZK 3.8 billion or 11.0%). ČEZ, a. s. cut foreign proprietary electricity trading by nearly one half (down 0.9 TWh or 46%); this resulted in declines both in revenues (by CZK 0.6 billion or 36.6%) and electricity purchase costs (by CZK 0.7 billion or 42.7%). Ancillary service revenues grew by CZK 1.0 billion (18.0%), due primarily to higher sales to ČEPS, a.s. and new sales of ancillary services in Slovakia.

Operating costs fell year-on-year by CZK 1.3 billion (2.6%). A major contributing factor here, accounting for approximately CZK 1.0 billion, is the sale of emission permits, which among other things made it possible to optimize electricity generation at a level lower than the previous year's. This also led to decreased fuel costs (down CZK 0.2 billion or 1.2%). The CZK 1.5 billion drop in the cost of procuring electricity and related services is given by the already mentioned cut in proprietary trading outside the Czech Republic and, further, by a CZK 0.8 billion change in the fair value of derivatives used in the procurement of electricity. Also down were repairs and maintenance costs (by CZK 0.3 billion or 8.3%), while personnel costs rose by CZK 0.5 billion (10.4%) and other operating expenses increased by CZK 1.3 billion (43.4%), particularly in the areas of services (by CZK 0.4 billion) and nuclear provisioning (by CZK 0.5 billion).

The financial area improved year-on-year by CZK 1.0 billion, thanks primarily to dividends received (CZK 4.1 billion, up CZK 2.4 billion from the previous year). A CZK 2.2 billion drop in the balance of foreign currency losses and gains is nearly offset by opposite movement in the balance of derivative transactions (year-on-year improvement of CZK 1.8 billion). Net creation and reversal of impairment adjustments increased other financial costs by CZK 0.5 billion. The CZK 0.5 billion gain on sales of securities realized in 2004 was not repeated in 2005.

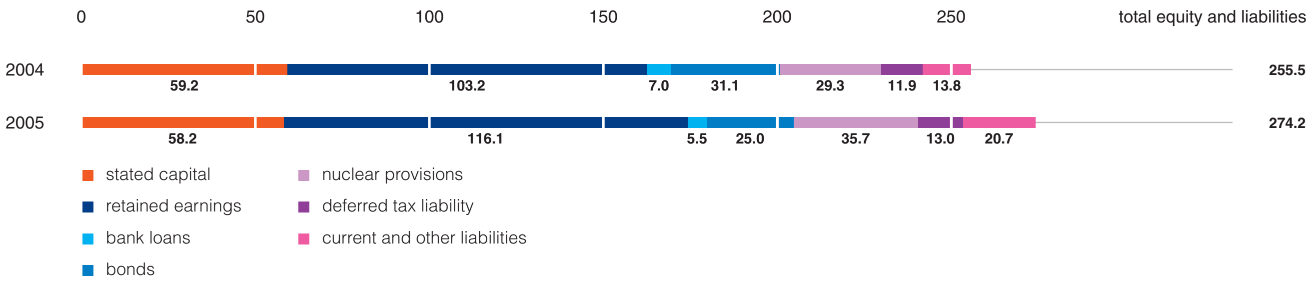
Structure of Assets and Capital

Structure of Assets as of December 31 (CZK billions)



Total assets were up CZK 18.7 billion over last year's figure, to CZK 274.2 billion. The decline in tangible and intangible fixed assets in use (by CZK 3.4 billion) due to depreciation and amortization exceeded the pace at which new assets were put into use. Non-current financial assets grew by CZK 16.9 billion, bringing their share in total assets to nearly 30%. Most of the increase is attributable to acquisitions of Severočeské doly a.s. (CZK 9.1 billion) and the Romanian distribution company Electrica Oltenia S.A. (CZK 5.1 billion), an increase in the company's stake in Severomoravská energetika, a. s. (CZK 1.4 billion), a loan to ČEZData, s.r.o. (CZK 1.1 billion), a monetary capital contribution to ČEZnet, a.s. (CZK 1.0 billion), etc. These additions were partially offset by a decline in non-current receivables from the sale of shares in ČEPS, a.s. (CZK 2.8 billion).
Current assets grew from CZK 10.4 billion to CZK 15.6 billion. The principal factor in the increase was a CZK 4.0 billion increase in receivables. Of this amount, CZK 1.4 billion is attributable to income taxes receivable, CZK 1.8 billion represents increased receivables from customers, CZK 1.0 billion of which were receivables for emission permits sold, and derivative-related receivables were up CZK 0.8 billion. Overdue receivables accounted for 4.0% of total receivables as of year end 2005.

Structure of Equity and Liabilities as of December 31 (CZK billions)

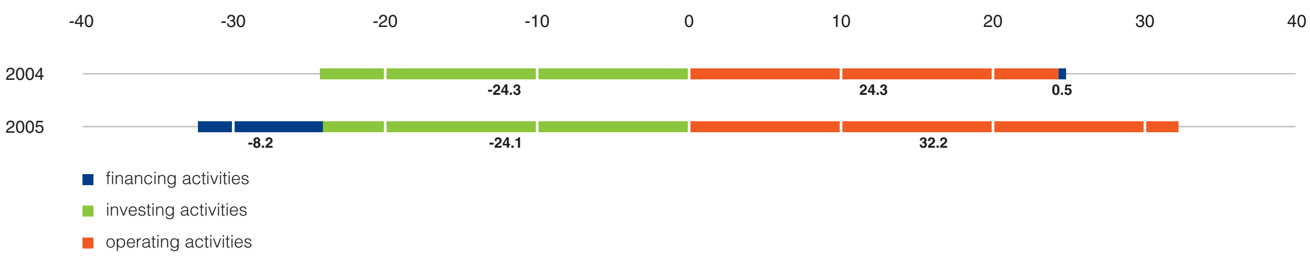


Equity was up CZK 11.8 billion (7.3%) for the year, with 2005 net income one of the major factors in the increase. Non-current liabilities were down CZK 1.0 billion after a decrease in long-term debt (by CZK 7.6 billion) was mostly offset by an increase in nuclear provisions (by CZK 6.4 billion). A second, CZK 5.9 billion issue of Eurobonds is carried in current liabilities in view of its maturity date – October 2006. Payments on long-term loans totaled CZK 1.9 billion, CZK 0.4 billion of which is attributable to exchange rate differences. Current trade payables were up CZK 1.2 billion, while income tax liability fell CZK 0.5 billion year-on-year.

Cash Flows

Net cash flow from operating activities grew year-on-year by CZK 7.9 billion, to CZK 32.2 billion. Dividends received were up CZK 2.4 billion and income taxes paid fell by CZK 1.6 billion. On the other hand, receivables grew by CZK 3.3 billion.
Cash used in investing activities (CZK 24.1 billion) remained nearly flat (down 1.2%). The principal expenditures were for the acquisitions of subsidiaries Severočeské doly a.s., Electrica Oltenia S.A., and Severomoravská energetika, a. s.
Cash flows from financing activities came to a net outflow of CZK 8.2 billion, compared to an inflow of CZK 0.5 billion in 2004. The main reason for the change is the absence of any borrowings to set off CZK 1.9 billion paid in installments on credits and loans in 2005, while 2004 saw placement of the third Eurobond issue. Dividends paid (CZK 5.3 billion) increased year-on-year (by CZK 0.6 billion), as did net purchases/sales of treasury shares (by CZK 0.9 billion).

Cash Flows (CZK billions)



Company Financing

February 2005 saw the execution, by five banks, of a CZK 2.1 billion syndicated bank guarantee for Tranche No. 2 of a loan from the European Investment Bank.
In December 2005, an Advance Pricing Agreement was signed with the Netherlands tax authority, assuring CEZ FINANCE B. V. compliance with a new tax regime there.

Bank and Other Borrowings and Maturity Thereof

Long-term Loans

Creditor	Currency	Maximum loan amount in given currency (millions)	Valuation of debt at 31 Dec 2005 (CZK millions)	Maturity	Collateral
Citibank International	USD	317	1,402	2007–2008	State guarantee, 76% of principal currency-hedged
Erste Bank AG	EUR	17	49	2006	
European Investment Bank	USD	55	832	2013	
European Investment Bank	EUR	44	800	2013	
European Investment Bank	CZK	3,441	2,117	2012–2013	89% of principal interest rate-hedged until 15 March 2007
Fortis Bank	USD	55	359	2008–2009	State guarantee
International bank for Reconstruction and Development	USD	246	694	2007	State guarantee, 32% of principal currency-hedged
Nordic Investment Bank	USD	50	1,076	2007	
Total long-term loans			7,329		
of which: current portion			1,836		
Long-term loans less current portion			5,493		

Short-term Loans

	Indebtedness as of 31 Dec 2005 (CZK millions)
Short-term bank loans	–
Current portion of long-term loans	1,836
Short-term bank loans, total	1,836

Changes in ČEZ, a. s. Non-current Financial Assets in 2005, Net (CZK millions)

	Domestic	Foreign	Total
Share purchases, including related costs	10,857	5,422	16,279
of which: Severočeské doly a.s.	9,135	–	9,135
Electrica Oltenia S.A.	–	5,068	5,068
Increases of basic capital of subsidiaries	1,622	7	1,629
Loans within CEZ Group	1,100	–	1,100
Change in balance of non-current receivables	(2,829)	–	(2,829)
Other	754	–	754
Net change (increase)	11,504	5,429	16,933

ČEZ, a. s. Human Resources

As of 31 December 2005, the company had 6,467 employees, a decrease of 162 employees (2.4%) from last year's figure despite the centralization of certain functions from subsidiaries to ČEZ, a. s. The average adjusted number of employees fell by 17, to 6,618 employees.

The average age of company employees at 31 December 2005 was 45 years. Compared to 1992, the work force qualification structure has changed significantly: the proportion of university educated employees has risen from 12.2% to 27.2% and the share of employees with secondary education is now 48.9% compared to 28.6% then.

Social Policy

Social policy is determined primarily by the Collective Agreement, the current version of which is valid for the period 2004–2006. In the year 2005, ČEZ, a. s. spent nearly CZK 48,000 per employee to implement the social program. This equates to a monthly per-employee expenditure of approximately CZK 3,977.

Labor Relations

A total of 29 independent labor union organizations operated in ČEZ, a. s. in 2005, and approximately 3,100 employees, or 48% of the total work force, were unionized. In the course of the VIZE 2008 project, a number of new employees joined ČEZ, a. s. from the regional electricity distribution companies and for this reason eight new labor union organizations were added.

The labor organizations that in 2005 operated in ČEZ, a. s. belonged to three different labor unions: the ECHO Labor Union (10 organizations), the Czech Labor Union of Power Industry Employees (17 organizations), and the Labor Union of Nuclear Power Plant Employees (2 organizations). During 2005 a number of negotiations took place with all labor representatives, at which the participants received explanations of the following in particular:

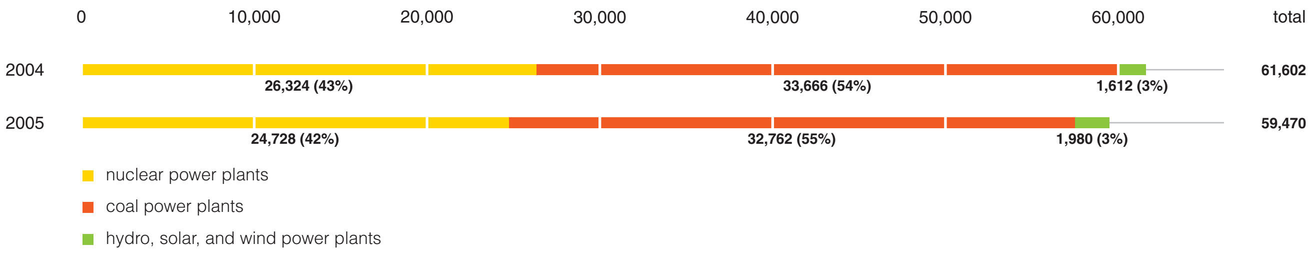
- CEZ Group's principal tasks for 2005 and VIZE 2008,
- progress in and deadlines for transformation of the Conventional Power and Nuclear Power divisions into the Production Division,
- preparations for further organizational changes in CEZ Group in general, and the transfer of employees to newly established CEZ Group companies in particular.

Although both social partners had different views and the negotiations were sometimes difficult, in most cases a path to agreement was found and labor peace was preserved. During the year, four amendments to the Collective Agreement were signed to address, in particular, the ongoing reorganization of CEZ Group. The process of negotiating Amendment No. 5 on increase of wage tariffs and supplemental pay in Czech Crowns for the year 2006 was not completed by the end of 2005. Therefore, the collective bargaining process was moved forward to January 2006, when 28 labor organizations approved the draft amendment. Only one labor organization – the one active at Temelín Nuclear Power Station – refused to sign the document because it considered the growth in 2006 wage tariffs too low. For this reason, the Amendment to the Collective Agreement could not enter into force. Instead, the employer changed employee compensation in 2006 via a wage directive, which included a 5% increase in CZK-denominated wage tariffs and supplemental pay previously agreed and discussed with labor union representatives.

GENERATION OF ELECTRICITY AT ČEZ, a. s.

In 2005, ČEZ, a. s. produced the vast majority (99%) of CEZ Group's electricity. Electricity generation by ČEZ, a. s. fell in year-on-year terms due in particular to lower exports as the company shifted its focus more on the domestic market and optimized its sales margin utilizing CO_2 emissions permit arbitrage.

Structure of ČEZ, a. s. Electricity Generation, Gross (GWh)



ČEZ, a. s. ELECTRICITY SALE

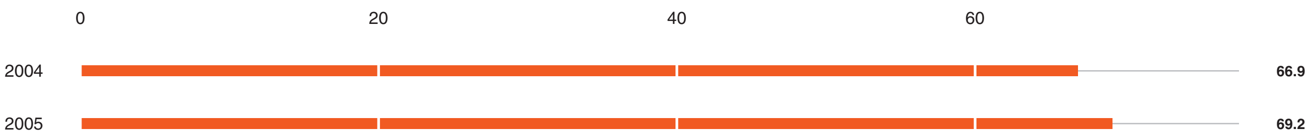
Electricity Procurement and Supply (GWh)

	2004	2005	Index 2005/2004 (%)
Procurement:			
Generated in-house (gross)	61,602	59,470	96.5
Other purchasing for resale	4,599	4,477	97.3
Purchased from market operator *)	67	219	326.9
Purchased for own consumption	11	6	54.5
Imported	148	150	101.4
Trading outside the Czech Republic (purchased)	1,977	1,068	54.0
Total procurement	68,404	65,390	95.6
Supply:			
Sold in the domestic market	49,795	51,431	103.3
regional electricity distribution companies	39,073	38,580	98.7
market operator *)	142	233	164.1
eligible customers	3,496	3,214	91.9
traders	6,370	8,616	135.3
ČEPS, a.s. to cover losses	677	757	111.8
other domestic sales	37	31	83.8
Exported	10,962	7,114	64.9
Trading outside the Czech Republic (sold)	1,977	1,068	54.0
Total sales	62,734	59,613	95.0
Other ČEZ, a. s. consumption	5,670	5,777	101.9
Consumed in-house to generate electricity	4,646	4,570	98.4
Pumping at pumped-storage hydro power plants	730	867	118.8
Other consumption by power plants	294	340	115.6
Total supply	68,404	65,390	95.6

*) OTE, a.s. (Czech Republic).

The prices at which ČEZ, a. s. sells electricity in the liberalized market are determined by contract. Prices for transmission and distribution of electricity, for system services (prices of grid monopolies), and prices/contributions under State promotion of electricity from renewable energy sources and combined heat and power generation are regulated by the State.

ČEZ, a. s. Share in Covering Czech Republic Electricity Demand (%)



In 2005, ČEZ, a. s. utilized its free generation capacities and other trading opportunities to optimize its domestic and foreign trading, using trading strategies such as short-term bilateral contracts, foreign and domestic exchanges, and the developing domestic spot markets.

The largest domestic buyers of electricity from ČEZ, a. s. were the regional electricity distribution companies. Of total ČEZ, a. s. domestic electricity sales, the regional electricity distribution companies (including CEZ Group members) accounted for approximately 75%. In 2005, the category of customer buying electricity directly from ČEZ, a. s. also included large eligible customers. Their share in total ČEZ, a. s. domestic electricity sales was approximately 6%.

2006 Contracting Campaign

A new market element was introduced in 2005 – an auction of electricity (i.e., of electricity generated in the virtual power plant) – for delivery in 2006. The auction was ordered by the Antitrust Office as a way to reinforce competition in the market after giving its approval for Severočeská energetika, a.s. to remain a member of CEZ Group. Electricity generated in the virtual power plant was auctioned off in blocks of 50 and 30 MW. A total of 17 domestic and foreign traders participated in the auction, which took place in August. Demand outstripped supply in the auction (400 MW, with a reduction to 240 MW in the summer months) by a factor of five.
In the 2006 contracting campaign, ČEZ, a. s. offered its customers electricity in the form of 15 band products. Wholesale auction of electricity supplies for 2006 was closed in August. The overall amount of electricity sold, including sales from the virtual power plant auction, increased by 1.6 TWh, or 4.1%, compared to the 2005 campaign. The overall year-on-year price growth of the demand volume in the given structure was 14.3%. Based on the volume and structure ordered, ČEZ, a. s. was able to optimize utilization of its generation capacities and reduce the end prices of certain products by 0.1–2.1% compared to the originally published prices.
As a result, the price of the year baseload product (Yellow Electricity) was reduced slightly to 1,041 CZK/MWh.
In addition to orders from traders, ČEZ, a. s. also took into account in the auction the volume of electricity that will be supplied to end customers of ČEZ Prodej, s.r.o., which is taking over exclusive responsibility within CEZ Group for selling to end customers in the Czech Republic starting in 2006. The volume of electricity supplied to ČEZ Prodej, s.r.o. is traded under the same price conditions as electricity traded with other market players in the wholesale auction.
Of the volume of electricity projected to be sold in the domestic market in 2006, approximately 98% had been contracted for as of 31 December 2005.

Foreign Trade

Export of electricity to foreign markets continues to be a significant part of the company's sales effort. In conjunction with domestic sales growth (including electricity exported through other, domestic trading entities) and the start of trading in emission permits, export volume fell by 18% compared to 2004.
During 2005, the export activities of ČEZ, a. s. were limited, among other factors, by the availability of cross-border power capacity, which is distributed among bidders in auctions. Due to supply and demand forces, this mechanism often dramatically increased the price of using this export capacity. When the price of cross-border capacity is deducted, the price of export electricity was mostly in line with the domestic price.
To better fill capacities, ensure smoother cross-border trading, and reinforce our position in new markets, 2005 saw the establishment of sales offices in neighboring countries. These sales offices are expected to help increase trading in ČEZ, a. s. electricity in markets of Central and Southeastern Europe.

Sale of Ancillary Services

To provide its system services, ČEPS, a.s., the transmission grid operator, purchased ancillary services from a total of eleven different entities. In competition with these providers, ČEZ, a. s. achieved a 72% share, expressed in financial terms, in this market segment in 2005. Starting in 2005, ČEZ, a. s. is also selling ancillary services in Slovakia to the company SEPS, a.s.

CO_2 Emission Permits (millions of pcs)

	2005
Received	36.9
Used	32.8
Sold	3.0
Purchased	0.8
Held over to next year	1.9

In 2005, ČEZ, a. s. actively involved itself in greenhouse gas emissions permit trading. After the National Allocation Plan was approved in the spring of 2005 (giving ČEZ, a. s. 36.9 million permits per year for the 2005–2007 period), the necessary register was created by OTE, and quotas were assigned, we gathered our first experience in emissions trading. During the year, framework agreements were entered into and ČEZ, a. s. joined selected trading platforms to realize trades in CO_2 permits, which became an important factor in optimizing power plant operations as well as impacting electricity prices in European power markets.

REGIONAL ELECTRICITY DISTRIBUTION COMPANIES

Equity Stakes in Regional Electricity Distribution Companies

	ČEZ, a. s. Stake at 1 Jan 2005 (%)	ČEZ, a. s. Stake at 31 Dec 2005 (%)
Severočeská energetika, a.s. *)	56.93	56.93
Severomoravská energetika, a. s.	89.38	100.00
Středočeská energetická a.s.	97.72	97.72
Východočeská energetika, a.s.	98.83	100.00
Západočeská energetika, a.s.	99.13	100.00

*) As of the Annual Report closing date (13 April 2006), ČEZ, a. s. had increased its stake to 57.1% by buying shares. Under contract documents signed with Segfield Investments Limited, in April 2006 ČEZ, a. s. obtains an option to increase its share from 57.1% to 96.14%.

ČEZ, a. s. increased its stakes in the regional electricity distribution companies in two ways: first, through a mandatory offer to buy out other shareholders of Severomoravská energetika, a. s. (as a result of which the equity stake rose to 99.13% in February 2005), and second, by exercising its right as the owner of an equity stake of over 90% to purchase shares issued by Středočeská energetická a.s., Severomoravská energetika, a. s., Východočeská energetika, a.s., and Západočeská energetika, a.s. under the provisions of Sections 183i – 183n of the Commercial Code.

