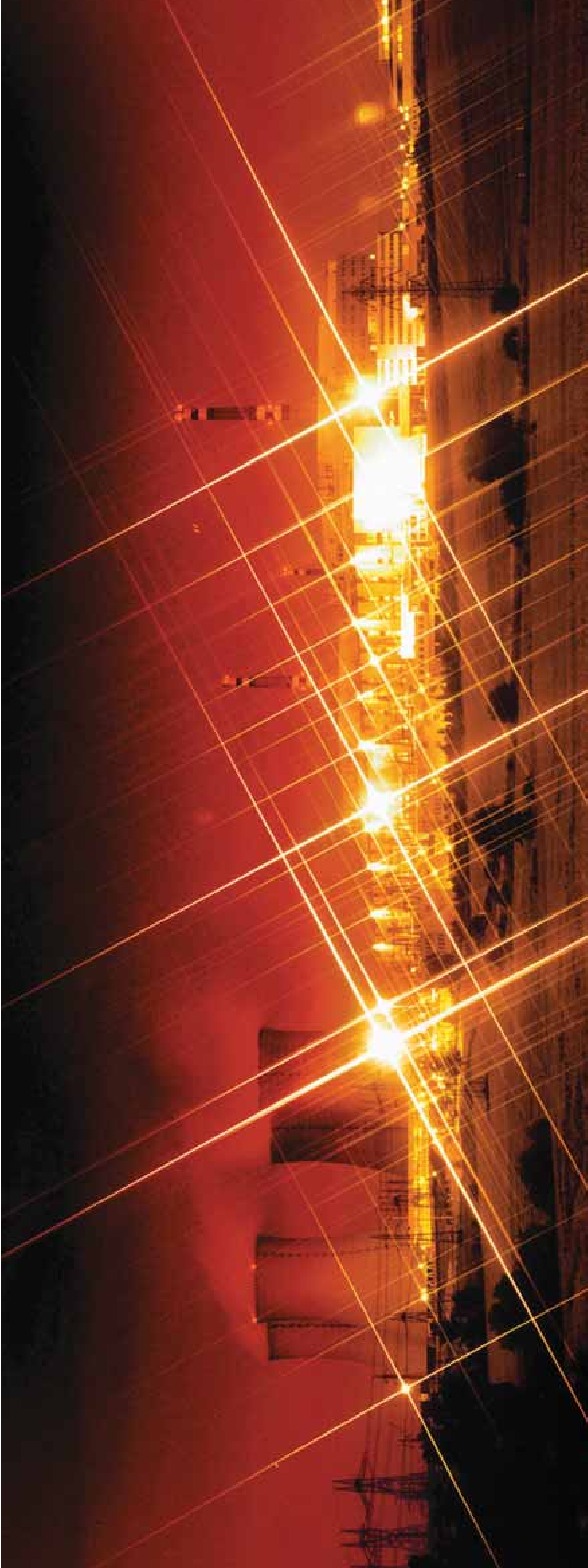


CEZ Group
Annual Report
2006

CEZ Group

Energy without borders

CEZ Group is the largest power utility in Central and Southeastern Europe. The successful acquisition of distribution companies in Bulgaria and Romania, as well as power plants in Poland and Bulgaria, have opened up new markets for the Group. In the Czech Republic, CEZ Group is the largest producer of electricity and heat, operator of the distribution grid over most of the country's territory, and the strongest player in the wholesale and retail electricity markets. Most of our generation capacity is concentrated in the corporate parent, ČEZ, a. s. In May 2006 we acquired majority stakes in the Poland-based power companies Elektrownia Skawina S.A. and Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.

In the months that followed, ČEZ, a. s. successfully completed the acquisition of the power station in Varna, Bulgaria, which is now the largest coal-fired facility in the Group's plant portfolio.

Another significant date in 2006 was November 6, when the final building approval of Units 1 and 2 of Temelín Nuclear Power Station entered into legal force.

During the course of 2006, new subsidiaries were added to CEZ Group in Serbia, Kosovo, Republika Srpska in Bosnia and Herzegovina, and Ukraine. Preparations commenced for mandatory unbundling in Bulgaria, culminating in its implementation from the beginning of 2007. Considerable progress was made in neighboring Romania as well.

CEZ Group's other businesses include mining brown coal through our largest subsidiary, Severočeské doly a.s., and other raw materials, as well as telecommunications, information technologies, nuclear research, engineering design, construction and maintenance of power facilities, and processing of electricity generation by-products.

CEZ Group in 2006

40.1
Operating income
(CZK billions)

14.9
Return on equity
(%)