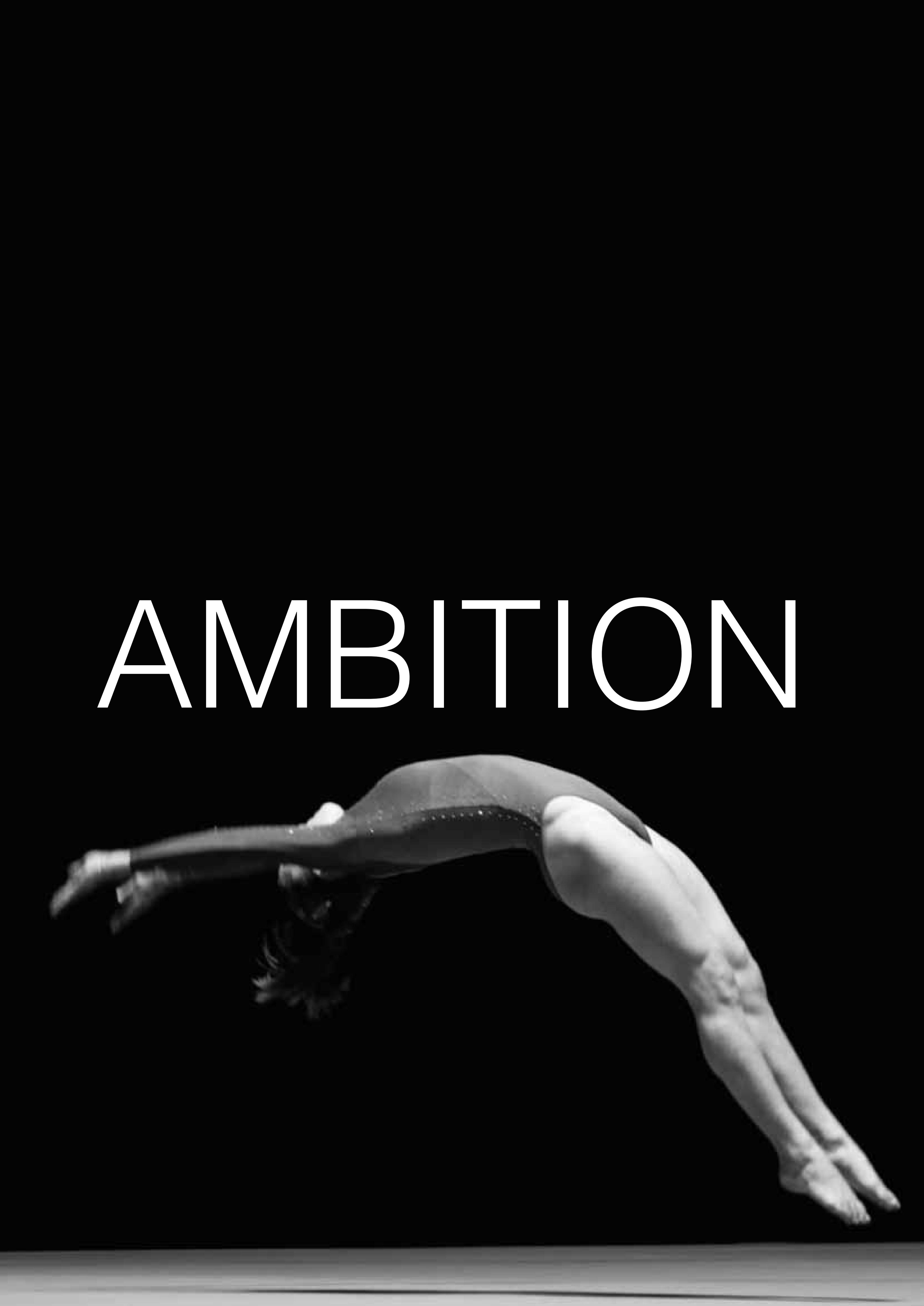
General Meetings of the above companies approved the passage of shares to the majority shareholder, ČEZ, a. s., and set the amount ČEZ, a. s. would pay for the shares in accordance with Section 183m of the Commercial Code as follows:

- Severomoravská energetika, a. s. 3,811 CZK/share
- Středočeská energetická a.s. 2,750 CZK/share
- Východočeská energetika, a.s. 3,292 CZK/share
- Západočeská energetika, a.s. 7,052 CZK/share

Mr. Roman Minarik and KOR BUSINESS Ltd. are suing Středočeská energetická a.s., seeking nullification of the resolution of the General Meeting of 5 August 2005 on passage of other shares to the principal shareholder.
With the ongoing implementation of the VIZE 2008 project and the reorganization of CEZ Group, and in conjunction with the obligation to unbundle the regulated distribution function from other functions, the second half of the year saw the spin-off of the parts of the regional electricity distribution company enterprises dealing with electricity distribution and those dealing with electricity sales. After the organizational separation of these parts of the enterprises, expert appraisals were drawn up and the regional electricity distribution companies held General Meetings (or, in cases where ČEZ, a. s. is the sole owner with 100% of the shares, decisions of the sole shareholder acting as the General Meeting), which in accordance with the Commercial Code approved the contribution of the distribution part of the enterprise to ČEZ Distribuce, a. s. and the contribution of the sales part of the enterprise to ČEZ Prodej, s.r.o.
As of 1 January 2006, then, none of the five regional electricity distribution companies in CEZ Group are involved in the purchase, distribution, or sale of electricity. Electricity sales are now the domain of ČEZ Prodej, s.r.o., while ČEZ Distribuce, a. s. is in charge of distribution.

Key Figures of Selected Regional Electricity Distribution Companies (IFRS)

	Units	Severočeská energetika, a.s.	Severomoravská energetika, a. s.	Středočeská energetická a.s.	Východočeská energetika, a.s.	Západočeská energetika, a.s.
Revenues	CZK millions	9,920	15,162	11,728	9,335	5,892
of which, e.g.: outside CEZ Group	CZK millions	8,795	14,319	11,279	8,637	5,504
EBITDA	CZK millions	1,510	2,532	1,322	1,387	846
Net income	CZK millions	872	1,243	1,110	1,244	758
Assets	CZK millions	8,728	12,865	8,629	8,554	7,798
Shareholders' equity	CZK millions	7,571	10,760	7,889	8,155	7,540
Employee head count at 31 Dec 2005	persons	532	957	614	598	455
No longer involved in distribution and sales of electricity as of		1 Nov 2005	1 Jan 2006	1 Dec 2005	1 Oct 2005	1 Sep 2005


AMBITION

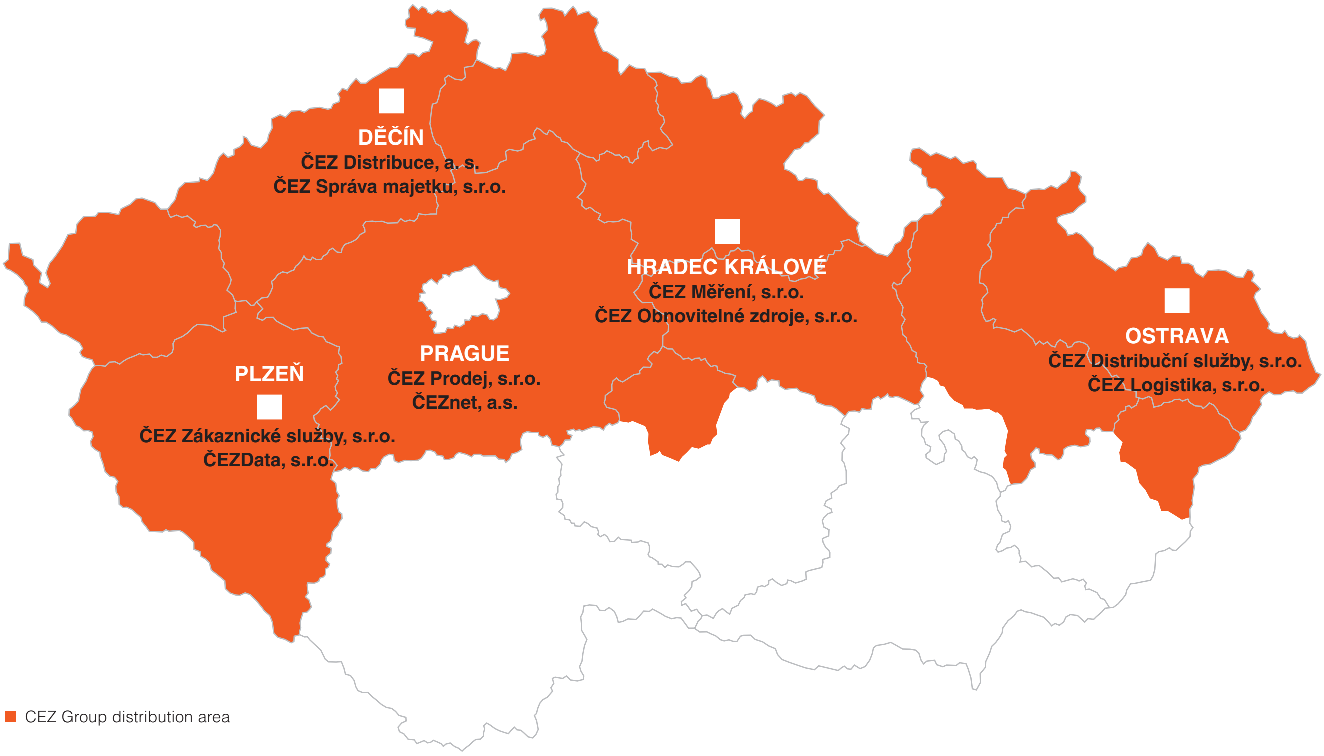
CEZ Group has challenged itself to become the leader in the electricity markets of Central and Southeastern Europe. To reach this goal, the company's senior management has come forward with three key strategic initiatives, on which it is focusing maximum efforts: Integration and Operational Excellence, M&A Expansion, and Plant Portfolio Renewal.

The principal objectives of the VIZE 2008 project for 2006 are focused on completing the transformation of CEZ Group, increasing the performance of Group companies, and implementing best practices in the new companies and centralized departments of ČEZ, a. s. Our goals are to ensure transparency at all levels of management, create conditions for top performance through high-quality communications, and thereby maintain the long-term prosperity of both ČEZ, a. s. and CEZ Group as a whole.

PROCESS-BASED COMPANIES

The new model of CEZ Group includes ten process-based companies in the Czech Republic, each of which is responsible for one primary process constituting a principal business of the power conglomerate. The registered offices of the process-based companies are distributed evenly throughout the entire CEZ Group distribution area. Each process-based company covers the entire distribution area of the five former regional electricity distribution companies.

Registered Offices of CEZ Group Process-based Companies



As of 1 January 2006, after the key phase of unbundling (separation of regulated from unregulated functions) and other reorganization steps were completed, CEZ Group had seven fully functional process-based companies. During 2006, the transfer of functions from the regional electricity distribution companies to the process-based companies will be completed by folding the distribution services of each former distributor into ČEZ Distribuční služby, s.r.o. and transferring administration of non-power-related assets to ČEZ Správa majetku, s.r.o. Electricity generation operations and assets will also be transferred from Severočeská energetika, a.s., Východočeská energetika, a.s. and Západočeská energetika, a.s. to the company ČEZ Obnovitelné zdroje, s.r.o.

ČEZ Distribuce, a. s. (IFRS)

	Units	2005
Revenues	CZK millions	4,687
of which, e.g.: outside CEZ Group	CZK millions	419
EBITDA	CZK millions	1,259
Net income	CZK millions	(103)
Assets	CZK millions	59,081
Shareholders' equity	CZK millions	37,919
Employee head count at 31 December	persons	869

ČEZ Distribuce, a. s. was established on 31 March 2005 by the five regional electricity distribution companies controlled by ČEZ, a. s. with a stated capital of CZK 25 million to comply with the requirement set by the Energy Act that distribution has to be separated from electricity sales.

By having a single company operate the distribution grids of the five regional electricity distribution companies, including dispatching center, cost savings were realized and thus the business became more effective. On 22 August 2005, the company's General Meeting approved an increase of the stated capital by CZK 63.55 billion through non-monetary capital contributions consisting of the distribution parts of the regional electricity distribution companies. The increase in the stated capital was recorded in the Commercial Register on 28 February 2006. As of 1 January 2006, the company is the only entity in the CEZ Group that holds an electricity distribution license.

ČEZ Prodej, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	10,065
of which, e.g.: outside CEZ Group	CZK millions	9,506
EBITDA	CZK millions	99
Net income	CZK millions	36
Assets	CZK millions	15,775
Shareholders' equity	CZK millions	4,447
Employee head count at 31 December	persons	184

ČEZ Prodej, s.r.o. was established on 31 March 2005 by the five regional electricity distribution companies controlled by ČEZ, a. s. with a stated capital of CZK 25 million. It sells electricity to end customers of CEZ Group in the Czech Republic. On 22 August 2005, the company's General Meeting approved a CZK 6.66 billion increase in the stated capital in the form of contributions of the applicable parts of the enterprises of the five regional electricity distribution companies and ČEZ, a. s. On 8 March 2006, the stated capital increase in the amount of CZK 6.685 billion was recorded in the Commercial Register. ČEZ Prodej, s.r.o. organized the 2006 electricity contracting campaign for CEZ Group in the autumn of 2005.

ČEZnet, a.s. (IFRS)

	Units	2005
Revenues	CZK millions	1,162
of which, e.g.: outside CEZ Group	CZK millions	205
EBITDA	CZK millions	557
Net income	CZK millions	217
Assets	CZK millions	2,540
Shareholders' equity	CZK millions	2,032
Employee head count at 31 December	persons	256

This company, which is 100% owned by ČEZ, a. s., provides all telecommunications services to CEZ Group members, including lease of devices connected to telecommunications networks. In addition, it offers its excess capacities, which are relatively small, for sale through the free market.

On 26 January 2005, ČEZ, a. s. increased the stated capital of ČEZnet, a.s. by making a CZK 1 billion monetary contribution to finance the purchase of telecommunications assets of the regional electricity distribution companies. Also, an agreement on the transfer of a 100% equity stake in SINIT, a.s. to ČEZnet, a.s. from Severomoravská energetika, a. s. was signed on 21 December 2005. Currently the company's stated capital stands at CZK 1.77 billion.

ČEZData, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	1,666
of which, e.g.: outside CEZ Group	CZK millions	49
EBITDA	CZK millions	531
Net income	CZK millions	28
Assets	CZK millions	2,751
Shareholders' equity	CZK millions	974
Employee head count at 31 December	persons	303

A company 100% owned by ČEZ, a. s., ČEZData, s.r.o. acts as a computer services and data processing services provider within CEZ Group. As of 1 January 2005, all IT administration functions were transferred to the company from the five regional electricity distribution companies and, effective 1 January 2006, the centralization of IT administration was completed by the transfer of the ČEZ, a. s. IT section to ČEZData, s.r.o.

On September 1, the company's 100% subsidiary, EN-DATA a.s., was merged into ČEZData, s.r.o.

The company's stated capital is currently CZK 1.95 billion (as of the Annual Report closing date this had not yet been recorded in the Commercial Register).

ČEZ Zákaznické služby, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	677
of which, e.g.: outside CEZ Group	CZK millions	9
EBITDA	CZK millions	154
Net income	CZK millions	114
Assets	CZK millions	290
Shareholders' equity	CZK millions	127
Employee head count at 31 December	persons	877

A company 100% owned by ČEZ, a. s. with a stated capital of CZK 20 million. ČEZ Zákaznické služby, s.r.o. was established in 2004. It provides services to retail customers, operates the sales offices and the CEZ Group central telephone center. It also provides for billing and administers the accounts of all end electricity customers. It began providing services on behalf of selected CEZ Group members in 2005.

ČEZ Logistika, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	615
of which, e.g.: outside CEZ Group	CZK millions	173
EBITDA	CZK millions	5
Net income	CZK millions	5
Assets	CZK millions	492
Shareholders' equity	CZK millions	204
Employee head count at 31 December	persons	164

A company 100% owned by ČEZ, a. s. with a stated capital of CZK 200 million. ČEZ Logistika, s.r.o. is the Group's centralized procurement and logistics company, established in 2004. The company conducts wholesale procurement and optimizes the transport, handling, storage, and sale of materials and services needed for the operation and construction of distribution grids. Its principal customers are members of CEZ Group, but the company is also active in the market at large.

ČEZ Měření, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	587
of which, e.g.: outside CEZ Group	CZK millions	3
EBITDA	CZK millions	154
Net income	CZK millions	103
Assets	CZK millions	489
Shareholders' equity	CZK millions	321
Employee head count at 31 December	persons	1,017

A company 100% owned by ČEZ, a. s. with a stated capital of CZK 216 million. The company's original name was VČE - měřicí technika, s.r.o. It commenced operating on 1 June 2005 and is fully functional as of the second half of 2005. Its role in CEZ Group is to provide electricity metering services for approximately 3.5 million customers. With the objective of streamlining electric meter operations, the following functions, among others, were transferred to this company from the regional electricity distribution companies: data collection, processing, and verifying for operating, sales, and regulation purposes as well as administration, repairs, and inspections of all types of electric meters, switching elements, etc.

ČEZ Správa majetku, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	45
of which, e.g.: outside CEZ Group	CZK millions	–
EBITDA	CZK millions	(12)
Net income	CZK millions	(19)
Assets	CZK millions	576
Shareholders' equity	CZK millions	540
Employee head count at 31 December	persons	110

A company 100% owned by ČEZ, a. s. with a stated capital of CZK 550.1 million, ČEZ Správa majetku, s.r.o. commenced operating on 1 September 2005. In the future, its principal business will be the administration of CEZ Group's non-power-related assets.

ČEZ Obnovitelné zdroje, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	184
of which, e.g.: outside CEZ Group	CZK millions	37
EBITDA	CZK millions	124
Net income	CZK millions	23
Assets	CZK millions	1,191
Shareholders' equity	CZK millions	954
Employee head count at 31 December	persons	53

A company 60.8% owned by ČEZ, a. s. and 39.2% owned by Východočeská energetika, a.s., ČEZ Obnovitelné zdroje, s.r.o. has a stated capital of CZK 200 million. The company's mission is to act as a central repository of all CEZ Group operations relating to the production of electricity from renewable energy sources (small-scale hydro power plants, wind power plants, and solar power plants) and to work actively to further develop them. After asset transfers are completed, ČEZ Obnovitelné zdroje, s.r.o. will be 100% owned by ČEZ, a. s.
Originally the company was named VČE - elektrárny, s.r.o. and it was a 100% subsidiary of Východočeská energetika, a.s. On 31 December 2005 it merged with HYDROČEZ,a.s. and ČEZ, a. s. obtained a majority stake. The company's reorganization will continue with the folding-in of hydro power plants from Západočeská energetika, a.s. and Severočeská energetika, a.s. as well as a portion of the assets of Východočeská energetika, a.s. As of 1 July 2006, when these transactions are to be completed, the company's generation portfolio should consist of 18 hydro power plants and one farm of wind power plants.

ČEZ Distribuční služby, s.r.o. (IFRS)

	Units	2005
Revenues	CZK millions	–
of which, e.g.: outside CEZ Group	CZK millions	–
EBITDA	CZK millions	–
Net income	CZK millions	–
Assets	CZK millions	10
Shareholders' equity	CZK millions	10
Employee head count at 31 December	persons	–

A company 100% owned by ČEZ, a. s. with a stated capital of CZK 10 million, ČEZ Distribuční služby, s.r.o. was established on 12 October 2005 and its principal business is to act as a comprehensive provider of distribution grid services and to operate a fault response service. The principal beneficiary of these services will be ČEZ Distribuce, a. s. The company is expected to go fully operational in the second half of 2006.

OTHER SIGNIFICANT COMPANIES

Severočeské doly a.s. (IFRS)

	Units	2004	2005	Index 2005/2004 (%)
Revenues	CZK millions	7,801	7,998	102.5
of which, e.g.: outside CEZ Group	CZK millions	2,996	2,738	91.4
EBITDA	CZK millions	1,860	3,607	193.9
Net income	CZK millions	355	2,010	565.6
Assets	CZK millions	24,328	22,528	92.6
Shareholders' equity	CZK millions	14,392	14,218	98.8
Employee head count at 31 December	persons	3,685	3,554	96.4

The company's core businesses are prospecting for, extracting, processing, and selling brown coal and related raw materials.
As of 1 January 2005, ČEZ, a. s. owned a 37.20% stake in Severočeské doly a.s. In June 2005 this stake was increased to 37.31% by acquisition of shares from the Town of Březno. On 29 September 2005, the Government of the Czech Republic resolved to privatize the State's equity stake in Severočeské doly by selling it directly to ČEZ, a. s. Under this resolution and in accordance with the Share Purchase Agreement signed between the National Property Fund of the Czech Republic, as seller, and ČEZ, a. s., as buyer, on 20 October 2005, ČEZ, a. s. obtained another 55.79% of the shares (for CZK 9.068 billion including related expenses), increasing its stake in the company to 93.1%.
At the request of the principal shareholder, ČEZ, a. s., a General Meeting of Severočeské doly a.s. was held on 27 March 2006, which decided on the transfer of all other shares to ČEZ, a. s. After this General Meeting decision is recorded in the Commercial Register and all steps called for by the Commercial Code have been completed, ČEZ, a. s. will own 100% of the company's shares.

ŠKODA PRAHA a.s. (IFRS)

	Units	2004	2005	Index 2005/2004 (%)
Revenues	CZK millions	1,985	1,004	50.6
of which, e.g.: outside CEZ Group	CZK millions	1,301	290	22.3
EBITDA	CZK millions	238	65	27.1
Net income	CZK millions	135	57	42.2
Assets	CZK millions	1,512	1,299	85.9
Shareholders' equity	CZK millions	749	793	105.9
Employee head count at 31 December	persons	385	381	99.0

This company's core businesses are the construction of power plant systems (conventional and nuclear power plants, combined-cycle power plants, peaking plants), refurbishment and retrofitting of existing power plants, as well as industrial and municipal energy systems (heating power plants) and environmental projects (such as biomass combustion).
Through a take-over offer, ČEZ, a. s. increased its equity stake from 68.88% to 97.6% on 9 March 2005. Following a decision of the company's General Meeting on 31 August 2005 on the transfer of all other equity securities of ŠKODA PRAHA a.s. to the principal shareholder (squeeze out), ČEZ, a. s. became the owner of 100% of the company's shares as of 5 November 2005. Now that the company is stabilized, its financial performance is balanced.
In order to see to major capital expenditure projects in CEZ Group in general, and the renewal of the generation base in particular, on 11 July 2005 ŠKODA PRAHA a.s. established a 100% subsidiary, ŠKODA PRAHA Invest s.r.o. with a stated capital of CZK 200,000.

I & C Energo a.s. (IFRS)

	Units	2004	2005	Index 2005/2004 (%)
Revenues	CZK millions	797	860	107.9
of which, e.g.: outside CEZ Group	CZK millions	330	291	88.2
EBITDA	CZK millions	105	96	91.6
Net income	CZK millions	63	42	66.5
Assets	CZK millions	498	585	117.4
Shareholders' equity	CZK millions	255	297	116.6
Employee head count at 31 December	persons	913	1,060	116.1

A company 100% owned by ČEZ, a. s., the principal businesses of I & C Energo a.s. are comprehensive engineering, contracting, and related services in Instrumentation & Control system, IT systems, electrical and other systems. With turnover of over CZK 1 billion, it is one of the largest Czech companies in its sector.

Ústav jaderného výzkumu Řež a.s. (IFRS)

	Units	2004	2005	Index 2005/2004 (%)
Revenues	CZK millions	733	842	114.8
of which, e.g.: outside CEZ Group	CZK millions	369	470	127.5
EBITDA	CZK millions	144	155	107.1
Net income	CZK millions	48	37	77.7
Assets	CZK millions	1,202	1,236	102.8
Shareholders' equity	CZK millions	726	764	105.3
Employee head count at 31 December	persons	921	948	102.9

ČEZ, a. s. owns a 52.46% stake. The principal businesses of Ústav jaderného výzkumu Řež a.s. cover a relatively wide range of activities, which can be summarized as follows:

- activities relating to the design, engineering, expert assessment, production, construction, commissioning, operation, repair, maintenance, refurbishment and decommissioning of nuclear facilities,
- R&D activity with application of results in various areas,
- engineering and design activity in construction, handling of hazardous wastes, production of isotopes and medical devices for the health care industry.

The company also includes an Energoprojekt Division which designs conventional and nuclear power generation facilities.

Energetické opravny, a.s. (IFRS)

	Units	2004	2005	Index 2005/2004 (%)
Revenues	CZK millions	382	379	99.3
of which, e.g.: outside CEZ Group	CZK millions	34	35	104.5
EBITDA	CZK millions	18	19	104.8
Net income	CZK millions	5	7	148.4
Assets	CZK millions	125	180	144.2
Shareholders' equity	CZK millions	73	80	109.0
Employee head count at 31 December	persons	455	465	102.2

A company 100% owned by ČEZ, a. s., the principal businesses of Energetické opravny, a.s. are activities in the operation of boiler rooms, machine rooms, coal loading facilities, flue gas desulfurization (FGD) facilities and all non-generation-related equipment such as pumping stations, wastewater treatment plants, petroleum storage equipment, compressor stations, and related piping systems.

BULGARIA

Energy Sector

The European Commission denied Bulgaria's request for additional financial aid for shutting down two reactor units of the Kozloduj Nuclear Power Station. The deadline for shutting down Kozloduj is still the end of 2006, and this is also one of the conditions for the country to join the European Union.

In the very near future, the construction of a new nuclear power plant in Belene is to begin. On 1 February 2006, a group of Czech companies, Škoda Alliance, which includes ŠKODA PRAHA a.s. and Ústav jaderného výzkumu Řež a.s. (both members of CEZ Group) submitted a final bid for completing the construction of the new power plant. The contract is valued at EUR 3.5 billion. The power plant is to be completed by the construction of two 1,000 MW generating units. The first unit is to be commissioned in 2010–2011, and the second by 2016. The general contractor of the project will be selected by the central Bulgarian power company NEK by the end of the year so work on completing the plant's construction can begin in 2007.

Currently, the Bulgarian electricity market is only partially liberalized. On 25 October 2005, Bulgaria, Romania, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, Kosovo, and Turkey signed an Energy Community Treaty with European Union representatives. The principal goal of this project is to integrate these countries into the EU's internal energy market. This is also to result in a unified regulatory framework for all of Southeastern Europe.

Bulgaria has completed the privatization of its electricity distribution companies, with ČEZ, a. s. acquiring the companies Elektrorazpredelenie Stolichno EAD, Elektrorazpredelenie Sofia Oblast EAD, and Elektrorazpredelenie Pleven EAD. These CEZ Group companies, together with CEZ Bulgaria EAD, employ an overall work force of 4,693 people. Their distribution grid includes 56,224 km of lines, mostly medium and low voltage. Annual sales volume, including grid losses, is approximately 9,590 GWh, the companies serve 1.94 million end customers, and their share of the Bulgarian market is approximately 42%.

The distribution market in Bulgaria has entered the "unbundling" phase, i.e. the separation of licensed distribution operations from the sale of electricity. The entire process must be completed by the date Bulgaria accedes to the European Union or by 31 December 2006, whichever comes earlier.

CEZ Group's main project in Bulgaria for 2006 is to legally separate distribution from electricity supply, since this is required by the existing licenses of the three distribution companies that ČEZ, a. s. acquired. At the same time, shared services such as central procurement, finance, human resources, and IT will be spun off from the three distribution companies. Eligible customer services, wholesale trading, and electricity export/import will be done by CEZ Trade Bulgaria EAD, which obtained an electricity trading license on 4 July 2005. Currently, price negotiations are underway for purchase of electricity in the wholesale market and sale of electricity to eligible customers.

Management of New Acquisitions and Integration into CEZ Group

The new acquisitions in Bulgaria are being managed using experience gained in the VIZE 2008 project. The project includes, for example, comparisons of the Bulgarian electricity distribution companies among themselves and benchmarking against Czech regional electricity distribution companies. A unified organization structure was rolled out in mid-2005 and planned steps include the implementation of a new Management Information System and unification of the billing system. Over one hundred employees from throughout all three distribution companies work in other integration project teams which are led by a Bulgarian team leader and a Czech supervisor whose job it is to ensure that CEZ Group best practices are used.

Key Figures of Bulgarian Subsidiaries (IFRS)

	Units	2004 *)	2005 **)	Index 2005/2004 (%)
Revenues	CZK millions	11,685	11,872	101.6
of which, e.g.: outside CEZ Group	CZK millions	11,685	11,836	101.3
EBITDA	CZK millions	1,134	1,576	139.0
Net income	CZK millions	159	674	425.2
Assets	CZK millions	9,506	9,586	100.8
Shareholders' equity	CZK millions	6,335	6,695	105.7
Employee head count at 31 December	persons	4,905	4,693	95.7

*) Elektrorazpredelenie Stolichno EAD, Elektrorazpredelenie Sofia Oblast EAD, and Elektrorazpredelenie Pleven EAD.
**) Elektrorazpredelenie Stolichno EAD, Elektrorazpredelenie Sofia Oblast EAD, Elektrorazpredelenie Pleven EAD, and CEZ Bulgaria EAD.

Other Acquisitions in Bulgaria

In the privatization process for three Bulgarian power plants, in April 2005 ČEZ, a. s. submitted final bids for the Varna Power Station (1,260 MW) and the Ruse Power Station (420 MW). Our bids placed second, behind Inter RAO's, which were by far the highest. After the Bulgarian antitrust authority issued a negative opinion, the tender for the Ruse Power Station was cancelled. In the case of the Varna Power Station, contract negotiations collapsed in January 2006 when Inter RAO withdrew from its plan to buy the plant. Subsequently, the Bulgarian Government invited ČEZ, a. s. to negotiate. The discussions on the purchase of the Varna Power Station are ongoing and should be completed by the end of April 2006.

Capital Expenditure

Overall capital expenditures totaled BGN 66.0 million (CZK 1.005 billion), the bulk (BGN 55.3 million or CZK 888 million) of which went on distribution grid development in general, and reducing losses, increasing reliability, and extending facility life in particular, including renovations and upgrades of medium- and low-voltage transformer stations. Another significant capital project was the installation of electric meters to reduce unauthorized electricity consumption.

Electricity Procurement and Supply in Bulgaria (GWh)

	2005
Procurement:	
Other purchases for resale	9,590
Purchased from market operator	–
Imported	–
Total procurement	9,590
Supply:	
Sold in Bulgaria	7,937
Wholesale	1,882
Retail (businesses)	2,419
Households	3,631
Sold to regional distribution companies	5
Exported	–
Total sales	7,937
Other consumption (including in-house)	12
Losses in the distribution grid	1,642
Total supply	9,590

ROMANIA

Energy Sector

The privatization of the energy industry in Romania is currently ongoing. The natural gas distributors were privatized in 2004.
In late 2004, two electricity distribution companies were privatized: Electrica Banat S.A. and Electrica Dobrogea S.A. Two more followed in April 2005: Electrica Moldova S.A. and Electrica Oltenia S.A. In September 2005, ČEZ, a. s. became the owner of a majority stake (51%) in Electrica Oltenia S.A.
In 2005, the distribution company Electrica Oltenia S.A. supplied 4,075 GWh of electricity to 1.37 million end customers, and its Romanian market share was 15%. In the fourth quarter alone, when it entered the CEZ Consolidated Group, Electrica Oltenia S.A. sold 918 GWh of electricity to end customers.
Energy legislation is mostly harmonized with European Union directives. Their application in practice is slower, however. As of June 2005, the electricity market is open for all customers except households. Complete opening of the market is to take place in mid-2007.
A Government ordinance passed in July 2003 calls for administrative separation of regulated and non-regulated operations starting from 1 January 2006 and full legal separation no later than 1 July 2007. The Energy Act only contains a general statement of the necessity of separating regulated operations from non-regulated ones.
ČEZ, a. s. was given the opportunity to participate directly in comment proceedings during the process of drafting unbundling legislation and rules. The aim is to prepare (by 30 June 2006) and execute (by 30 June 2007) the legal separation of these operations in Electrica Oltenia S.A. The target solution will be the same as for the Bulgarian electricity distribution companies.

Management of New Acquisitions and Integration into CEZ Group

2006 will see the roll-out of a new, process-based organization, which will replace the current structure. Functions will be centralized and costs of certain functions such as meter readings and maintenance will be optimized through outsourcing. A new billing system will also be implemented. A rebranding project is in the preparation phase.
In 2006, CEZ Group plans to commence a pilot model for mass customer service channels and actively manage the process of changing customers' status. Implementation also began on a unified dispatching control system. A non-energy-related assets utilization strategy is being prepared.
In order to realize the long-term trading plans and develop CEZ Group's business in Romania, a trading function was established, which will cooperate with the ČEZ Trading department. The objective is to increase the wholesale margin and effectively balance the trading position in markets that fall within CEZ Group's sphere of interest.

Key Figures of Electrica Oltenia S.A. (IFRS)

	Units	2004	IV Q 2005	2005	Index 2005/2004 (%)
Revenues	CZK millions	11,189	2,599	10,665	95.3
of which, e.g.: outside CEZ Group	CZK millions	11,189	2,599	10,665	95.3
EBITDA	CZK millions	1,829	266	1,305	71.4
Net income	CZK millions	(981)	295	515	x
Assets	CZK millions	12,475	16,350	16,337	131.0
Shareholders' equity	CZK millions	8,416	12,600	12,591	149.6
Employee head count at 31 December	persons	2,930	2,969	2,969	101.3

Note: In 2005, the company was forced to create provisions in accordance with IFRS requirements and CEZ Group accounting policies. Among other things, provisions were created for risks associated with potential litigation, employee benefits expenditures, assets reduction, etc. Since a part of the provisioning relates to previous years, previous financial statements were adjusted as called for by IFRS.

Other Acquisitions in Romania

The fourth quarter of 2005 saw the beginning of the privatization of the distribution company Electrica Muntenia Sud S.A., whose distribution area includes the capital city of Bucharest. ČEZ, a. s. qualified to bid for the 67.5% stake. Price bids were submitted in late January 2006. Subsequently, the Romanian Government called on bidders to submit improved bids in May 2006.
More privatizations are in preparation for the Rovinari, Turceni, and Craiova power generation complexes (brown coal power plants with installed capacity of over 1,000 MW, each with adjacent brown coal mines), which lie in the distribution area of Electrica Oltenia S.A.
The three remaining distribution companies, Electrica Muntenia Nord S.A., Electrica Transylvania Sud S.A., and Electrica Transylvania Nord S.A., have yet to be privatized.

Capital Expenditure

Overall capital expenditures totaled RON 77 million (CZK 615.08 million), RON 11.5 million (CZK 91.86 million) of which was covered by a program of State-guaranteed distribution grid development loans. Expenditures on information technologies reached a total of RON 1.9 million (CZK 15.18 million).
The principal goals of the spending were to improve the technical condition of plant and equipment, increase efficiency (particularly by reducing losses) and reliability, ensure that electricity supplies meet contract parameters, mitigate negative environmental impacts, and enable electricity to be sold to new customers.

Procurement and Sale of Electricity

In the fourth quarter of 2005, when the company became a member of CEZ Group, Electrica Oltenia S.A. sold a total of 953 GWh. Sales volume for the entire year 2005 was 4,142 GWh.

Electricity Procurement and Sale in Romania (GWh)

	IV Q 2005	2005
Procurement:		
Purchased for resale	1,345	4,984
Purchased on the spot market		407
Imported		2
Total procurement	1,345	5,393
Supply:		
Sold in Romania	953	4,142
Wholesale	421	2,182
Retail (businesses)	215	819
Households	281	1,074
Sold on the spot market	10	13
Other sales in Romania	25	54
Exported	–	–
Total sales	953	4,142
Other consumption (including in-house)	18	18
Losses in the distribution grid	374	1,233
Total supply	1,345	5,393

OTHER EUROPEAN COUNTRIES

GERMANY

The company rpg Energiehandel GmbH, which is a member of CEZ Group, has been trading electricity in the German market since 2001. In the second quarter of 2005, this activity was taken over by the corporate parent, ČEZ, a. s., and rpg Energiehandel GmbH's activity was restricted to promoting CEZ Group in Germany and providing support for any acquisition or other investment opportunities. On 21 February 2006, the company's name was changed to CEZ Deutschland GmbH.

HUNGARY

On 2 September 2005, ČEZ, a. s. purchased a 100% equity stake in CZ-2005 Magyarország Kft. and subsequently changed this company's name to CEZ Hungary Ltd. The objective of this acquisition is to create better conditions for trading electricity in Hungary and to gain access to the Hungarian transmission grid which, under valid Hungarian law, is only possible through a company based in Hungary. CEZ Hungary Ltd. obtained an electricity trading license on 14 March 2006.

POLAND

In 2005, CEZ Group operated in Poland through the CEZ Poland representation office in Warsaw, the mission of which is to support power industry privatization and electricity trading in Poland. On 31 January 2006, an agreement was signed for the purchase of majority stakes in the Polish Upper Silesia electric companies Elektrociepłownia Chorzów Sp. z o.o. (ELCHO) and Elektrownia Skawina S.A. The acquisition will probably close in the first half of 2006. The installed capacity of the black coal-fired Skawina Power Station is 590 MW and it generates approximately 3 TWh of electricity per year. Using combined heat and power generation, the power plant supplies heat and hot water to the city of Skawina and the western portion of Krakow; its share in the greater Krakow district heat market exceeds 20%. It supplies electricity to local distribution companies. The black coal-fired ELCHO Power Station, which is located northwest of Katowice in the city of Chorzów, produces both electricity and heat using two modern generating units with a combined installed capacity of 220 MW. All electricity from the plant is purchased by PSE, the operator of the Polish transmission grid, while the plant's heat is supplied to Katowice and its surrounding area.
ČEZ, a. s. continues to participate in privatization tenders for majority stakes in the Kozienice electric company and the Katowicki Holding Węglowy mining company and is a candidate to acquire a majority stake in the company ZE PAK (Patnów, Adamów, Konin). Should the privatization processes continue or be expanded to other companies, ČEZ, a. s. will consider participating in these privatizations as well.

SERBIA AND MONTENEGRO, SLOVAK REPUBLIC, REPUBLIC OF SRPSKA OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

The situation in these countries is open.
In Montenegro, ČEZ, a. s. is continuing in the reopened privatization tender for a 100% equity stake in the Pljevlja coal-fired power plant and a minority stake in the adjoining lignite mine. The deadline for submission of final bids is the end of April 2006.
ČEZ, a. s. still sees Slovakia as a key target of its foreign acquisitions. In January, ČEZ, a. s. qualified to bid in the privatization tender for a 51% stake in the Košice heating power plant with an installed electricity generation capacity of 121 MW and heat generation capacity of 875 MW.
On 12 December 2005, ČEZ, a. s. signed an agreement with the company Elektroprivreda Republike Srpske (ERS), the implementation of which will lead to the establishment of a joint venture between ČEZ, a. s. and ERS focused on operation of existing power plants and the construction of new ones in Gacko and Ugljevik. This agreement was ratified by the Government of the Republic of Srpska of the Federation of Bosnia and Herzegovina.
ČEZ, a. s. is preparing to open a sales representation in Serbia for the purpose of monitoring further business and acquisition opportunities.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of ČEZ, a. s.:

I. We have audited the accompanying consolidated balance sheet of the CEZ Group ("the Group") as of December 31, 2005 and 2004 and the related consolidated statements of income, equity, cash flows and the related notes for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Board of Directors of ČEZ, a. s. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005 in accordance with International Financial Reporting Standards as adopted by the European Union.

II. We have also reviewed the consistency of the annual report with the above-mentioned consolidated financial statements. The Board of Directors of ČEZ, a. s., is responsible for the accuracy of the annual report. Our responsibility is to express, based on our review, an opinion on the consistency of the annual report with the consolidated financial statements.

We conducted our review in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We believe that our review provides a reasonable basis for our opinion.

Based on our review, the information presented in the annual report is consistent, in all material respects, with the above-mentioned consolidated financial statements of CEZ Group.

Ernst & Young Audit & Advisory, s.r.o.
License No. 401

Ladislav Langr
Auditor, License No. 257

April 13, 2006
Prague, Czech Republic

CEZ GROUP CONSOLIDATED BALANCE SHEET

IN ACCORDANCE WITH IFRS AS OF DECEMBER 31, 2005 AND 2004

(in CZK millions)

ASSETS	2005	2004 *)
Property, plant and equipment		
Plant in service	439,416	402,864
Less accumulated provision for depreciation	199,756	182,932
Net plant in service (Note 3)	239,660	219,932
Nuclear fuel, at amortized cost	7,860	7,956
Construction work in progress	11,570	11,308
Total property, plant and equipment	259,090	239,196
Other non-current assets		
Investment in associates	929	2,011
Investments and other financial assets, net (Note 4)	13,811	26,426
Intangible assets, net (Note 5)	6,046	3,379
Deferred tax assets (Note 25)	524	713
Total other non-current assets	21,310	32,529
Total non-current assets	280,400	271,725
Current assets		
Cash and cash equivalents (Note 9)	16,791	8,942
Receivables, net (Note 10)	14,792	9,189
Income tax receivable	1,478	26
Materials and supplies, net	3,671	3,333
Fossil fuel stocks	756	724
Emission rights (Note 11)	134	–
Other current assets (Note 12)	6,187	5,311
Total current assets	43,809	27,525
TOTAL ASSETS	324,209	299,250

EQUITY AND LIABILITIES	2005	2004 *)
Equity attributable to equity holders of the parent		
Stated capital	58,237	59,218
Retained earnings and other reserves	118,436	112,879
Total equity attributable to equity holders of the parent (Note 13)	176,673	172,097
Minority interests	14,616	6,350
Total equity	191,289	178,447
Long-term liabilities		
Long-term debt, net of current portion (Note 14)	30,586	38,140
Accumulated provision for nuclear decommissioning and fuel storage (Note 16)	35,869	29,441
Other long-term liabilities (Note 17)	14,974	14,868
Total long-term liabilities	81,429	82,449
Deferred tax liability (Note 25)	18,555	15,603
Current liabilities		
Short-term loans (Note 18)	265	240
Current portion of long-term debt (Note 14)	7,888	3,439
Trade and other payables (Note 20)	16,243	12,587
Income taxes payable	630	1,227
Accrued liabilities (Note 21)	7,910	5,258
Total current liabilities	32,936	22,751
TOTAL EQUITY AND LIABILITIES	324,209	299,250

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

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

CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
IN ACCORDANCE WITH IFRS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(in CZK millions)

	2005	2004 *)
Revenues		
Sales of electricity (Note 22)	115,949	92,183
Heat sales and other revenues	9,134	10,487
Total revenues	125,083	102,670
Operating expenses		
Fuel	9,010	9,305
Purchased power and related services	37,474	26,519
Repairs and maintenance	4,229	4,872
Depreciation and amortization	20,723	19,842
Salaries and wages (Note 23)	13,426	11,368
Materials and supplies	4,020	4,625
Emission rights (Note 11)	(1,053)	–
Other operating expenses (Note 24)	7,851	6,354
Total expenses	95,680	82,885
Income before other expenses (income) and income taxes	29,403	19,785
Other expenses (income)		
Interest on debt, net of capitalized interest (Note 2.7)	1,800	1,823
Interest on nuclear and other provisions (Note 2.22, 16 and 17)	2,447	2,425
Interest income	(437)	(721)
Foreign exchange rate losses (gains), net	266	(1,765)
Loss on sale of subsidiaries and associates	170	–
Negative goodwill write-off (Note 6)	(1,704)	–
Other expenses (income), net (Note 26)	(343)	244
Income from associates (Note 2.2)	(102)	(722)
Total other expenses (income)	2,097	1,284
Income before income taxes	27,306	18,501
Income taxes (Note 25)	5,024	4,233
Net income	22,282	14,268
Net income attributable to		
Equity holders of the parent	21,438	13,213
Minority interests	844	1,055
Net income per share attributable to equity holders of the parent (CZK per share) (Note 30)		
Basic	36.3	22.3
Diluted	36.2	22.3
Average number of shares outstanding (000s) (Notes 13 and 30)		
Basic	590,426	592,075
Diluted	592,211	592,211

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

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

CEZ GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IN ACCORDANCE WITH IFRS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(in CZK millions)

	Attributable to equity holders of the parent						
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	Total Equity
December 31, 2003, as previously reported	59,152	1	(81)	93,552	152,624	7,893	160,517
Effect of consolidation of Severočeské doly a.s. (Note 7)	–	–	45	9,328	9,373	1,185	10,558
December 31, 2003, as restated	59,152	1	(36)	102,880	161,997	9,078	171,075
Change in fair value of available-for-sale financial assets recognized in equity	–	–	(147)	–	(147)	(44)	(191)
Available-for-sale financial assets removed from equity	–	–	207	–	207	45	252
Change in fair value of cash flow hedges recognized in equity	–	–	(690)	–	(690)	–	(690)
Cash flow hedges removed from equity	–	–	621	–	621	–	621
Other movements	–	(3)	–	(12)	(15)	–	(15)
Gain and loss recorded directly to equity	–	(3)	(9)	(12)	(24)	1	(23)
Net income	–	–	–	13,213	13,213	1,055	14,268
Total gains and losses for the year	–	(3)	(9)	13,201	13,189	1,056	14,245
Gain on sale of ČEPS, a.s. net of tax (Note 29)	–	–	–	2,436	2,436	–	2,436
Effect of acquisition of ŠKODA PRAHA a.s. on equity	–	–	–	331	331	–	331
Acquisition of treasury shares	(488)	–	–	–	(488)	–	(488)
Sale of treasury shares	554	–	–	(222)	332	–	332
Dividends declared to shareholders of the parent	–	–	–	(4,738)	(4,738)	–	(4,738)
Dividends declared to minority interests	–	–	–	(1,172)	(1,172)	(261)	(1,433)
Change in minority due to acquisitions	–	–	–	–	–	(3,748)	(3,748)
Share options	–	–	130	–	130	–	130
Share on equity movements of associates	–	–	–	(2)	(2)	–	(2)
Contribution to equity	–	–	–	82	82	225	307
December 31, 2004	59,218	(2)	85	112,796	172,097	6,350	178,447
Change in fair value of available-for-sale financial assets recognized in equity	–	–	(43)	–	(43)	(3)	(46)
Available-for-sale financial assets removed from equity	–	–	18	–	18	1	19
Change in fair value of cash flow hedges recognized in equity	–	–	361	–	361	–	361
Cash flow hedges removed from equity	–	–	(124)	–	(124)	–	(124)
Translation differences	–	(787)	–	–	(787)	(478)	(1,265)
Other movements	–	–	(5)	6	1	3	4
Gain and loss recorded directly to equity	–	(787)	207	6	(574)	(477)	(1,051)
Net income	–	–	–	21,438	21,438	844	22,282
Total gains and losses for the year	–	(787)	207	21,444	20,864	367	21,231
Effect of acquisition of Severočeské doly a.s. on equity	–	–	–	(9,068)	(9,068)	–	(9,068)
Effect of acquisition of minority shares in ŠKODA PRAHA a.s. on equity	–	–	–	111	111	–	111
Acquisition of treasury shares	(1,312)	–	–	–	(1,312)	–	(1,312)
Sale of treasury shares	331	–	–	(79)	252	–	252
Dividends declared to shareholders of the parent	–	–	–	(5,309)	(5,309)	–	(5,309)
Dividends declared to minority interests	–	–	–	(1,198)	(1,198)	(536)	(1,734)
Change in minority due to acquisitions	–	–	–	–	–	8,435	8,435
Share options	–	–	296	–	296	–	296
Share on equity movements of associates	–	–	–	(60)	(60)	–	(60)
December 31, 2005	58,237	(789)	588	118,637	176,673	14,616	191,289

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

CEZ GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

IN ACCORDANCE WITH IFRS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(in CZK millions)

	2005	2004 *)
OPERATING ACTIVITIES		
Income before income taxes	27,306	18,501
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation, amortization and asset write-offs	20,743	19,979
Amortization of nuclear fuel	3,056	3,391
(Gain) loss on fixed asset retirements, net	86	(1,221)
Foreign exchange rate loss (gain), net	266	(1,765)
Interest expense, interest income and dividend income, net	1,246	871
Provision for nuclear decommissioning and fuel storage	1,061	538
Valuation allowances, other provisions and other adjustments	(937)	(72)
Income from associates	(102)	(722)
Changes in assets and liabilities		
Receivables	(2,325)	2,436
Materials and supplies	(137)	262
Fossil fuel stocks	(32)	209
Other current assets	(1,023)	2,662
Trade and other payables	325	(1,855)
Accrued liabilities	1,174	489
Cash generated from operations	50,707	43,703
Income taxes paid	(5,946)	(6,898)
Interest paid, net of capitalized interest	(1,540)	(1,433)
Interest received	444	719
Dividends received	230	550
Net cash provided by operating activities	43,895	36,641
INVESTING ACTIVITIES		
Acquisition of subsidiaries and associates, net of cash acquired (Note 6)	(12,258)	(18,166)
Proceeds from disposal of a subsidiaries and associates, net of cash disposed of	2,273	–
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.7)	(15,671)	(16,925)
Proceeds from sale of fixed assets	1,728	5,034
Change in decommissioning and other restricted funds	(42)	(443)
Total cash used in investing activities	(23,970)	(30,500)
FINANCING ACTIVITIES		
Proceeds from borrowings	539	15,083
Payments of borrowings	(4,356)	(10,419)
Proceeds from other long-term liabilities	265	96
Payments of other long-term liabilities	(300)	(372)
Dividends paid to Company's shareholders	(5,291)	(4,724)
Dividends paid to minority interests	(1,716)	(1,443)
(Acquisition) sale of treasury shares	(1,060)	(156)
Total cash used in financing activities	(11,919)	(1,935)
Net effect of currency translation in cash	(157)	(287)
Net increase in cash and cash equivalents	7,849	3,919
Cash and cash equivalents at beginning of period	8,942	5,023
Cash and cash equivalents at end of period	16,791	8,942
SUPPLEMENTARY CASH FLOW INFORMATION		
Total cash paid for interest	2,046	1,985

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

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

CEZ GROUP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2005

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 67.6% at December 31, 2005 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.

ČEZ is an electricity generation company, which produced approximately 72% of the electricity and a portion of the district heating in the Czech Republic in 2005. The Company operates ten fossil fuel plants, thirteen hydroelectric plants and two nuclear plants.

The company is a parent company of the CEZ Group ("the Group"), which is primarily engaged in the business of production, distribution and sale of electricity (see Notes 2.2 and 8). The average number of employees of the Company and its consolidated subsidiaries was 27,960 and 22,943, for the year 2005 and 2004, respectively.

In December 2004 Czech Parliament revised The Act on Conditions of Business Activity and State Administration in the Energy Industries (the "Energy Law"). 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 Office.

Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade (the "Ministry"), the Energy Regulatory Office 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 treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office 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 Office 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 started to be introduced gradually from 2002. In 2005 all electricity customers, except for households, were able to purchase electricity from any distributor, eligible generator or trader. From 2006 all customers can select their suppliers of electricity.

2. Summary of Significant Accounting Policies

2.1. Financial Statements
The accompanying consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). They are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

2.2. 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 8. Other investments are excluded from the consolidation because the impact on the consolidated financial statements would not be material. These investments are included in the balance sheet under investments and other financial 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 a 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 Group's interest in the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the Group's interest in the fair value of acquiree's net assets exceeds the cost of business combination ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss. In case of subsequent acquisition of a minority interest in a subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the minority interest acquired.

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
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. 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 other post-acquisition movements in equity of associates is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the company'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 impairment losses) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

d. Transactions involving entities under common control
Acquisitions of subsidiaries from entities under common control are recorded using a method similar to pooling of interests.

The assets and liabilities of the acquired subsidiaries are included in the consolidated financial statements at their book values. Financial statements of the Group report results of operations for the period in which the transfer occurs as though the transfer of net assets had occurred at the beginning of the period. Results of operations for that period thus comprise those of the previously separate entities from the beginning of the period to the date the acquisition is completed and those of the combined operations from that date to the end of the period. Financial statements and financial information presented for prior years is restated to furnish comparative information on the same basis.

The cost of acquisition of subsidiaries from entities under common control is recorded directly in equity.

Net gain on sale of a subsidiary or an associated company to an entity controlled by the Group's majority shareholder is recognized directly in equity.

2.3. Change in Accounting Policies

a. New IFRS standards
In 2005 the Group adopted the following International Financial Accounting Standards, which were relevant for the Group:

– IAS 1 (2003) Presentation of Financial Statements
– IAS 2 (2003) Inventories
– IAS 8 (2003) Accounting Policies, Changes in Accounting Estimates and Errors
– IAS 10 (2003) Events After the Balance-Sheet Date
– IAS 16 (2003) Property, Plant and Equipment
– IAS 17 (2003) Leases
– IAS 21 (2003) The Effects of Changes in Foreign Exchange Rates
– IAS 24 (2003) Related Party Disclosures
– IAS 27 (2003) Consolidated and Separate Financial Statements
– IAS 28 (2003) Investments in Associates
– IAS 32 (2003) Financial Instruments: Disclosure and Presentation
– IAS 33 (2003) Earnings per Share
– IAS 36 (2004) Impairment of Assets
– IAS 38 (2004) Intangible Assets
– IAS 39 (2004) Financial Instruments: Recognition and Measurement
– IFRS 2 Share-based Payment
– IFRS 3 Business Combinations
– IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The principal effects of these changes in policies are discussed below.

Following the adoption of revised standard IAS 1, minority interests are included as part of the Group's equity and not as a separate category on the balance sheet. Presentation of prior year financial statements has been adjusted to conform to the current year classification.

Amongst other matters, the revised standard IAS 8 requires that changes in accounting policies that arise from the application of new or revised standards and interpretations are applied retrospectively, unless otherwise specified in the transitional requirements of the particular standard or interpretation. Retrospective application requires that the results of the comparative period and the opening balances of that period be restated as if the new accounting policy had always been applied.

As of January 1, 2005 the Group adopted IAS 21 (revised). As a result any goodwill arising on the acquisition of a foreign operation and any fair value adjustment to the carrying amount of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. In accordance with transitional provisions of IAS 21 this change is applied prospectively.

IFRS 2 requires that the fair value of all equity compensation plan awards granted to employees and to board members be estimated at grant date and recorded as an expense over the vesting period. Under the Group's previous policy the expense for the share option plan was measured using the intrinsic value of the granted options. The transitional provisions of the standard require companies to apply the new standard with retrospective effect for all awards made after November 7, 2002 which had not yet vested at December 31, 2004. Adoption of IFRS 2 had no effect on previously reported financial statements, because all options granted prior to January 1, 2005 have vested prior that date and therefore the expense related to these options was not re-measured to fair value.

The adoption of new or revised IFRS standards did not have any effect on the opening balance of equity attributable to the Company's shareholders as at January 1, 2004 and 2005, respectively.

b. New IFRS Standards and Interpretations not yet effective

The Group is currently assessing the potential impacts of the new and revised standards that will be effective from January 1, 2006 or January 1, 2007. Most relevant to the Group's activities are IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRS 7 Financial Instruments: Disclosures, Amendments to IAS 1 Presentation of Financial Statements, IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. The Group does not expect that the new and revised standards and interpretations will have a significant effect on the Group's results and financial position, although they may expand the disclosures in certain areas.

c. Comparatives

During 2005 the Company acquired majority share in Severočeské doly a.s. The shares have been acquired from the majority shareholder of the Company and therefore the transaction has been accounted using a method similar to pooling of interests (see Note 2.2.d). Prior year financial information was restated to furnish comparative information (see Note 7).

2.4. 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.

2.5. Revenues

The Group recognizes revenue from supplies of electricity and related services based on contract terms. Differences between contracted amounts and actual supplies are settled through the market operator. Revenues are recognized, when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured.

Revenue from sale of goods is recognized when the goods are delivered and significant risks and rewards of ownership of the goods have passed to the buyer.

Revenue from services is recognized when the services are rendered.

Connection fees received from customers are deferred and recognized in income over the expected term of the customer relationship, which is currently estimated to be 20 years.

2.6. 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 3,056 million and CZK 3,391 million for the years ended December 31, 2005 and 2004, 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 16). Such charges amounted to CZK 254 million and CZK 203 million in 2005 and 2004, respectively.

2.7. Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 506 million and CZK 552 million, which was equivalent to an interest capitalization rate of 6.3% and 6.5% in 2005 and 2004, respectively.

2.8. Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and valuation allowances. 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. Government grants received for construction of certain items of property, plant and equipment decrease the acquisition cost of the respective items.

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, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment is recognized directly in profit or loss.

Depreciation
The Group depreciates the original cost of property, plant and equipment by using the straight-line method over the estimated economic lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. 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, plant and equipment 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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation of plant in service was CZK 19,573 million and CZK 19,073 million for the years ended December 31, 2005 and 2004, which was equivalent to a composite depreciation rate of 4.6% and 4.8%, respectively.

2.9. 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 related provisions (see Note 2.22). At December 31, 2005 and 2004 capitalized costs at net book value amounted to CZK 106 million and CZK 233 million, respectively.

2.10. Intangible Assets, Net
Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful lives of intangible assets ranges from 3 to 15 years.

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired.

2.11. Emission Rights
Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plan in 2005 certain companies of the Group have been granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

At April, 30, of the following year, at latest, these companies are required to remit a number of certificates representing the number of tones of CO_2 actually emitted. If a company does not fulfill this requirement and does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 40 per 1 ton of CO_2.

In the financial statements the emission rights, which were granted free of charge, are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost. If the granted allowances are not sufficient to cover actual emissions, the Group recognizes a provision, which is measured at the market value of the missing granted emission rights at the balance sheet date.

The Group also holds emission rights for trading purposes. The portfolio of emission rights held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss.

2.12. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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 Group 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 Group, 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 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 expenses (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 9). Foreign currency deposits are translated at December 31, 2005 and 2004 exchange rates, respectively.

2.15. Cash Restricted in Its Use

Restricted balances of cash, which are shown under non-current financial assets as restricted funds (see Note 4), relate to deposits for waste 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 Group.

2.16. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. At December 31, 2005 and 2004 the allowance for uncollectible receivables amounted to CZK 2,288 million and CZK 1,746 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. At December 31, 2005 and 2004 the provision for obsolescence amounted to CZK 124 million and CZK 191 million, respectively.

2.18. Fossil Fuel Stocks

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

2.19. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a. Fair value hedge

Gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to profit or loss over the remaining term to maturity.

b. Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in equity. The gain or loss relating to the ineffective portion is recognized in the income statement.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recorded to the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c. Other derivatives

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2.20. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic current income taxes are provided at a rate of 26% and 28% for the year ended December 31, 2005 and 2004, respectively, after adjustments for certain items which are not deductible, or taxable, for taxation purposes.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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:

– where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
– in respect of taxable temporary differences associate with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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 is 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.

The carrying amount of long-term debt, which is hedged against the changes in its fair value, is adjusted by the changes in the fair value attributable to the hedged risk. The changes in the fair value of the hedged long-term debt are recognized in profit or loss.

2.22. Nuclear Provisions

The 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 and other radioactive waste 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 at the date of the estimate, 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% and 2.0% in 2005 and 2006 and the following years, respectively.

The decommissioning process is expected to continue for approximately a sixty-year period subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. 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 vary significantly from the Group's current estimates.

Since 2004, pursuant to IFRIC 1 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. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period. If the adjustment results in an addition to the cost of an asset, the Group performs an impairment review to confirm, whether the value of the asset is fully recoverable.

2.23. Provisions for decommissioning and reclamation of mines and mining damages

The Group has recognized provisions for its obligations to decommission and reclaim its mines at the end of their operating lives (see Notes 7 and 17). 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 mines. 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 2.0% annually.

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. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period.

2.24. Leases

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 estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

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.

2.25. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from stated capital. 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.

2.26. Share Options

Board of Directors, members of Executive Committee (advisory body of Chief Executive Officer) and the Supervisory Board members have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. In case of options, which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options, which will ultimately vest. In 2005 and 2004 the expense recognized in respect of the share option plan amounted to CZK 296 million and CZK 148 million, respectively.

Prior to adoption of IFRS 2, i.e. till December 31, 2004, an expense related to share option plan was measured on the date of the grant to the extent the quoted market price of the shares exceeded the exercise price of the share options. All options granted before January 1, 2005, had no vesting conditions and could be exercised immediately after the grant. The Company has taken advantage of the transitional provisions of IFRS 2 in respect of equity settled awards. As result the Company has applied IFRS 2 only to share options granted after November 7, 2002, that had not vested on January 1, 2005, i.e. only to share options granted since January 1, 2005.

2.27. Translation of Foreign Currencies

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional 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 for 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 equity securities are included 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 items of foreign subsidiaries are translated at 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 foreign operation and are translated at the closing exchange rate.

3. Net Plant in Service

Net plant in service at December 31, 2005 and 2004 is as follows (in CZK millions)

	Buildings	Plant and Equipment	Land and Other	Total 2005	Total 2004
Cost – opening balance	139,965	258,168	4,731	402,864	394,296
Plant additions	4,574	9,417	74	14,065	11,125
Retirements	(688)	(3,212)	(21)	(3,921)	(3,541)
Acquisition of subsidiaries	19,404	4,539	384	24,327	604
Disposal of subsidiaries	(52)	(78)	(3)	(133)	8
Change in estimate of decommissioning provisions	–	5,113	(1,615)	3,498	373
Reclassification and other	(287)	228	27	(32)	(1)
Currency translation differences	(984)	(249)	(19)	(1,252)	–
Cost – closing balance	161,932	273,926	3,558	439,416	402,864
Accumulated deprec. and allowances – opening balance	(57,291)	(124,846)	(795)	(182,932)	(165,945)
Depreciation	(4,847)	(14,716)	(10)	(19,573)	(19,073)
Net book value of assets disposed	(233)	(296)	(1)	(530)	(1,100)
Retirements	688	3,212	1	3,901	3,467
Acquisition of subsidiaries	–	–	–	–	–
Disposal of subsidiaries	16	61	45	122	–
Reclassification and other	166	(156)	(4)	6	(19)
Impairment losses recognized	(1,005)	(152)	(10)	(1,167)	(493)
Impairment losses reversed	245	138	3	386	231
Currency translation differences	17	14	–	31	–
Accumulated deprec. and allowances – closing balance	(62,244)	(136,741)	(771)	(199,756)	(182,932)
Net plant in service – closing balance	99,688	137,185	2,787	239,660	219,932

At December 31, 2005 and 2004 plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2005	2004
Cost	20,541	15,428
Accumulated depreciation	(3,820)	(3,466)
Total net book value	16,721	11,962

The carrying value of plant and equipment held under finance lease at December 31, 2005 and 2004 is CZK 270 million and CZK 811 million, respectively (see Note 19).

Group's plant in service pledged as security for liabilities at December 31, 2005 and 2004 is CZK 234 million and CZK 73 million, respectively.

4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2005 and 2004 consist of the following (in CZK millions)

	2005	2004
Financial assets in progress, net	164	8,722
Debt securities held-to-maturity	916	989
Debt securities available-for-sale, net	4,400	5,385
Equity securities available-for-sale	2,288	2,354
Restricted funds for nuclear decommissioning	1,921	1,580
Other restricted funds	878	1,177
Long-term receivables, net	3,244	6,219
Total	13,811	26,426

The financial assets in progress represent advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year end. At December 31, 2004, the balance includes mainly the investment in three Bulgarian distribution companies.

At December 31, 2005 and 2004 impairment provisions for financial assets available-for-sale amounted to CZK 173 million and CZK 161 million, respectively, impairment provisions for financial assets in progress amounted to CZK 89 million and CZK 77 million, respectively and for long-term receivables amounted to CZK 13 million and CZK 33 million, respectively.

Debt securities at December 31, 2005 are contracted to mature in the following periods after the balance sheet date (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1–2 years	1,056	210	1,485	2,751
Due in 2–3 years	841	53	1,166	2,060
Due in 3–4 years	1,274	332	719	2,325
Due in 4–5 years	1	321	760	1,082
Due in more than 5 years	72	–	270	342
Total	3,244	916	4,400	8,560

Debt securities at December 31, 2004 are contracted to mature in the following periods after the balance sheet date (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1–2 years	3,174	436	2,706	6,316
Due in 2–3 years	994	199	1,340	2,533
Due in 3–4 years	745	–	906	1,651
Due in 4–5 years	1,271	226	433	1,930
Due in more than 5 years	35	128	–	163
Total	6,219	989	5,385	12,593

Debt securities at December 31, 2005 have following effective interest rate structure (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	3,244	–	462	3,706
From 2.0% to 3.0%	–	365	1,631	1,996
From 3.0% to 4.0%	–	415	1,906	2,321
From 4.0% to 5.0%	–	–	107	107
Over 5.0%	–	136	294	430
Total	3,244	916	4,400	8,560

Debt securities at December 31, 2004 have following effective interest rate structure (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	6,219	–	–	6,219
From 2.0% to 3.0%	–	–	1,347	1,347
From 3.0% to 4.0%	–	744	2,673	3,417
From 4.0% to 5.0%	–	66	409	475
Over 5.0%	–	179	956	1,135
Total	6,219	989	5,385	12,593

The following table analyses the debt securities at December 31, 2005 by currency (in CZK millions)

	CZK	USD	EUR	Total
Long-term receivables	3,111	124	9	3,244
Debt securities held-to-maturity	916	–	–	916
Debt securities available-for-sale	4,400	–	–	4,400
Total	8,427	124	9	8,560

The following table analyses the debt securities at December 31, 2004 by currency (in CZK millions)

	CZK	USD	EUR	Total
Long term receivables	6,117	102	–	6,219
Debt securities held-to-maturity	989	–	–	989
Debt securities available-for-sale	5,385	–	–	5,385
Total	12,491	102	–	12,593

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2005 and 2004 are as follows (in CZK millions)

	Software	Rights and Other	Goodwill	Total 2005	Total 2004
Cost – opening balance	5,170	503	759	6,432	5,003
Additions	1,449	116	–	1,565	1,164
Retirements	(262)	(32)	–	(294)	(337)
Acquisition of subsidiaries	50	1,196	1,429	2,675	602
Disposal of subsidiaries	(7)	–	(89)	(96)	–
Reclassification and other	1	(1)	–	–	–
Currency translation differences	(3)	(57)	(59)	(119)	–
Cost – closing balance	6,398	1,725	2,040	10,163	6,432
Accumulated amortization – opening balance	(3,796)	(113)	–	(3,909)	(3,502)
Amortization charge for the year	(972)	(178)	–	(1,150)	(769)
Net book value of assets disposed	(5)	(26)	–	(31)	–
Disposals	262	32	–	294	364
Acquisition of subsidiaries	–	–	–	–	–
Disposal of subsidiaries	6	–	–	6	–
Impairment losses recognized	(16)	(3)	–	(19)	(2)
Impairment losses reversed	1	–	–	1	–
Currency translation differences	–	3	–	3	–
Accumulated amortization – closing balance	(4,520)	(285)	–	(4,805)	(3,909)
Net intangible assets – closing balance	1,878	1,440	2,040	5,358	2,523

At December 31, 2005 and 2004, intangible assets presented on the balance sheet include intangible assets in progress in the amount of CZK 688 million and CZK 856 million, respectively.

At December 31, 2005 and 2004 the substantial part of goodwill was allocated to the distribution segment (see Note 28) and there have been no accumulated impairment losses.

The recoverable amount of goodwill of the distribution segment has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by management covering a five-year period. The average discount rate applied to cash flow projections is 10% and cash flows beyond the five-year period are extrapolated using estimated growth rate of 2%.

Key assumptions used by management in calculation of recoverable amount are as follows:

Discount rate – The basis used to determine the value assigned to discount rate is weighted average of cost of capital (WACC) of related subsidiaries.

Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is forecast of market and regulatory environment, where subsidiaries conduct the business.

6. Acquisition of subsidiaries and associates from third parties

Acquisitions of subsidiaries from third parties in 2005
On January 18, 2005 the Company acquired 67% shares in three Bulgarian electricity distribution companies (“BDCs”): Elektrorazpredelenie Pleven EAD, Elektrorazpredelenie Sofia Oblast EAD and Elektrorazpredelenie Stolichno EAD.
On September 30, 2005 the Company acquired a 51% share in Romanian electricity distribution company Electrica Oltenia S.A.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired in 2005 at the dates of acquisitions are as follows (in CZK millions):

	BDCs	Electrica Oltenia S.A.	Total
Shares acquired in 2005	67.0%	51.0%	
Property, plant and equipment, net	13,758	11,417	25,175
Other non-current assets	925	321	1,246
Cash and cash equivalents	57	3,366	3,423
Other current assets	1,420	1,625	3,045
Long-term liabilities	(815)	(983)	(1,798)
Deferred income taxes	(1,371)	(564)	(1,935)
Current liabilities	(2,823)	(1,960)	(4,783)
Total net assets	11,151	13,222	24,373
Minority interests	(3,680)	(6,479)	(10,159)
Share of net assets acquired	7,471	6,743	14,214
Goodwill (negative goodwill)	1,217	(1,675)	(458)
Total purchase consideration	8,688	5,068	13,756
Less			
Cash and cash equivalents in subsidiaries acquired	(57)	(3,366)	(3,423)
Cash outflow on acquisition of subsidiaries	8,631	1,702	10,333

The carrying values of the acquired assets and liabilities of the subsidiaries acquired in 2005 immediately before the acquisitions were as follows (in CZK millions):

	BDCs	Electrica Oltenia S.A.	Total
Property, plant and equipment, net	7,876	7,953	15,829
Other non-current assets	38	–	38
Cash and cash equivalents	57	3,366	3,423
Other current assets	1,535	1,626	3,161
Long-term liabilities	(815)	(1,135)	(1,950)
Deferred income taxes	(521)	(18)	(539)
Current liabilities	(1,835)	(1,817)	(3,652)
Total book value of net assets	6,335	9,975	16,310

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group’s income statement for the year 2005 (in CZK millions):

	BDCs	Electrica Oltenia S.A.	Total
Revenues	11,836	2,599	14,435
Net income	640	289	929

Acquisitions of minority shares in 2005
During 2005 ČEZ purchased further minority shares in 3 of the Czech distribution companies and other companies from various third parties. The following table summarizes the critical terms of the subsequent acquisitions of minority shares during 2005 (in CZK millions):

	Group SME	Other companies	Total
Shares acquired in 2005 from third parties	10.6%		
Share of net assets acquired	1,229	448	1,677
Goodwill	156	56	212
Negative goodwill	–	(28)	(28)
Effect of acquisition of ŠKODA PRAHA a.s. recognized directly in equity	–	(111)	(111)
Total purchase price	1,385	365	1,750

The following table summarizes the cash outflows on acquisitions of subsidiaries and minority shares during 2005 (in CZK millions):

	Total
Cash outflows on acquisition of subsidiaries	10,333
Cash outflows on purchase of minority shares in Czech distribution companies and other companies	1,750
Cash outflows on acquisition of Severočeské doly a.s. (see Note 7)	9,068
Change in payables from acquisitions	(179)
Cash paid for financial assets in progress in prior year	(8,714)
Total cash outflows on acquisitions in 2005	12,258

The cash paid for financial assets in progress represents advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year end (see Notes 4).

7. Acquisition of Severočeské doly a.s.

In December 2005 the Company purchased a 55.8% share in its mining subsidiary Severočeské doly a.s. ("SD") from the Czech Republic National Property Fund. Total purchase consideration including related expenses was CZK 9,068 million. Through this transaction the Company increased its share to 93.1%. At the time of the transaction Czech Republic National Property Fund was the majority shareholder of the Severočeské doly a.s. This transaction between entities under common control was therefore accounted for using a method similar to pooling of interests. Prior year financial information was restated to furnish comparative information on the same basis as in the current period (see Note 2.2).

The following table summarizes the impact of retrospective consolidation using the pooling of interests method on the previously reported consolidated statement of income for the year ended December 31, 2004 (in CZK millions):

Consolidated statement of income

for the year ended December 31, 2004	As previously reported	Results of Group SD	Reversal of previous accounting for SD	Eliminations and other consolidation adjustments	As restated
Total revenues	100,165	7,953	–	(5,448)	102,670
Operating expenses					
Fuel	14,370	–	–	(5,065)	9,305
Purchased power and related services	26,511	629	–	(621)	26,519
Repairs and maintenance	4,420	735	–	(283)	4,872
Depreciation and amortization	18,384	1,478	–	(20)	19,842
Salaries and wages	9,644	1,752	–	(28)	11,368
Materials and supplies	3,769	892	–	(36)	4,625
Other operating expenses	3,912	1,855	–	587	6,354
Total expenses	81,010	7,341	–	(5,466)	82,885
Income before other expenses (income) and income taxes	19,155	612	–	18	19,785
Other expenses (income)					
Income from associates	(734)	(28)	36	4	(722)
Other, net	1,961	389	–	(344)	2,006
Total other expenses (income)	1,227	361	36	(340)	1,284
Income before income taxes	17,928	251	(36)	358	18,501
Income taxes	3,845	72	233	83	4,233
Net income	14,083	179	(269)	275	14,268
Attributable to					
Equity holders of the parent	13,059	179	(269)	244	13,213
Minority interests	1,024	–	–	31	1,055
Net income per share attributable to equity holders of the parent (CZK per share)					
Basic	22.1				22.3
Diluted	22.1				22.3

The following table summarizes the impact of retrospective consolidation using the pooling of interests method on the previously reported consolidated balance sheet as of December 31, 2004 (in CZK millions):

Consolidated balance sheet

as of December 31, 2004	As previously reported	Results of Group SD	Reversal of previous accounting for SD	Eliminations and other consolidation adjustments	As restated
Non-current assets					
Total property, plant and equipment	227,435	11,267	–	494	239,196
Investment in associates	7,474	304	(5,500)	(267)	2,011
Other	23,173	7,761	–	(416)	30,518
Total non-current assets	258,082	19,332	(5,500)	(189)	271,725
Current assets					
Cash and cash equivalents	7,545	1,397	–	–	8,942
Receivables, net	8,904	939	–	(654)	9,189
Materials and supplies, net	3,184	164	–	(15)	3,333
Other	3,100	2,945	–	16	6,061
Total current assets	22,733	5,445	–	(653)	27,525
Total assets	280,815	24,777	(5,500)	(842)	299,250
Equity					
Equity attributable to equity holders of the parent	163,689	14,781	(5,072)	(1,301)	172,097
Minority interests	5,282	3	–	1,065	6,350
Total equity	168,971	14,784	(5,072)	(236)	178,447
Long-term liabilities					
Long-term debt, net of current portion	38,190		–	(50)	38,140
Accumulated provision for nuclear decommissioning and fuel storage	29,441	–	–	–	29,441
Other long-term liabilities	6,098	8,792	–	(22)	14,868
Total long-term liabilities	73,729	8,792	–	(72)	82,449
Deferred tax liability	16,008	44	(428)	(21)	15,603
Current liabilities					
Trade and other payables	12,409	665	–	(487)	12,587
Income taxes payable	1,021	207	–	(1)	1,227
Other current liabilities	8,677	285	–	(25)	8,937
Current liabilities	22,107	1,157	–	(513)	22,751
Total equity and liabilities	280,815	24,777	(5,500)	(842)	299,250

8. 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:

Subsidiaires	Country of incorporation	% equity interest [1] 2005	% voting interest 2005	% equity interest [1] 2004	% voting interest 2004
Západočeská energetika, a.s.	Czech Republic	100.00	100.00	99.13	99.13
Východočeská energetika, a.s.	Czech Republic	100.00	100.00	98.83	98.83
Severomoravská energetika, a. s.	Czech Republic	100.00	100.00	89.38	89.38
Středočeská energetická a.s.	Czech Republic	97.72	97.72	97.72	97.72
Severočeská energetika, a.s.	Czech Republic	56.93	56.93	56.93	56.93
ČEZ Distribuce, a. s. [2]	Czech Republic	88.10	100.00	–	–
ČEZ Distribuční služby, s.r.o. [2]	Czech Republic	100.00	100.00	–	–
ČEZ Měření, s.r.o. [2]	Czech Republic	100.00	100.00	–	–
ČEZ Prodej, s.r.o. [2]	Czech Republic	89.70	100.00	–	–
ČEZ Obnovitelné zdroje, s.r.o. [3]	Czech Republic	100.00	100.00	98.83	100.00
ČEZData, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZ Logistika, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZ Správa majetku, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZnet, a.s.	Czech Republic	100.00	100.00	100.00	100.00
ŠKODA PRAHA a.s.	Czech Republic	100.00	100.00	68.88	68.88
Severočeské doly a.s. [6]	Czech Republic	93.10	93.10	92.66	92.66
SD - 1.strojírenská, a.s. [6]	Czech Republic	93.10	100.00	92.66	100.00
SD - Autodoprava, a.s. [6]	Czech Republic	93.10	100.00	92.66	100.00
SD - Kolejová doprava, a.s. [6]	Czech Republic	93.10	100.00	92.66	100.00
Energetické opravny, a.s.	Czech Republic	100.00	100.00	100.00	100.00
I & C Energo a.s.	Czech Republic	100.00	100.00	100.00	100.00
VČE - montáže, a.s.	Czech Republic	100.00	100.00	98.83	100.00
Energetika Vítkovice, a.s.	Czech Republic	100.00	100.00	89.38	100.00
ePRIM, a.s., v likvidaci	Czech Republic	100.00	100.00	89.38	100.00
MSEM, a.s.	Czech Republic	100.00	100.00	89.38	100.00
STE - obchodní služby spol. s r.o.	Czech Republic	97.72	100.00	74.42	76.16
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46	52.46	52.46	52.46
CEZ FINANCE B. V.	Netherlands	100.00	100.00	100.00	100.00
rpg Energiehandel GmbH	Germany	100.00	100.00	100.00	100.00
Elektrorazpredelenie Pleven EAD [2]	Bulgaria	67.00	67.00	–	–
Elektrorazpredelenie Sofia Oblast EAD [2]	Bulgaria	67.00	67.00	–	–
Elektrorazpredelenie Stolichno EAD [2]	Bulgaria	67.00	67.00	–	–
CEZ Bulgaria EAD [2]	Bulgaria	100.00	100.00	–	–
Electrica Oltenia S.A. [2]	Romania	51.00	51.00	–	–
Union Leasing, a.s. [4]	Czech Republic	–	–	89.38	100.00
První energetická a.s. [4]	Czech Republic	–	–	87.27	100.00
EN-DATA a.s. [5]	Czech Republic	–	–	100.00	100.00
HYDROČEZ,a.s. [3]	Czech Republic	–	–	100.00	100.00

Associates	Country of incorporation	% equity interest [1] 2005	% voting interest 2005	% equity interest [1] 2004	% voting interest 2004
KOTOUČ ŠTRAMBERK, spol. s r. o.	Czech Republic	25.00	25.00	64.87	50.00
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05	50.00	51.05	50.00
Plzeňská energetika a.s.	Czech Republic	50.00	50.00	49.57	50.00
KNAUF POČERADY, spol. s r.o.	Czech Republic	40.00	50.00	40.00	50.00
Aliatel a.s. [4]	Czech Republic	–	–	26.40	30.58
Coal Energy, a.s.	Czech Republic	38.62	40.00	38.53	40.00

[1] The equity interest represents effective ownership interest of the Group.
[2] Companies have been found in 2005 or have been included in consolidated group in 2005.
[3] In 2005 VČE - elektrárny, s.r.o. has been renamed to ČEZ Obnovitelné zdroje, s.r.o. In the same year ČEZ Obnovitelné zdroje, s.r.o. has merged with HYDROČEZ,a.s., successional company is ČEZ Obnovitelné zdroje, s.r.o.
[4] Shares have been sold in 2005.
[5] EN-DATA a.s. has been merged with successional company ČEZData, s.r.o. in 2005.
[6] The equity interest and voting rights in Severočeské doly a.s. and its subsidiaries as at December 31, 2004 include the shares of the Czech Republic National Property Fund, which were sold in 2005 to ČEZ. The acquisition of Severočeské doly group was accounted using method similar to pooling of interests (see Note 7).

The investments in associates are not listed on any public exchange. The following table illustrates summarized financial information of associates for the year ended December 31, 2005 (in CZK millions):

	Total assets	Total liabilites	Equity	Revenues	Net income
KOTOUČ ŠTRAMBERK, spol. s r. o.	640	249	391	436	19
LOMY MOŘINA spol. s r.o.	415	44	371	189	2
Plzeňská energetika a.s.	1,931	1,161	770	820	466
KNAUF POČERADY, spol. s r.o.	519	63	456	418	40
Coal Energy, a.s.	1,045	854	191	8,714	126
Total	4,550	2,371	2,179	10,577	653

9. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2005 and 2004 is as follows (in CZK millions)

	2005	2004
Cash on hand and current accounts with banks	8,703	1,778
Short-term bank notes	2,932	6,208
Term deposits	5,156	956
Total	16,791	8,942

At December 31, 2005 and 2004, cash and cash equivalents included foreign currency deposits of CZK 5,228 million and CZK 1,210 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2005 and 2004 was 11.2% and 2.2%, respectively. For the years 2005 and 2004 the weighted average interest rate was 3.4% and 2.1%, respectively. Increase of weighted average interest rate at December 31, 2005, and for the year 2005, respectively, was caused by higher interest rate in Romania.

10. Receivables, Net

The composition of receivables, net, at December 31, 2005 and 2004 is as follows (in CZK millions)

	2005	2004
Unbilled electricity supplied to retail customers	3,980	2,203
Received advances from retail customer	(3,634)	(2,020)
Unbilled supplies to retail customers, net	346	183
Trade receivables	15,831	9,582
Taxes and fees, excluding income taxes	309	439
Other receivables	594	731
Allowance for doubtful receivables	(2,288)	(1,746)
Total	14,792	9,189

The information about receivables from related parties is included in Note 27.

11. Emission Rights

In 2005 emission trading scheme was introduced in the European Union. The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights during 2005 (in CZK millions):

	Quantity	Book value
Granted emission rights		
Granted emission rights at January 1, 2005	–	–
Emission rights granted in 2005	37,522	–
Emission rights sold	(2,430)	–
Granted emission rights at December 31, 2005	35,092	–
Emission rights held for trading		
Emission rights for trading at January 1, 2005	–	–
Emission rights purchased	859	550
Emission rights sold	(640)	(410)
Fair value adjustment	–	(6)
Emission rights held for trading at December 31, 2005	219	134

During 2005 total emissions of greenhouse gases made by the Group companies amounted to an equivalent 33,320 thousand tons of CO_2. Because the actual emissions during 2005 were lower than the quantity of granted emission rights at the balance sheet date, the Group did not recognize any provision for missing emission rights (see Note 2.11).

The following table shows the impact of transactions with emission rights on income for the year ended December 31, 2005 (in CZK millions):

	2005
Gain on sales of granted emission rights	1,038
Net gain from emission trading	21
Fair value adjustment to trading allowances	(6)
Net gain related to emission rights	1,053

12. Other Current Assets

The composition of other current assets at December 31, 2005 and 2004 is as follows (in CZK millions)

	2005	2004
Debt securities held for trading	1,171	1,193
Debt securities held-to-maturity	1,207	2,740
Debt securities available-for-sale	1,312	155
Equity securities held for trading	42	29
Equity securities available-for-sale	129	113
Advances paid	746	401
Prepayments	617	521
Derivatives	963	159
Total	6,187	5,311

Short-term debt securities at December 31, 2005 have following effective interest rate structure (in CZK millions)

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
Less than 2.0%	132	–	132	264
From 2.0% to 3.0%	990	614	606	2,210
From 3.0% to 4.0%	21	527	191	739
From 4.0% to 5.0%	64	139	179	382
Over 5.0%	–	32	63	95
Total	1,207	1,312	1,171	3,690

Short-term debt securities at December 31, 2004 have following effective interest rate structure (in CZK millions)

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
Less than 2.0%	–	–	–	–
From 2.0% to 3.0%	2,719	37	553	3,309
From 3.0% to 4.0%	–	–	107	107
From 4.0% to 5.0%	21	118	173	312
Over 5.0%	–	–	360	360
Total	2,740	155	1,193	4,088

All short-term debt securities are denominated in CZK.

13. Equity Attributable to Equity Holders of the Parent

The Company's stated capital as of December 31, 2005 and 2004 is as follows

	Number of Shares Outstanding	Per Value per Share (CZK)	Total (CZK millions)
2005			
Registered shares	592,210,843	100	59,221
Treasury shares	(2,440,000)	100	(984)
Total	589,770,843		58,237
2004			
Registered shares	592,210,843	100	59,221
Treasury shares	(10,000)	100	(3)
Total	592,200,843		59,218

The Company owned 745,000 treasury shares as of December 31, 2003. During year 2004 the Company acquired 2,355,000 treasury shares and sold 3,090,000 treasury shares. During year 2005 the Company acquired 3,210,000 treasury shares and sold 780,000 treasury shares. The remaining 2,440,000 treasury shares are reflected in the balance sheet at cost as a deduction from stated capital. The profit or loss on sale of treasury shares were included in retained earnings. Treasury shares held by the Company are used to cover the Company's obligations associated with the share option plan (see Note 2.26).

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 after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As of December 31, 2005 and 2004, the balance was CZK 13,076 million and CZK 11,336 million, respectively, and is reported as a component of retained earnings.

Dividends paid per share were CZK 9.0 and CZK 8.0 in 2005 and 2004, respectively. Dividends from 2005 profit will be declared on general meeting, which will be held till the end of June 2006.

14. Long-term Debt

Long-term debt at December 31, 2005 and 2004 is as follows (in CZK millions)

	2005	2004
7.125% Notes, due 2007 (USD 178 million)	4,406	3,962
7.25% Eurobonds, due 2006 (EUR 200 million)	5,934	6,233
4.625% Eurobonds, due 2011 (EUR 400 million)	11,532	12,101
9.22% Zero Coupon Debentures, due 2009 (CZK 4,500 million)	3,561	3,299
9.22% Debentures, due 2014 (CZK 2,500 million) [1)]	2,495	2,494
3.35% Debentures, due 2008 (CZK 3,000 million)	2,913	2,940
6M PRIBOR + 1.3%, due 2005 (CZK 500 million)	–	500
6M PRIBOR + 0.4%, due 2005 (CZK 1,000 million)	–	1,000
Long-term bank loans		
2.00% to 2.99% p. a.	2,362	5,975
3.00% to 3.99% p. a.	659	113
4.00% to 4.99% p. a.	2,477	889
5.00% to 5.99% p. a.	949	747
6.00% to 6.99% p. a.	274	324
7.00% to 7.99% p. a.	832	887
8.00% p. a. and more	80	115
Total long-term debt	38,474	41,579
Less: Current portion	(7,888)	(3,439)
Long-term debt, net of current portion	30,586	38,140

[1)] From 2006 the interest rate changes to consumer price index in the Czech Republic 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 Company. For the fair values of interest rate hedging instruments see Note 15.

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

	2005	2004
Current portion	7,888	3,439
Between 1 and 2 years	6,928	8,035
Between 2 and 3 years	3,680	6,162
Between 3 and 4 years	4,076	3,684
Between 4 and 5 years	469	3,806
Thereafter	15,433	16,453
Total long-term debt	38,474	41,579

The following table analyses the long-term debt at December 31, 2005 and 2004 by currency (in millions)

	2005		2004	
	Foreign currency	CZK	Foreign currency	CZK
EUR	633	18,440	643	19,655
USD	350	8,660	405	9,058
CZK	–	11,374	–	12,866
Total long-term debt		38,474		41,579

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 Group has entered into a number of derivatives transactions, mainly cross-currency swaps, to hedge its long-term debt denominated in foreign currencies against the currency risk and interest rate risk. These hedges are classified as either fair value hedges or cash flow hedges (see Note 15). As at December 31, 2005 and 2004 a net unrealized loss of CZK 94 million and CZK 70 million, respectively, is included in equity in respect of the cash flow hedges.

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 repricing dates at December 31, 2005 and 2004 without considering interest rate hedging (in CZK millions):

	2005	2004
Floating rate long-term debt		
with interest rate fixed for 1 month	955	1,152
with interest rate fixed from 1 to 3 months	3,907	4,584
with interest rate fixed from 3 months to 1 year	995	1,242
with interest rate fixed for more than 1 year	2,495	2,494
Total floating rate long-term debt	8,352	9,472
Fixed rate long-term debt	30,122	32,107
Total long-term debt	38,474	41,579

In addition to the hedging of long-term debt against the currency and interest rate risks, the Company also enters into cash flow hedges of future revenues in EUR from sale of electricity and emission rights. The hedging instrument is the liability from the 3rd issue of Eurobonds in the total amount of EUR 400 million. The exchange rate differences on the hedging instrument were reported directly in equity in total amount of CZK 314 million in 2005.

In 1992 the Company has entered into a loan agreement with the International Bank for Reconstruction and Development. The agreement contains financial covenants relating to capital expenditure coverage, cash flow coverage and debt service coverage. In 2005 and 2004 the Company has complied with all required covenants.

15. 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. For equity instruments for which there are no quoted market prices and which are carried at cost, 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, 2005 and 2004 are as follows (in CZK millions)

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Investments	13,811	13,811	26,426	26,426
Receivables	14,792	14,792	9,189	9,189
Cash and cash equivalents	16,791	16,791	8,942	8,942
LIABILITIES				
Long-term debt	(38,474)	(40,085)	(41,579)	(43,798)
Short-term loans	(265)	(265)	(240)	(240)
Accounts payable	(12,032)	(12,032)	(8,412)	(8,412)
DERIVATIVES				
Cash flow hedges				
Receivables	–	–	–	–
Payables	(787)	(787)	(1,265)	(1,265)
Total cash flow hedges	(787)	(787)	(1,265)	(1,265)
Fair value hedges				
Receivables	25	25	21	21
Payables	(2,045)	(2,045)	(1,900)	(1,900)
Total fair value hedges	(2,020)	(2,020)	(1,879)	(1,879)
Electricity trading contracts				
Receivables	771	771	–	–
Payables	(576)	(576)	–	–
Total electricity trading contracts	195	195	–	–
Other derivatives				
Receivables	160	160	138	138
Payables	(803)	(803)	(1,010)	(1,010)
Total other derivatives	(643)	(643)	(872)	(872)

16. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

ČEZ, a. s. operates two nuclear power plants, Dukovany and Temelín. Nuclear power plant Dukovany consists of four 440 MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000 MW units, which have started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of a nuclear facilities and the 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 2042 for Temelín. An updated 2003 Dukovany estimate and a 2004 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 15.6 billion and CZK 13.7 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds are shown in the balance sheet under other non-current financial assets (see Note 4).

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. In 2005 and 2004, respectively, the payments to the nuclear account amounted to CZK 1,236 million and CZK 1,316 million, respectively. 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 storage of spent nuclear fuel.

The 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, 2005 and 2004 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommissioning	Spent fuel storage: Interim	Spent fuel storage: Long-term	Total
Balance at December 31, 2003	8,170	3,131	16,863	28,164
Movements during 2004				
Discount accretion	202	78	422	702
Effect of inflation	363	141	759	1,263
Provision charged to income statement	–	203	–	203
Effect of change in estimate credited to income statement (Note 2.22)	–	(44)	–	(44)
Effect of change in estimate added to fixed assets (Note 2.22)	359	–	177	536
Current cash expenditures	–	(67)	(1,316)	(1,383)
Balance at December 31, 2004	9,094	3,442	16,905	29,441
Movements during 2005				
Discount accretion	227	86	423	736
Effect of inflation	409	155	760	1,324
Provision charged to income statement	–	672	–	672
Effect of change in estimate charged to income statement (Note 2.22)	–	50	–	50
Effect of change in estimate added to (deducted from) fixed assets (Note 2.22)	(8)	–	5,121	5,113
Current cash expenditures	–	(231)	(1,236)	(1,467)
Balance at December 31, 2005	9,722	4,174	21,973	35,869

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. In 2005 the effect of change in estimate added to fixed assets relates mainly to the change in the nominal discount rate from 7% to 4.5%.

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.

17. Other Long-term Liabilities

Other long-term liabilities at December 31, 2005 and 2004 are as follows (in CZK millions)

	2005	2004
Provision for decommissioning and reclamation of mines and mining damages	7,203	8,769
Other long-term provisions	736	907
Deferred connection fees	6,344	5,006
Other	691	186
Total	14,974	14,868

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ (see Note 7). Severočeské doly a.s. operates an open pit coal mine and are responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. The current cost estimates for the decommissioning and reclamation provision have been discounted using estimated real rate of interest of 2.5%.

The following is a summary of the provisions for the years ended December 31, 2005 and 2004 (in CZK millions):

	Mine reclamation	Mining damages	Total
Balance at December 31, 2003	7,307	456	7,763
Movements during 2004			
Discount accretion	175	–	175
Effect of inflation	245	–	245
Provision charged to income statement	302	925	1,227
Effect of change in estimate deducted from fixed assets	(164)	–	(164)
Current cash expenditures	(312)	(165)	(477)
Balance at December 31, 2004	7,553	1,216	8,769
Movements during 2005			
Discount accretion	148	–	148
Effect of inflation	207	–	207
Provision charged to income statement	30	519	549
Effect of change in estimate credited to income statement	(25)	–	(25)
Effect of change in estimate deducted from fixed assets	(1,615)	–	(1,615)
Current cash expenditures	(215)	(615)	(830)
Balance at December 31, 2005	6,083	1,120	7,203

18. Short-term Loans

Short-term loans at December 31, 2005 and 2004 are as follows (in CZK millions)

	2005	2004
Short-term bank loans	83	129
Bank overdrafts	182	107
Other short-term notes payable	–	4
Total	265	240

Interest on short-term loans is variable. The weighted average interest rate was 2.7% at December 31, 2005 and 3.2% at December 31, 2004. For the years 2005 and 2004 the weighted average interest rate was 2.8% and 4.6%, respectively.

19. 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):

	2005	2004
Within one year	76	60
After one year but not more than five years	26	27
More than five years	5	–
Total minimum lease payments	107	87
Future finance charges on finance leases	(6)	(9)
Present value of finance lease liabilities	101	78

20. Trade and Other Payables

Trade and other payables at December 31, 2005 and 2004 are as follows (in CZK millions)

	2005	2004
Advances received from retail customers	12,118	12,374
Unbilled electricity supplied to retail customers	(11,857)	(11,105)
Received advances from retail customers, net	261	1,269
Trade payables	10,015	5,848
Derivatives	4,211	4,175
Other payables	1,756	1,295
Total	16,243	12,587

The information about payables to related parties is included in Note 27.

21. Accrued Liabilities

Accrued liabilities at December 31, 2005 and 2004 consist of the following (in CZK millions)

	2005	2004
Provisions	1,924	1,426
Accrued interest	914	928
Taxes and fees, except income tax	1,070	1,059
Unbilled goods and services	2,223	1,024
Contingent liabilities from acquisitions	846	–
Social and bonus funds	326	358
Deferred income	607	463
Total	7,910	5,258

Provisions represent provisions for environmental claims, restructuring and legal cases and are based on the best estimate of the cost needed to settle the related obligations.

22. Sales of Electricity

The composition of sales of electricity for the year ended December 31, 2005 and 2004 is as follows (in CZK millions)

	2005	2004
Sales to distribution companies	16,790	13,541
Sales to end customer through distribution grid	71,973	52,927
Sales to traders	7,577	5,172
Exports of electricity including trade outside the country of CEZ Group member	8,257	10,309
Other sales of electricity	5,650	4,943
Sales of ancillary and other services	6,278	5,291
Change in fair value of derivatives – sale of electricity	(576)	–
Total	115,949	92,183

The change in fair value of derivatives represents losses from revaluation of electricity sales contracts held for trading. The Group expects net settlement of these contracts either in cash or through other market mechanisms, such as through entering into an offsetting contract. The electricity contracts held for trading meet the definition of derivative and are measured at fair value with changes of fair value reported in income. The changes in fair value of electricity purchase contracts held for trading are included in item Purchased power and related services in the statement of income and in 2005 the gains on these contracts amounted to CZK 771 millions.

23. Salaries and Wages

Salaries and wages for the year ended December 31, 2005 and 2004 were as follows (in CZK millions)

	2005 Total	2005 Key management personnel 1)	2004 Total	2004 Key management personnel 1)
Salaries	8,788	112	7,762	80
Remuneration of the board members	106	26	88	25
Share options	296	296	148	148
Social and health security	3,306	39	2,710	28
Other personal expenses	930	15	660	39
Total	13,426	488	11,368	320

1) Key management personnel represent members of Supervisory Board, Board of Directors and members of Executive Meeting (8 members) in 2004 and members of Executive Committee (17 members) in 2005, respectively. Members of Board of Directors are also members of Executive Meeting and Executive Committee.

Share options

At December 31, 2005 the aggregate number of share options granted to members of Board of Directors, Executive Committee (advisory body of Chief Executive Officer) and to Supervisory Board members was 3,325 thousand. The options granted to members of Board of Directors and Supervisory Board 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. Share options granted to the members of Executive Committee vest one year after the grant date and the number of options, which can be exercised during the first year of effectiveness of the agreement, is limited. The exercise price for the granted options was usually based on the average quoted market price on the Prague stock exchange in the six-month period preceding the date of the grant. In 2005 and 2004 the Company has recognized compensation expense of CZK 296 million and CZK 148 million related to the granted options. The Company has settled all options exercised using treasury shares. The gain or loss on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2005 and 2004 in the number of granted share options and the weighted average exercise price of these options:

	Supervisory Board 000s	Board of Directors 000s	Other 000s	Total 000s	Weighted average exercise price CZK per share
Share options at December 31, 2003	2,750	500	–	3,250	100.95
Options granted	150	1,650	–	1,800	152.84
Options exercised 1)	(2,290)	(800)	–	(3,090)	107.26
Options forfeited	(150)	–	–	(150)	105.78
Share options at December 31, 2004	460	1,350	–	1,810	141.38
Options granted	600	400	1,050	2,050	235.59
Options exercised 1)	(310)	–	–	(310)	147.99
Options forfeited	(150)	–	(75)	(225)	146.96
Share options at December 31, 2005	600	1,750	975	3,325	198.47

1) In 2005 and 2004 the weighted average share price at the date of the exercise for the options exercised was CZK 430.71 and CZK 186.69 respectively.

The fair value of the options is estimated on the date of grant using the binomial option-pricing model. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock options.

At the grant dates, the underlying assumptions and the resulting fair values per option were as follows:

Weighted average assumptions	2005
Dividend yield	3.0%
Expected volatility	29.6%
Mid-term risk-free interest rate	2.8%
Expected life (years)	2.1
Share price (CZK per share)	399.4
Weighted average grant-date fair value of options (CZK per 1 option)	174.7

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

On December 31, 2005 and 2004 the exercise prices of outstanding options were in the range from CZK 101.9 to CZK 651.7 and from CZK 101.9 to CZK 185.6 per share, respectively. The options granted to the members of Board of Directors and Supervisory Board, which were outstanding on December 31, 2005 and 2004, respectively, had an average remaining contractual life of 2.3 years and 3.2 years, respectively. The options granted to members of the Executive Committee can be exercised in a period ending 3 months after the end of the membership in the Executive Committee, which is not set for a definite period of time.

24. Other Operating Expenses

Other operating expenses (income), net, for the year ended December 31, 2005 and 2004 consist of the following (in CZK millions)

	2005	2004
Services	7,418	6,208
Travel expenses	240	211
Loss (gain) on sale of property, plant and equipment	(77)	(650)
Loss (gain) on sale of material	(174)	20
Capitalization of expenses to the cost of fixed assets and change in own inventory	(1,650)	(1,656)
Fines, penalties and penalty interest, net	(49)	(118)
Change in provisions and valuation allowances	305	(918)
Taxes and fees	607	543
Write-off of bad debts and cancelled investment	410	277
Gifts	280	278
Other, net	541	2,159
Total	7,851	6,354

25. Income Taxes

Companies with seat in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 26% and 28% in 2005 and 2004, respectively. The Czech corporate income tax rate for 2006 will be 24%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have potentially effect on reported income.

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

	2005	2004
Current income tax charge	4,009	2,874
Adjustments in respect of current income tax of previous periods	(186)	154
Deferred income taxes	1,201	1,205
Total	5,024	4,233

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

	2005	2004
Income before income taxes	27,306	18,501
Statutory income tax rate in Czech Republic	26%	28%
“Expected” income tax expense	7,099	5,180
Add (deduct) tax effect of		
Change in tax rates	(1,731)	(1,042)
Czech/IFRS accounting differences	107	32
Non-deductible provisions, net	56	(158)
Investment tax relief	(7)	(65)
Negative goodwill write-off	(275)	–
Other non-deductible (non taxable) items, net	279	138
Tax credits	(54)	(6)
Adjustments in respect of current income tax of previous periods	(186)	154
Effect of different tax rate in other countries	(264)	–
Income taxes	5,024	4,233
Effective tax rate	18%	23%

Deferred Income Taxes, Net

Deferred income taxes, net, at December 31, 2005 and 2004 consist of the following (in CZK millions)

	2005	2004
Accumulated provision for nuclear decommissioning and spent fuel storage	7,391	5,925
Financial statement depreciation in excess of tax depreciation	41	14
Revaluation of financial instruments	–	12
Allowances	515	379
Other provisions	1,238	1,791
Tax loss carry forwards	146	110
Other temporary differences	92	69
Total deferred tax assets	9,423	8,300
Tax depreciation in excess of financial statement depreciation	25,908	21,576
Revaluation of financial instruments	62	–
Other provisions	1,413	1,438
Penalty receivables	11	46
Investment in associate	36	92
Other temporary differences	24	38
Total deferred tax liability	27,454	23,190
Total deferred tax liability, net	18,031	14,890

In 2005 the Group charged CZK 53 million of deferred tax directly to equity.

At December 31, 2005 and 2004 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 2,339 million and CZK 531 million, respectively.

26. Other Expenses (Income), Net

Other expenses (income), net, for the year ended December 31, 2005 and 2004 consist of the following (in CZK millions)

	2005	2004
Derivative losses (gains), net	(169)	1,630
Gains from sales of financial investments	(7)	(557)
Change in impairment of financial investments	4	(342)
Other, net	(171)	(487)
Total	(343)	244

27. Related Parties

The Group purchases products from related parties in the ordinary course of business.

At December 31, 2005 and 2004, the receivables from related parties and payables to related parties are as follows (in CZK millions)

	Receivables		Payables	
	2005	2004	2005	2004
Associates and other affiliates				
AHV, s.r.o.	–	–	–	–
AZ Elektrostav, a.s.	21	3	1	2
Coal Energy, a.s.	432	347	–	–
Elektrovod Holding, a.s.	1	7	25	7
ELTRAF, a.s.	2	8	1	–
Energetická montážní společnost Česká Lípa s.r.o.	7	1	1	7
Energetická montážní společnost Ústí nad Labem s.r.o.	10	2	1	3
KNAUF POČERADY, spol. s r.o.	8	6	–	–
KOTOUČ ŠTRAMBERK, spol. s r. o.	8	3	10	9
LOMY MOŘINA spol. s r.o.	1	–	11	11
OSC, a.s.	–	–	22	21
Plzeňská energetika a.s.	34	–	38	12
PRODECO, a.s.	1	7	13	24
SEG s.r.o.	6	5	12	6
SHD - KOMES a.s.	–	–	43	44
SIGMA - ENERGO s.r.o.	–	–	11	10
Others	28	38	40	66
Total associates and other affiliates	559	427	229	222
Companies under the control of Company's majority owner				
ALIACHEM a.s. 2)	–	1	–	4
ČEPS, a.s.	271	247	233	123
Česká pošta s.p.	1	1	28	7
České dráhy, a.s.	242	104	171	171
CHEMOPETROL, a.s. 2)	–	–	–	–
ČESKÝ TELECOM, a.s. 3)	3	12	–	7
Eurotel Praha, spol. s r.o. 3)	–	1	–	11
SPOLANA a.s. 2)	–	5	–	1
Others	–	7	2	(1)
Total companies under the control of Company's majority owner	517	378	434	323
Total	1,076	805	663	545

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (in CZK millions)

	Sales to related parties [1]		Purchases from related parties [1]	
	2005	2004	2005	2004
Associates and other affiliates				
AHV, s.r.o.	–	73	–	–
AZ Elektrostav, a.s.	71	1	173	164
Coal Energy, a.s.	6,392	6,069	1,041	4
Elektrovod Holding, a.s.	2	3	84	10
ELTRAF, a.s.	1	3	83	62
Energetická montážní společnost Česká Lípa s.r.o.	9	–	127	102
Energetická montážní společnost Ústí nad Labem s.r.o.	21	–	82	60
KNAUF POČERADY, spol. s r.o.	70	72	–	–
KOTOUČ ŠTRAMBERK, spol. s r. o.	53	39	91	112
LOMY MOŘINA spol. s r.o.	12	10	130	132
OSC, a.s.	–	1	75	99
Plzeňská energetika a.s.	11	5	450	414
PRODECO, a.s.	18	31	457	199
SEG s.r.o.	49	22	181	109
SHD - KOMES a.s.	4	9	570	530
SIGMA - ENERGO s.r.o.	2	2	59	64
Others	144	202	415	497
Total associates and other affiliates	6,859	6,542	4,018	2,558
Companies under the control of Company's majority owner				
ALIACHEM a.s. [2]	4	8	85	97
ČEPS, a.s.	8,264	7,392	7,000	8,518
Česká pošta s.p.	69	61	216	152
České dráhy, a.s.	1,843	1,853	1,766	1,829
CHEMOPETROL, a.s. [2]	219	151	36	97
ČESKÝ TELECOM, a.s. [3]	57	51	30	66
Eurotel Praha, spol. s r.o. [3]	–	113	9	23
SPOLANA a.s. [2]	249	522	24	27
Others	25	77	25	1
Total companies under the control of Company's majority owner	10,730	10,228	9,191	10,810
Total	17,589	16,770	13,209	13,368

[1] The information summarized in this table is based on turnovers on accounts receivable and payable and includes value added tax.
[2] Related party till May 2005.
[3] Related party till June 2005.

During 2005 and 2004 the majority owner of the Company was the Czech Republic National Property Fund.

In December 2005 the Company purchased a 55.8% share in Severočeské doly a.s. from the Czech Republic National Property Fund (see Note 7).

In 2004 the Company sold its remaining 34% share in ČEPS, a.s. to Ministry of Finance (see Notes 29).

Information about compensation of key management personnel is included in Note 23.

28. Segment Information

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.

Following the sale of the remaining shares in ČEPS, a.s. in 2004 (see Note 29) the Group does not have any electricity transmission activities and therefore the Group discontinued reporting of the transmission segment.

The following table summarizes segment information for the years ended December 31, 2005 and 2004, respectively (in CZK millions):

2005

	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	47,376	72,906	2,738	2,063	125,083	–	125,083
Intersegment sales	22,872	2,481	5,260	6,591	37,204	(37,204)	–
Total revenues	70,248	75,387	7,998	8,654	162,287	(37,204)	125,083
Operating income	19,734	6,029	2,660	511	28,934	469	29,403
Identifiable assets	177,103	67,497	9,902	4,162	258,664	426	259,090
Goodwill	–	2,022	3	15	2,040	–	2,040
Investment in associate	460	–	287	181	928	–	928
Unallocated assets							62,151
Total assets							324,209
Identifiable liabilities	87,404	19,593	8,311	4,058	119,366	(5,001)	114,365
Unallocated liabilities							18,555
Total liabilities							132,920
Income from associate	73	–	14	15	102	–	102
Depreciation and amortization	13,908	5,229	947	1,090	21,174	(451)	20,723
Change in provisions and allowances	694	503	(482)	(122)	593	(34)	559
Negative goodwill write-off	–	1,675	–	29	1,704	–	1,704
Capital expenditure	5,751	5,866	1,241	2,064	14,922	(64)	14,858

2004

	Power Production and Trading	Trans-mission	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	42,241	–	54,152	3,092	3,185	102,670	–	102,670
Intersegment sales	22,326	–	3,691	4,805	4,312	35,134	(35,134)	–
Total revenues	64,567	–	57,843	7,897	7,497	137,804	(35,134)	102,670
Operating income	13,096	–	5,971	613	419	20,099	(314)	19,785
Identifiable assets	180,427	–	43,759	11,274	3,924	239,384	(188)	239,196
Goodwill	–	–	759	–	–	759	–	759
Investment in associate	428	–	–	647	936	2,011	–	2,011
Unallocated assets								57,284
Total assets								299,250
Identifiable liabilities	81,610	–	13,031	9,936	5,508	110,085	(4,884)	105,201
Unallocated liabilities								15,602
Total liabilities								120,803
Income (share of loss) from associate	70	780	–	21	(149)	722	–	722
Depreciation and amortization	13,971	–	4,004	1,343	501	19,819	23	19,842
Change in provisions and allowances	(216)	–	(1,012)	561	(48)	(715)	–	(715)
Negative goodwill write-off	–	–	–	–	–	–	–	–
Capital expenditure	5,615	–	4,940	1,299	2,992	14,846	(1,655)	13,191

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

29. Sale of ČEPS, a.s.

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. The purchase of ČEPS shares was made by OSINEK, a.s., a company controlled by the Czech Republic National Property Fund, and the Ministry of Labor and Social Affairs. This transaction was carried out on April 1, 2003. Based on the decision of Economic Competition Protection Authority ČEZ has also sold its remaining equity share in ČEPS in September 2004.

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 result from the sale directly to equity. The composition of the amount recorded in equity in 2004 is as follows (in CZK millions):

	2004
% of shares sold	34%
Total selling price	7,087
Book value of shares sold	(3,703)
Current income tax related to the sale	(1,721)
Deferred tax related to the sale	773
Effect of sale recognized in equity	2,436

The reconciliation of the proceeds from disposal of a subsidiary as presented in the cash flow statement in 2005 and 2004 is as follows (in CZK millions)

	2005	2004
Total selling price	–	7,087
Cash disposed of	–	–
Change in receivables from the sale of ČEPS, a.s.	1,416	(7,087)
Proceeds from sale of other associates and subsidiaries	857	–
Total proceeds from disposal of associates and subsidiaries, net of cash disposed of	2,273	–

In 2004 the operations of ČEPS were reported in the transmission segment (see Note 28).

30. Net Income per Share

	2005	2004
Numerator – basic and diluted (CZK millions)		
Net income attributable to equity holders of the parent	21,438	13,213
Denominator – basic (thousands shares)		
Weighted average shares outstanding	590,426	592,075
Dilutive effect of treasury shares	1,785	136
Denominator – diluted (thousands shares)		
Adjusted weighted average shares	592,211	592,211
Net income per share (CZK per share)		
Basic	36.3	22.3
Diluted	36.2	22.3

31. Commitment and Contingencies

Investment Program
The Group is engaged in a continuous construction program, currently estimated as of December 31, 2005 to total CZK 155.9 billion over the next five years, as follows: CZK 28.2 billion in 2006, CZK 29.5 billion in 2007, CZK 32.1 billion in 2008, CZK 32.8 billion in 2009 and CZK 33.3 billion in 2010. These figures do not include the expected acquisitions of subsidiaries and associates, which will depend on the number of future investment opportunities, for which the Group will be successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2005 significant purchase commitments were outstanding in connection with the construction program.

The Group currently projects that its planned construction expenditures will be funded mainly with cash provided by operating activities.

Environmental Matters
The Czech Republic has adopted series of environmental acts and laws and regulations ("the Acts") including a timetable for the reduction of atmospheric emissions. 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. In 2005 and 2004, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 3 million and CZK 4 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 43 million in 2005 and CZK 40 million in 2004, respectively, for pollution damages and reversed CZK 3 million in 2005 and CZK 40 million in 2004, 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 16) 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. 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.

ČEZ has renewed insurance policies covering the assets of its fossil, hydro and nuclear power plants, insurance policies covering non-technological equipment, general third party liability insurance in connection with main operations of the Company and car insurance.

ČEZ and the Group companies have insurance policies covering directors and officers liability. ČEZ also controls other property and liability insurance policies of the Group companies.

32. Events After the Balance Sheet Date

Based on Act no. 178/2005 from April 28, 2005 the activities of the Czech Republic National Property Fund, which was the majority shareholder of the Company, were terminated as of December 31, 2005. All assets and activities of the dissolved Czech Republic National Property Fund have been transferred to Ministry of Finance of the Czech Republic.

These financial statements have been authorized for issue on March 8, 2006:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Alan Svoboda
Vice-chairman of Board of Directors
Executive Director for Sale and Trading

Petr Vobořil
Chief Financial Officer

ČEZ, a. s. BALANCE SHEET

IN ACCORDANCE WITH IFRS AS OF DECEMBER 31, 2005 AND 2004

(in CZK millions)

	2005	2004
ASSETS	274,208	255,496
Fixed assets	258,658	245,108
Property, plant and equipment	175,555	178,935
Plant in service	291,100	280,092
Less accumulated provision for depreciation	130,368	118,224
Net plant in service	160,732	161,868
Nuclear fuel, at amortized cost	7,823	7,909
Construction work in progress	7,000	9,158
Other non-current assets	83,103	66,173
Investments and other financial assets, net	81,816	64,883
Intangible assets, net	1,287	1,290
Current assets	15,550	10,388
Cash and cash equivalents	983	1,141
Receivables, net	8,008	5,368
Income tax receivable	1,399	–
Materials and supplies, net	2,732	2,538
Fossil fuel stock	730	705
Emission rights	125	–
Other current assets	1,573	636
EQUITY AND LIABILITIES	274,208	255,496
Equity	174,276	162,477
Stated capital	58,237	59,218
Retained earnings and other reserves	116,039	103,259
Long-term liabilities	66,329	67,351
Long-term debt, net of current portion	30,480	38,071
Accumulated provission for nuclear decommissioning and fuel storage	35,697	29,280
Other long-term liabilities	152	–
Deferred tax liability	13,021	11,885
Current liabilities	20,582	13,783
Short-term loans	–	–
Current portion of long-term debt	7,770	1,809
Trade and other payables	9,899	8,703
Income tax payable	–	515
Accrued liabilities	2,913	2,756

ČEZ, a. s.
STATEMENT OF INCOME
IN ACCORDANCE WITH IFRS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(in CZK millions)

	2005	2004
Revenues	67,644	62,214
Sales of electricity	65,199	59,997
Heat sales and other revenues	2,445	2,217
Operating expenses	48,035	49,326
Fuel	13,873	14,046
Purchased power and related services	7,204	8,699
Repair and maintenance	3,397	3,706
Depreciation and amortization	13,770	13,835
Salaries and wages	4,794	4,342
Materials and supplies	1,692	1,673
Emission rights, net	(1,033)	–
Other operating expenses	4,338	3,025
Income before other expense/income and income taxes	19,609	12,888
Other expenses/income	(849)	178
Interest on debt, net of capitalized interest	1,732	1,718
Interest on nuclear provisions	2,050	1,960
Interest income	(193)	(189)
Foreign exchange rate losses/gains, net	385	(1,831)
Losses/gains on sale of subsidiaries	(107)	–
Other expenses/income, net	(4,716)	(1,480)
Income before income taxes	20,458	12,710
Income taxes	2,823	2,318
Net income	17,635	10,392

ČEZ, a. s.
STATEMENT OF CHANGES IN EQUITY
IN ACCORDANCE WITH IFRS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(in CZK millions)

	Stated Capital	Fair Value and Other Reserves	Retained Earnings	Total Equity
December 31, 2003	59,152	(30)	93,646	152,768
Net income	–	–	10,392	10,392
Dividends declared	–	–	(4,738)	(4,738)
Acquisition of treasury shares	(488)	–	–	(488)
Sale of treasury shares	554	–	(222)	332
Revaluation of AFS investments removed from equity	–	50	–	50
Change in fair value of CF hedges recognized in equity	–	(690)	–	(690)
CF hedges removed from equity	–	620	–	620
Gain on sale of subsidiary ČEPS, net of tax	–	–	4,101	4,101
Share options	–	130	–	130
December 31, 2004	59,218	80	103,179	162,477
Net income	–	–	17,635	17,635
Dividends declared	–	–	(5,309)	(5,309)
Acquisition of treasury shares	(1,312)	–	–	(1,312)
Sale of treasury shares	331	–	(79)	252
Change in fair value of CF hedges recognized in equity, net	–	361	–	361
CF hedges removed from equity	–	(124)	–	(124)
Share options	–	296	–	296
December 31, 2005	58,237	613	115,426	174,276

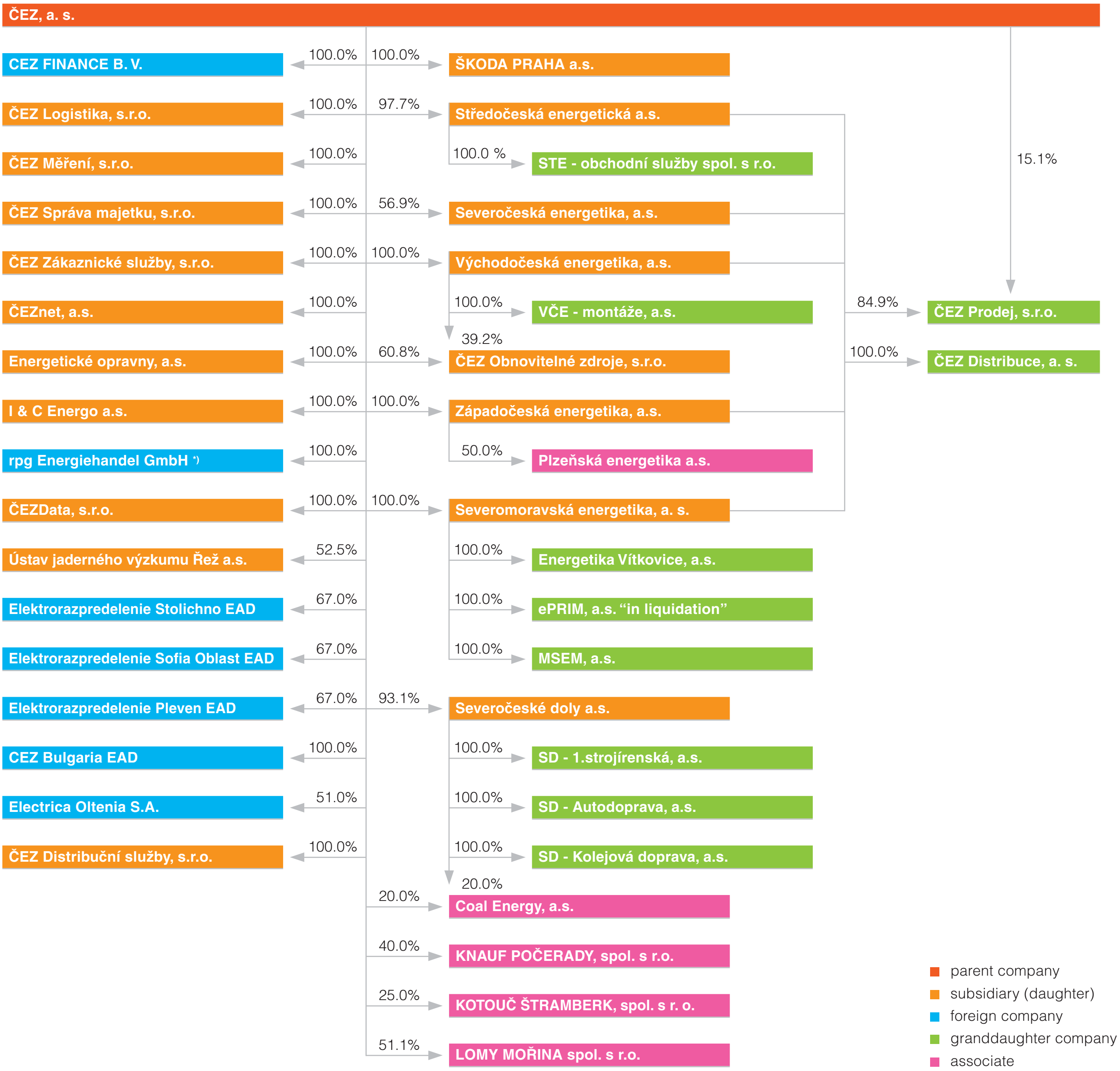
ČEZ, a. s.
STATEMENT OF CASH FLOWS
IN ACCORDANCE WITH IFRS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(in CZK millions)

	2005	2004
OPERATING ACTIVITIES		
Income before income taxes	20,458	12,710
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation and amortization and asset write-offs	13,782	13,960
Amortization of nuclear fuel	3,048	3,383
Gain/Loss on fixed assets retirements, net	(117)	(1,018)
Foreign exchange rate loss/gain, net	385	(1,831)
Interest expense, interest income and dividends income, net	(2,566)	(150)
Provision for nuclear decommissioning and fuel storage	1,050	534
Provision for doubtful accounts, environmental claims and other adjustments	(193)	(533)
Changes in assets and liabilities		
Receivables	(2,369)	925
Materials and supplies	(201)	(60)
Fossil fuel stocks	(25)	248
Other current assets	(1,068)	121
Trade and other payables	628	426
Accrued liabilities	177	253
Cash generated from operations	32,989	28,968
Income taxes paid	(3,653)	(5,267)
Interest paid, net of interest capitalized	(1,426)	(1,308)
Interest received	187	189
Dividends received	4,105	1,679
Net cash provided by operating activities	32,202	24,261
INVESTING ACTIVITIES		
Acquisition of subsidiaries and associates	(17,450)	(18,110)
Proceeds from disposal of subsidiaries and associates	1,657	–
Additions to property, plant and equipment and other non-current assets	(7,701)	(10,834)
Loans made	(1,250)	–
Proceeds from sales of fixed assets	891	5,047
Repayments of loans	150	–
Change in decommissioning and other restricted funds	(350)	(443)
Total cash used in investing activities	(24,053)	(24,340)
FINANCING ACTIVITIES		
Proceeds from borrowings	–	15,704
Payments of borrowings	(1,883)	(10,291)
Proceeds from other long-term liabilities	–	–
Payments of other long-term liabilities	–	–
Dividends paid	(5,291)	(4,724)
Acquisitions/sale of treasury shares	(1,060)	(156)
Total cash provided by (used in) financing activities	(8,234)	533
Net effect of currency translation in cash	(73)	(201)
Net increase/decrease in cash and cash equivalents	(158)	253
Cash and cash equivalents at the beginning of period	1,141	888
Cash and cash equivalents at end of period	983	1,141
SUPPLEMENTARY CASH FLOW INFORMATION		
Total cash paid for interest	1,932	1,860

CONTENTS

CEZ CONSOLIDATED GROUP
AS OF 31 DECEMBER 2005



*) On 21 February 2006 the company's name was changed to CEZ Deutschland GmbH.

DIRECTORY OF COMPANIES
IN THE CONSOLIDATION GROUP (INCLUDING SEGMENT CLASSIFICATION) AND OTHER FOREIGN BUSINESS ENTITIES

► ČEZ, a. s.
Martin Roman
Chairman of the Board
and Chief Executive Officer
Duhová 2/1444
140 53 Prague 4
tel.: + 420 211 041 111
fax: + 420 211 042 001
segment – power production
and trading

► CEZ Bulgaria EAD
Tomáš Hüner
General Manager
Zasaborna Str.
1000 Sofia
Bulgaria
tel.: +359 29 264 226
segment – distribution and sale

► CEZ Deutschland GmbH
(rpg Energiehandel GmbH)
Hanns H. Hannich
General Manager
Karl-Theodor-Str. 69
808 03 Munich, Germany
tel.: +49 89 18 943 850
fax: +49 89 18 943 848
segment – power production
and trading

► CEZ FINANCE B. V.
Herengracht 548
Amsterdam
Netherlands
segment – other

► Coal Energy, a.s.
Petr Paukner
Chairman of the Board
and General Manager
Václavské náměstí 846/1
110 00 Prague 1
tel.: +420 224 473 056
fax: +420 222 223 672
segment – power production
and trading

► ČEZ Distribuce, a. s.
Jiří Kudrnáč
Chairman of the Board
and General Manager
Vinohradská 328/8
120 21 Prague 2
tel.: +420 222 031 111
fax: +420 222 032 555
segment – distribution and sale

► ČEZ Distribuční služby, s.r.o.
Petr Zachoval
General Manager
and Statutory Representative
28. října 3123/152
709 02 Ostrava, Moravská Ostrava
tel.: +420 596 673 262
fax: +420 596 673 282
segment – distribution and sale

► ČEZ Logistika, s.r.o.
Jiří Jílek
General Manager
and Statutory Representative
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709 02 Ostrava - Moravská Ostrava
tel.: +420 596 673 839
fax: +420 596 611 527
segment – other

► ČEZ Měření, s.r.o.
Přemysl Vániš
General Manager
and Statutory Representative
Riegrovo náměstí 1493
500 02 Hradec Králové
tel.: +420 495 842 360
fax: +420 495 842 964
segment – distribution and sale

► ČEZ Obnovitelné zdroje, s.r.o.
Josef Sedlák
Manager
and Statutory Representative
Křižíkova 788
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tel.: +420 492 112 821
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segment – power production
and trading

► ČEZ Prodej, s.r.o.
Bohumil Mazač
General Manager
and Statutory Representative
Vinohradská 325/8
120 21 Prague 2
tel.: +420 222 031 111
fax: +420 222 032 555
segment – distribution and sale

► ČEZ Správa majetku, s.r.o.
Vladimír Balach
General Manager
and Statutory Representative
Teplická 874/8
405 49 Děčín IV
tel.: +420 412 571 111
fax: +420 412 572 977
segment – other

► ČEZ Zákaznické služby, s.r.o.
Igor Šmucr
General Manager
and Statutory Representative
Guldenerova 2557/19
303 28 Plzeň
tel.: +420 378 001 111
fax: +420 378 002 008
segment – distribution and sale

► ČEZData, s.r.o.
Jiří Fanta
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and Statutory Representative
Guldenerova 2557/19
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fax: +420 378 002 992
segment – other

► ČEZnet, a.s.
Antonín Kalda
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and General Manager
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Electrica Oltenia S.A.
Gabriel Negrila
General Manager
Str. Brestei, nr. 2
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tel.: +40 251 405 000
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segment – distribution and sale

Elektrorazpredelenie Pleven EAD
Atanas Dandarov
General Manager
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segment – distribution and sale

Elektrorazpredelenie Sofia Oblast EAD
George Karagutoff
General Manager
Bul. Evropa No 2
1360 Sofia
Bulgaria
tel.: +359 29 339 701
fax: +359 29 339 708
segment – distribution and sale

Elektrorazpredelenie Stolichno EAD
Radek Kliment
General Manager
ul. Car Simeon No 330
1309 Sofia
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tel.: +359 29 200 188
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segment – distribution and sale

Energetické opravny, a.s.
Vladimír Marušík
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and General Manager
Prunéřov č. 375
432 01 Kadaň
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segment – other

Energetika Vítkovice, a.s.
Vlastislav Sznapka
Company Director
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segment – power production
and trading

ePRIM, a.s. “in liquidation”
28. října 568/147
709 02 Ostrava, Moravská Ostrava
segment – other

I & C Energo a.s.
Miroslav Horák
Chairman of the Board
and General Manager
Pražská 684/49
674 01 Třebíč
tel.: +420 568 893 111
fax: +420 568 893 999
segment – other

KNAUF POČERADY, spol. s r.o.
Václav Škoda
Statutory Representative
439 44 Počerady 17
okres Louny
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fax: +420 415 735 010
segment – other

KOTOUČ ŠTRAMBERK, spol. s r. o.
Ivan Hájek
Statutory Representative
742 67 Štramberk 500
pošta Ženklava
tel.: +420 556 873 111
fax: +420 556 852 711
segment – mining

LOMY MOŘINA spol. s r.o.
Pavel Vyskočil, Jaroslav Šilhánek
Statutory Representatives
267 17 Mořina
okres Beroun
tel.: +420 311 702 111
fax: +420 311 702 314
segment – mining

MSEM, a.s.
Jiří Neumann
Company Director
Collo louky 126
738 02 Frýdek-Místek
tel.: +420 558 414 111
fax: +420 558 437 172
segment – other

Plzeňská energetika a.s.
Václav Pašek
Acting General Manager
Tylova 57
316 00 Plzeň
tel.: +420 378 132 073
fax: +420 378 133 007
segment – power production
and trading

SD - 1.strojírenská, a.s.
Josef Zetek
Chairman of the Board
and General Manager
Důlní 429
418 01 Bílina
tel.: +420 417 804 911
fax: +420 417 804 912
segment – other

SD - Autodoprava, a.s.
Petr Hokr
Chairman of the Board
and General Manager
Důlní 429
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fax: +420 417 805 870
segment – other

SD - Kolejová doprava, a.s.
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and Company Director
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fax: +420 474 602 916
segment – other

► Severočeská energetika, a.s.
Josef Holub
Chairman of the Board
and General Manager
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tel.: +420 412 441 111
fax: +420 412 442 977
segment – distribution and sale

► Severočeské doly a.s.
Vratislav Vajnar
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and General Manager
Boženy Němcové 5359
430 01 Chomutov
tel.: +420 474 602 111
fax: +420 474 652 264
segment – mining

► Severomoravská energetika, a. s.
Jaroslav Veselský
Chairman of the Board
and General Manager
28. října 3123/152
709 02 Ostrava, Moravská Ostrava
tel.: +420 596 671 111
fax: +420 596 612 388
segment – distribution and sale

► STE - obchodní služby spol. s r. o.
“in liquidation”
Vinohradská 325/8
120 21 Prague 2
segment – other

► Středočeská energetická a.s.
Petra Holomková
Chairwoman of the Board
and General Manager
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tel.: +420 222 031 111
fax: +420 222 032 555
segment – distribution and sale

► ŠKODA PRAHA a.s.
Radek Benčík
Chairman of the Board
and General Manager
Milady Horákové 109
160 41 Prague 6
tel.: +420 224 396 444
fax: +420 224 396 447
segment – other

► Ústav jaderného výzkumu Řež a.s.
František Pazdera
Chairman of the Board
and General Manager
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250 68 Řež
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fax: +420 220 940 840
segment – other

► VČE - montáže, a.s.
Jiří Abel
Chairman of the Board
and General Manager
Arnošta z Pardubic 2082
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tel.: +420 466 871 111
fax: +420 466 872 718
segment – other

► Východočeská energetika, a.s.
Pavel Filipi
Chairman of the Board
and General Manager
Sladkovského 215
501 03 Hradec Králové
tel.: +420 492 111 111
fax: +420 492 112 198
segment – distribution and sale

► Západočeská energetika, a.s.
Viktor Miškovský
Chairman of the Board
and General Manager
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tel.: +420 378 001 111
fax: +420 378 002 008
segment – distribution and sale

CEZ Group Other Foreign Business Entities

CEZ Hungary Ltd.
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tel.: +36 209 913 975

CEZ Poland
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00-357 Warsaw
Poland
tel.: +48 226 924 375
fax: +48 226 924 395
registered as an organizational unit
of ČEZ, a. s.

CEZ Slovakia
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811 01 Bratislava
Slovakia
tel.: +421 254 432 656
fax: +421 254 432 651
registered as an organizational unit
of ČEZ, a. s.

CEZ Romania S.R.L.
Ion Ionescu de la Brad 2A Sector 1
013 813 Bucharest
Romania
fax: +40 212 692 566

► parent company
► subsidiary (daughter)
► foreign company
► granddaughter company
► associate

STRUCTURE OF CEZ GROUP
IN 2005

	Company name	Owner	Stake
1	AHV, s.r.o.	I & C Energo a.s.	100%
2	Beskydská energetická, a.s. “in liquidation” (struck from the Commercial Register on September 8)	Severomoravská energetika, a. s.	100%
3	Centrum výzkumu Řež s.r.o.	Ústav jaderného výzkumu Řež a.s.	100%
4	CEZ Bulgaria EAD (as of June 6)	ČEZ, a. s.	100%
5	CEZ FINANCE B.V.	ČEZ, a. s.	100%
6	CEZ Hungary Ltd. (as of September 7)	ČEZ, a. s.	100%
7	CEZ Romania S.R.L.	ČEZ, a. s.	100%
8	CEZ Trade Bulgaria EAD (as of March 25)	ČEZ, a. s. (until December 30 Elektrorazpredelenie Sofia Oblast EAD)	100%
9	CEZTel, a.s.	ČEZ, a. s.	100%
10	Coal Energy, a.s.	ČEZ, a. s. + Severočeské doly a.s.	20% each
11	ČEZ, a. s.	Czech Republic	67.61%
12	ČEZ Distribuce, a. s. (as of March 31)	Středočeská energetická a.s. Východočeská energetika, a.s. Severočeská energetika, a.s. Západočeská energetika, a.s. Severomoravská energetika, a. s.	20% each
13	ČEZ Distribuční služby, s.r.o. (as of October 12)	ČEZ, a. s.	100%
14	ČEZ ENERGOSERVIS spol. s r.o.	ČEZ, a. s.	100%
15	ČEZ Logistika, s.r.o.	ČEZ, a. s.	100%
16	ČEZ Měření, s.r.o. (name until February 16: VČE - měřicí technika, s.r.o.)	ČEZ, a. s. (until February 9 Východočeská energetika, a.s.)	100%
17	ČEZ Obnovitelné zdroje, s.r.o. (name until May 20: VČE - elektrárny, s.r.o.)	Východočeská energetika, a.s. Východočeská energetika, a.s. + ČEZ, a. s.	100% (until December 31) 39.2% + 60.8% (as of December 31)
18	ČEZ Prodej, s.r.o. (as of March 31)	Středočeská energetická a.s. Východočeská energetika, a.s. Severočeská energetika, a.s. Západočeská energetika, a.s. Severomoravská energetika, a. s.	20% each
19	ČEZ Správa majetku, s.r.o.	ČEZ, a. s.	100%
20	ČEZ Zákaznické služby, s.r.o.	ČEZ, a. s.	100%
21	ČEZData, s.r.o.	ČEZ, a. s.	100%

	Company name	Owner	Stake
22	ČEZnet, a.s.	ČEZ, a. s.	100%
23	DECOM Slovakia, spol. s r.o.	Ústav jaderného výzkumu Řež a.s.	23.08%
24	ECK Generating, s.r.o.	Středočeská energetická a.s.	11%
25	EGI machine, s.r.o. (struck from the Commercial Register on November 1)	EGI, a.s.	100%
26	EGI servis, s.r.o., v konkursu	ŠKODA PRAHA a.s.	100%
27	EGI, a.s.	ŠKODA PRAHA a.s.	100%
28	Electrica Oltenia S.A. (as of September 30)	ČEZ, a. s.	51%
29	Elektrorazpredelenie Pleven EAD (as of January 18)	ČEZ, a. s.	67%
30	Elektrorazpredelenie Sofia Oblast EAD (as of January 18)	ČEZ, a. s.	67%
31	Elektrorazpredelenie Stolichno EAD (as of January 18)	ČEZ, a. s.	67%
32	ELEKTROSPOLEČNOST B.D. spol. s r.o. (until April 7)	MSEM, a.s.	50%
33	Elektrovod - MATIC d.o.o. (dissolved December 31)	Elektrovod Holding, a.s.	100%
34	Elektrovod Holding, a.s.	Severomoravská energetika, a. s.	50% + 1 share
35	Elektrovod OSVETLENIE, s.r.o.	Elektrovod Holding, a.s.	50%
36	Elektrovod Polska Sp. z o.o. (dissolved December 31)	Elektrovod Holding, a.s.	50%
37	Elektrovod Rozvádzače, s.r.o.	Elektrovod Holding, a.s.	70%
38	Elektrovod Stav, s.r.o.	Elektrovod Holding, a.s.	50%
39	ELTODO Slovakia, s.r.o.	Elektrovod Holding, a.s.	50%
40	ELTRAF, a.s.	Středočeská energetická a.s.	51%
41	ELV - SERVIS, spol. s r.o.	Elektrovod Holding, a.s.	83.34%
42	ELV Projekt, a.s.	Elektrovod Holding, a.s.	100%
43	EN projekt, spol. s r.o. (until August 23)	Západočeská energetika, a.s.	100%
44	EN-DATA a.s. (dissolved September 1)	ČEZData, s.r.o. (until February 24 Západočeská energetika, a.s.)	100%
45	Enerfin, a.s. “in liquidation”	Západočeská energetika, a.s.	100%
46	Energetická montážní společnost Česká Lípa, s.r.o.	Severočeská energetika, a.s.	49%
47	Energetická montážní společnost Liberec, s.r.o.	Severočeská energetika, a.s.	100%
48	Energetická montážní společnost Ústí nad Labem, s.r.o.	Severočeská energetika, a.s.	100%
49	ENERGETICKÉ CENTRUM Kladno,spol.s r.o.	Středočeská energetická a.s.	10.99%
50	Energetické opravny, a.s.	ČEZ, a. s.	100%

	Company name	Owner	Stake
51	Energetika Vítkovice, a.s. (Evi, a. s.)	Severomoravská energetika, a. s.	100%
52	ENERGOKOV, s.r.o. v konkursu	Severočeská energetika, a.s.	100%
53	ENERGOPROJEKT SLOVAKIA a.s. (until July 27)	Ústav jaderného výzkumu Řež a.s.	100% (until July 27)
54	Energoreal s.r.o. (until July 29)	Západočeská energetika, a.s.	100%
55	Energozdroj, s.r.o. “in liquidation” (dissolved October 1)	Severočeská energetika, a.s.	50%
56	ENEST, s.r.o. (until September 6)	Východočeská energetika, a.s.	67%
57	ENPRO, a.s.	Severomoravská energetika, a. s.	100%
58	ENPROSPOL, s.r.o.	Severočeská energetika, a.s.	100%
59	ePRIM, a.s. “in liquidation”	Severomoravská energetika, a. s.	100%
60	ESE, s.r.o.	AHV, s.r.o. I & C Energo a.s.	66% 34%
61	ESMOS, s.r.o. (struck from the Commercial Register on May 1)	Západočeská energetika, a.s.	100%
62	ESS s.r.o.	Severočeská energetika, a.s.	51%
63	GAZELA plus s.r.o.	Západočeská energetika, a.s.	50%
64	GITY MaR, s.r.o. (as of December 21)	I & C Energo a.s.	100%
65	HYDROČEZ,a.s. (until December 31)	ČEZ, a. s.	100%
66	I & C Energo a.s.	ČEZ, a. s.	100%
67	KOTOUČ ŠTRAMBERK, spol. s r. o.	ČEZ, a. s.	25%
68	KNAUF POČERADY, spol. s r.o.	ČEZ, a. s.	40%
69	LACOMED, spol. s r.o.	Ústav jaderného výzkumu Řež a.s.	62.50%
70	LIDRONE, spol. s r.o.	Západočeská energetika, a.s.	100%
71	LOMY MOŘINA spol. s r.o.	ČEZ, a. s.	51.05%
72	MojeEnergie.CZ, s.r.o.	Východočeská energetika, a.s.	100% (until July 23) 51% (until May 18)
73	MSEM, a.s.	Severomoravská energetika, a. s.	100%
74	Nuclear Safety & Technology Centre s.r.o.	Ústav jaderného výzkumu Řež a.s.	40%
75	OSC, a.s.	ČEZ, a. s.	66.67%
76	PRO ENERGO Plzeň, spol. s r.o. (80% stake until May 17)	Západočeská energetika, a.s.	100%
77	PRODECO, a.s.	Severočeské doly a.s.	50.50%
78	První energetická a.s. (stake held until February 18)	Středočeská energetická a.s., Východočeská energetika, a.s., Severočeská energetika, a.s., Západočeská energetika, a.s.	100%

	Company name	Owner	Stake
79	rpg Energiehandel GmbH	ČEZ, a. s.	100%
80	SD - 1.strojírenská, a.s.	Severočeské doly a.s.	100%
81	SD - Autodoprava, a.s.	Severočeské doly a.s.	100%
82	SD - Humatex, a.s.	Severočeské doly a.s.	100%
83	SD - Kolejová doprava, a.s.	Severočeské doly a.s.	100%
84	SD - Vrtné a trhací práce, a.s.	Severočeské doly a.s.	100%
85	SEG s.r.o.	Západočeská energetika, a.s.	100%
86	Severočeská energetika, a.s.	ČEZ, a. s.	56.93%
87	Severočeské doly a.s. (stake was 37.31% until December 19, but co-control was exercised with NPF CR during the year)	ČEZ, a. s.	93.10%
88	Severomoravská energetika, a.s.	ČEZ, a. s.	100% 99.13% (until September 30)
89	SIGMA - ENERGO s.r.o.	ČEZ, a. s.	51%
90	SINIT,a.s. (until December 21 Severomoravská energetika, a. s.)	ČEZnet, a.s.	100%
91	Skládka Tušimice, a.s.	Severočeské doly a.s.	98.00%
92	STE - obchodní služby spol. s r.o.	Středočeská energetická a.s.	100% 76.16% (until February 10)
93	Středočeská energetická a.s.	ČEZ, a. s.	97.72%
94	ŠKODA PRAHA a.s.	ČEZ, a. s.	100% 97.60% (until November 5)
95	ŠKODA PRAHA Invest s.r.o. (as of July 11)	ŠKODA PRAHA a.s.	100%
96	ŠKO-ENERGO FIN, s.r.o.	Středočeská energetická a.s.	5%
97	ŠKO-ENERGO, s.r.o.	Středočeská energetická a.s.	12%
98	Union Leasing, a.s. (until October 26)	Severomoravská energetika, a. s.	100%
99	Ústav aplikované mechaniky Brno, s.r.o.	Ústav jaderného výzkumu Řež a.s.	100%
100	Ústav jaderného výzkumu Řež a.s.	ČEZ, a. s.	52.46%
101	Ústav jaderných informací Zbraslav, a. s.	Ústav jaderného výzkumu Řež a.s.	74%
102	VČE - montáže, a.s.	Východočeská energetika, a.s.	100%
103	VČE - transformátory, s.r.o.	Východočeská energetika, a.s.	100%
104	Východočeská energetika, a.s.	ČEZ, a. s.	100% 98.83% (until September 17)
105	WADE, a.s.	Ústav jaderného výzkumu Řež a.s.	50%
106	Západočeská energetika, a.s.	ČEZ, a. s.	100% 99.13% (until September 24)

Note: Companies for which Severočeské doly is given as sole owner are indirectly controlled by ČEZ, a. s. as of December 19.

ČEZ, a. s. ORGANIZATION CHART

AS AT 13 APRIL 2006

General Meeting

Supervisory Board

Board of Directors

Martin Roman Chairman of the Board, **Alan Svoboda** Vice Chairman of the Board, **Jiří Borovec** Vice Chairman of the Board
Daniel Beneš Member of the Board, **Tomáš Pleskač** Member of the Board

Head Office

1000000 CEO's Division – Martin Roman
- **1100000 Mergers & Acquisitions Section**
- **1100001** Mergers & Acquisitions
- **1010000** Communication
- **1000004** CEO's Office
- **1000200** Internal Audit

2000000 Finance Division – Petr Vobořil
- **2300000 Financing Section**
  - **2300100** CEZ Group Financial Trades and Liquidity Management
  - **2300200** Corporate Financing
  - **2300300** Corporate Financial Administration
- **2010000** Planning and Controlling
- **2000100** Management System and Documentation
- **2000200** Risk Management
- **2000300** Taxes
- **2000400** Legal
- **2100000 Accounting Section**
  - **2100001** Central Clearing
  - **2100002** Administration and Development of Economic Information System
  - **2100100** Accounting Departments
  - **2100200** Methodology and Top-level Accounting
  - **2110000** Accounting Services
- **2200000 ICT Strategy Section**
  - **2200001** Service Level Management
  - **2200002** Strategic Projects Management
  - **2200100** ICT Strategy

6000000 Administration Division – Daniel Beneš
- **6000001** Procurement Legal Support
- **6010000** Integrated Procurement
- **6020000** Conventional Power Procurement
- **6030000** Nuclear Power Procurement
- **6040000** Fuel Cycles
- **6050000** Equity Participations
- **6000100** Safety

7000000 Personnel Division – Zdeněk Pasák
- **7000100** Human Resources Policy and Development
- **7000200** Human Resources Procedural Support
- **7000300** Remuneration and Benefits
- **7010000** Human Resources Controlling
- **7020000** Human Resources – Prague and Foreign Companies
- **7030000** Human Resources – Production
- **7040000** Human Resources – Subsidiaries
- **7050000** Human Resources Training and Development
- **7000900** Internal Communication

Distribution

3000000 Distribution Division
Tomáš Pleskač

- **3010000** Distribution Management Support
- **3030000** Foreign Equity Participations
- **3040000** Integration Office
- **3050000** CEZ Group Controlling
- **3060000** Market Rules

Sales

4000000 Sales Division
Alan Svoboda

4500000 Trading Section

- **4500004** Trade Monitoring
- **4500005** Trading Support
- **4500006** Scheduling
- **4510000** Trade Execution

4600000 Sales Development Section

- **4600001** Plant Portfolio Optimizing
- **4600100** Market Analysis and Forecasting

- **4010000** Sales Support
- **4030000** CEZ Poland
- **4040000** CEZ Slovakia
- **4050000** European Agenda

Production

5000000 Production Division
Jiří Borovec

5100000 Plant Management Section

- **5100001** Engineering Design
- **5110000** Plant Maintenance
- **5120000** Nuclear Plant Management
- **5130000** Conventional Plant Management

5200000 Technical Section

- **5200100** Reactor Physics
- **5200200** Dukovany I&C System Renewal
- **5210000** Technical Development and Project Administration
- **5220000** Capital Projects Preparation and Execution

Deputy CPO for International Contacts

- **5010000** Generation
- **5020000** Safety
- **5030000** Economy and Management System
- **5040000** Plant Renewal

- **5TI0000** Tisová Power Station
- **5PR0000** Prunéřov Power Stations
- **5CH0000** Chvaletice Power Station
- **5PO0000** Poříčí Power Stations
- **5PC0000** Počerady Power Station

- **5VD0000** Hydro Power Stations
- **5DE0000** Dětmarovice Power Station
- **5HO0000** Hodonín Power Station
- **5LE0000** Ledvice Power Station
- **5ME0000** Mělník Power Station

- **5TU0000** Tušimice Power Stations
- **5DU0000** Dukovany Nuclear Power Station
- **5TE0000** Temelín Nuclear Power Station

DIRECTORY OF ČEZ, a. s. POWER STATIONS
AND INFORMATION CENTERS

ČEZ, a. s.
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fax: +420 211 042 001

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Information Center
Dukovany Nuclear Power Station
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Hydro Power Stations
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Information Center
Štěchovice run-of-river and
pumped-storage hydro power station
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objednávky:
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+420 603 769 197 – Jan Frouz
+420 608 308 759 – Václav Peták
fax: +420 211 026 577
opening hours: Year round, by advance
telephone appointment only

Dalešice pumped-storage
hydro power station
Tours arranged by:
Dukovany Nuclear Power Station
Information Center
675 50 Dukovany
To schedule a tour:
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fax: +420 561 106 370
e-mail: infocentrum.edu@cez.cz
internet: www.cez.cz/edu-exkurze

Information Center
Dlouhé Stráně pumped-storage
hydro power station
Tours arranged by:
ENERGOTIS, s.r.o.
Žižkova 5
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To schedule a tour:
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ČEZ, a. s.
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fax: +420 351 101 129

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Poříčí Power Stations
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fax: +420 492 102 199

ČEZ, a. s.
Dětmarovice Power Station
č. p. 1202
735 71 Dětmarovice
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fax: +420 591 102 671

ČEZ, a. s.
Chvaletice Power Station
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533 12 Chvaletice
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fax: +420 462 103 600

ČEZ, a. s.
Ledvice Power Station
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418 48 Bílina
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fax: +420 411 101 501

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fax: +420 411 112 298

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Hodonín Power Station
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Prunéřov Power Stations
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Nadace ČEZ (ČEZ Foundation)
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GLOSSARY OF TERMS AND ABBREVIATIONS

Term	Commentary
Achievable capacity	Highest active output a generator or generating plant can achieve and maintain under typical operating conditions.
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.
Captive customer	A private individual or legal entity that has the right to be connected to the distribution grid and be supplied with electricity in the prescribed quality and for a regulated price.
CO	Carbon monoxide.
CO_2	Carbon dioxide.
Cross-border capacity auction	Auction of cross-border power line capacity use.
Czech Nuclear Pool	A consortium of insurers for insuring nuclear risks.
ČEPS, a.s.	Operator of the Czech Republic transmission grid.
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 designated area of the Czech Republic, including metering, protective, control, security, information and telecommunications systems and technologies.
EIA	Environmental Impact Assessment.
Electricity demand	Total electricity consumed by end customers in the Czech Republic over a given time period. Demand does not include electricity used for pumping at pumped-storage hydro power stations, in-house consumption, or grid losses.
Electricity generation/production	Overall electricity generated, as measured from generator terminals over the period in question.
Electricity importer	Private individual or legal entity that holds an electricity trading license and purchases electricity abroad for resale in the home market.
Electricity producer	Private individual or legal entity that produces electricity and holds a license to produce electricity.
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	An end 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 limits	Highest permissible concentrations of pollutants released into the air.
End customer	A customer that uses electricity supplied only for the customer's own consumption, not for resale.

Term	Commentary
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.
FGD	Flue Gas Desulfurization – Technologies and/or equipment for reducing the content of sulfur oxides in pulverized-coal boiler flue gases.
Fluidized-bed boiler	Boiler in which coal combustion takes place in a rising column of air. Flue gases are desulfurized by adding ground limestone to the fuel. This renders unnecessary the desulfurization equipment used with more common pulverized-coal boilers.
Greenhouse gas emissions permit	Represents the right of a facility operator to release the equivalent of one ton of carbon dioxide into the air in the given calendar year.
IAEA	International Atomic Energy Agency, based in Vienna, Austria.
IFRIC	International Financial Reporting Interpretation Committee. Also used as part of the titles of interpretations issued by this committee.
IFRS	International Financial Reporting Standards, previously IAS.
Installed capacity	Sum of generator nameplate 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.
Instrumentation & Control System (I&C)	Automated system for controlling industrial processes – generating units in particular.
JI (Joint Implementation) or CDM (Clean Development Mechanism)	A project within the Kyoto Protocol in which an investor from a technologically advanced country can reduce another entity's CO_2 emissions (typically located in a developing country).
Liberalization of the electricity market	The process of creating a competitive market environment. For technical 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 organized electricity spot market and electricity transmission in the Czech Republic are also State monopolies.
Nameplate capacity	Capacity/output figure shown on the generator nameplate.
NEA	Nuclear Energy Agency. A specialized nuclear energy organization within the Organization for Economic Cooperation and Development (OECD). Based in Paris, France.
NO_X	Nitrogen oxides.
OECD	Organization for Economic Cooperation and Development.
OSART	Operational Safety Review Team (from the IAEA).
OTE (Operátor trhu s elektřinou, a.s.)	A State-established joint-stock company whose purpose is to operate 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 operate the electricity spot market.
Peak load	Highest load on the grid measured during a given period.

Term	Commentary
Power System (PS)	The Czech Republic Power System is a mutually interconnected set of equipment for the generation, transmission, transformation, and distribution of electricity, including electricity connections, 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.
PSE	Prague Stock Exchange.
PX	The official stock index of the Prague Stock Exchange.
Regional electricity distribution company	In the Czech Republic there used to be eight regional electricity distribution companies that distributed electricity to end consumers and could also engage in electricity trading. With certain exceptions, they covered the entire territory of the Czech Republic. At present, there are three companies – ČEZ Distribuce, a. s., PREdistribuce, a.s. and E.ON Distribuce, a.s.
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 energy sources (RES)	Energy resources that renew themselves naturally. Includes, e.g., hydro, geothermal, solar, wind, and biomass.
Retail electricity customer	An electricity consumption category, members of which are connected 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 of 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.
UCTE	Union for Co-ordination of Transmission of Electricity.
Unbundling	The separation, for accounting and legal purposes, of transmission and distribution grid operation from other activities (e.g. electricity generation, trading, etc.). European Union Member States are subject to this requirement under EU Directive No. 2003/54/EC. In the Czech legal system, this requirement is given by Sections 24a and 25a of Act No. 91/2005 Sb. It takes effect on 1 January 2005 for transmission grid operators and on 1 January 2007 for distribution grid operators.
VVER	A type of pressurized water reactor.
WANO	World Association of Nuclear Operators.
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.

Explanation of Units Used in this Document

Units	Commentary
GWh	Gigawatt-hour; 1 GWh = 10^9 Wh = 10^3 MWh = 10^6 kWh, Wh = 3,600 Ws
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 power (load)
t	Metric ton; 1 t = 10^3 kg = 10^6 g, g = a unit of mass
TJ	Terajoule; 1 TJ = 10^{12} J = 10^3 GJ = 10^6 MJ, J = Ws = a unit of work (energy)
BGN	The Bulgarian currency
RON	The Romanian currency

Names of companies in the 2005 Annual Report are given as they appear in the Commercial Register of the Ministry of Justice of the Czech Republic.

Method Used by CEZ Group to Calculate Key Indicators

Indicator	Calculation
Assets turnover	Operating revenues / Average total assets
Coverage of fixed assets	(Equity + Minority shares + Long-term liabilities + Deferred tax liability) / Fixed assets *) (Equity + Long-term liabilities + Deferred tax liability) / Fixed assets
Debt	Long-term liabilities, net of current portion + Short-term borrowings + Current portion of long-term debt
Debt / Equity	Debt / Equity of shareholders of parent company *) Debt / Equity
Dividend per share (gross)	Dividend announced in the current year, before tax
EBIT	Income before other expenses (income) and income taxes
EBIT margin	EBIT / Operating revenues
EBITDA	Income before other expenses (income) and income taxes + Depreciation and amortization
EBITDA margin	EBITDA / Operating revenues
Extent of depreciation	Accumulated depreciation and impairment adjustments on fixed tangible assets / Fixed tangible assets in use, gross
Long-term indebtedness	(Long-term liabilities, net of current portion + Other long-term liabilities) / Total equity & liabilities
Market capitalization	Share price * Number of shares outstanding
Net earnings per share	Net income attributable to shareholders of the parent company / Average number of shares (treasury shares excluded) *) Net income / Average number of shares (treasury shares excluded)
Operating cash flow	Net cash from operating activities
Operating cash flow to liabilities ratio	Net cash from operating activities / Long-term liabilities
Return on Assets (ROA), net	Net income / Average total assets
Return on Equity (ROE), net	Net income attributable to shareholders of the parent company / Average equity of shareholders of parent company *) Net income / Average equity
Return on Invested Capital (ROIC)	(EBIT + Net change in selected provisions and impairment allowances - Interest on nuclear and other provisions) * (1 - income tax rate) / (Average fixed tangible and intangible assets + average net working capital)
Total indebtedness, provisions excluded	(Long-term liabilities + Current liabilities + Deferred tax liability - Accumulated provision for nuclear decommissioning and fuel storage - Accrued liabilities) / Total equity and liabilities
Total liquidity	Current assets / Current liabilities

*) Definition for ČEZ, a. s. in cases when it differs from definition for CEZ Group.
Average value = (Value at end of previous year + Value at end of current year) / 2

INFORMATION
FOR SHAREHOLDERS AND INVESTORS

Events Calendar

Preliminary, non-audited, non-consolidated financial performance results of ČEZ, a. s. for 2005 in accordance with IFRS Press conference Conference call Brief report on ČEZ, a. s. results, Czech and English version	28 February 2006
Consolidated financial performance results of CEZ Group for 2005 in accordance with IFRS Press conference Conference call Brief report on CEZ Group results, English version	21 March 2006
Publishing of 2005 Annual Report and Report on Relations Among Affiliated Entities, Czech version	2 May 2006
Publishing of 2005 Annual Report, English electronic version (PDF) on CEZ Group website	15 May 2006
Non-audited results of CEZ Group for 1st quarter 2006 in accordance with IFRS Press conference Conference call Brief report on CEZ Group results, Czech and English version	19 May 2006
15th Annual General Meeting of ČEZ, a. s.	23 May 2006
Publishing of printed 2005 Annual Report, English version	23 May 2006
ČEZ, a. s. half-year report	15 August 2006
Non-audited results of CEZ Group for 1st half 2006 Press conference Conference call Brief report on CEZ Group results, Czech and English version	15 August 2006
Non-audited results of CEZ Group for 1st – 3rd quarters 2006 in accordance with IFRS Press conference Conference call Brief report on CEZ Group results, Czech and English version	15 November 2006
Financial performance results for 2006 in accordance with IFRS	28 February 2007

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INFORMATION ON PERSONS
RESPONSIBLE FOR THE ANNUAL REPORT

Responsibility for the Annual Report

Statutory Declaration:
The information presented in the 2005 Annual Report of ČEZ, a. s. is factual and no material circumstances have been omitted that could influence a precise and accurate assessment of either CEZ Group or ČEZ, a. s.

Prague, 13 April 2006

Editorial and financial section:

Jiří Kobosil
Director, Planning and Controlling Section

Remuneration principles, information on cash and in-kind income and other securities respective to members of the governing bodies and executive management

Petr Vobořil
Chief Finance Officer

AWARDS RECEIVED IN 2005

Awards Received in 2005 (ČEZ, a. s.)

January
- Central European Capital Ltd. declares ČEZ, a. s. the 10th largest company in Central Europe by turnover.

April
- Second place in the 100 Most Admired Companies of the Czech Republic competition organized by the CZECH TOP 100 Association; up from third place last year.

June
- in the main CZECH TOP 100 ranking, ČEZ, a. s. places first by profit, value added, and earnings growth, and second by sales revenues.

September
- Dlouhé Stráně Power Station places first among the Seven Wonders of Czechia in a survey conducted by iDNES.

October
- Safe Enterprise Certificate for Dukovany Nuclear Power Station reaffirmed for the third time,
- Safe Enterprise Certificate for Temelín Nuclear Power Station.

November
- CEZ Group takes first place in the TOP CORPORATE PHILANTHROPIST 2005 competition by absolute amount of funds distributed to public-benefit projects,
- CEZ Group places first in the 100 Best Annual Reports of the Czech Republic competition for 2004, organized by the CZECH TOP 100 Association,
- Dukovany Nuclear Power Station receives Environmental Management System certificate.

April 2004
- in a competition organized by PR Klub, the ČEZ, a. s. Annual Report wins GOLDEN SEMICOLON 2005 certificate of professionalism in the category Best Annual Report.

Awards Received in 2005 (ČEZ Foundation)

June
- Hutisko – Solanec Civic Association confers St. Zdislava Family award for a project to help abandoned children.

September
- certificate in fly fishing at the 7th Handicapped Fishing World Championships organized by Czech Fishing Federation.

December
- certificate from the Safety Line Association for operating a crisis telephone line for children,
- certificate from the Plaváček Foundation Fund.

ČEZ, a. s.
Duhová 2/1444
140 53 Prague 4
Czech Republic

Registered in the Commercial Register maintained by
the Prague Municipal Court, Part B, Entry No. 1581

Year of inception: 1992
Legal form: joint stock company
ID No.: 452 74 649
Tax ID No.: CZ45274649
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Closing date of the 2005 Annual Report: 13 April 2006

Consulting, design, and production:

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Herbert Slavík (Board of Directors, sports)
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ČEZ, a. s. file photos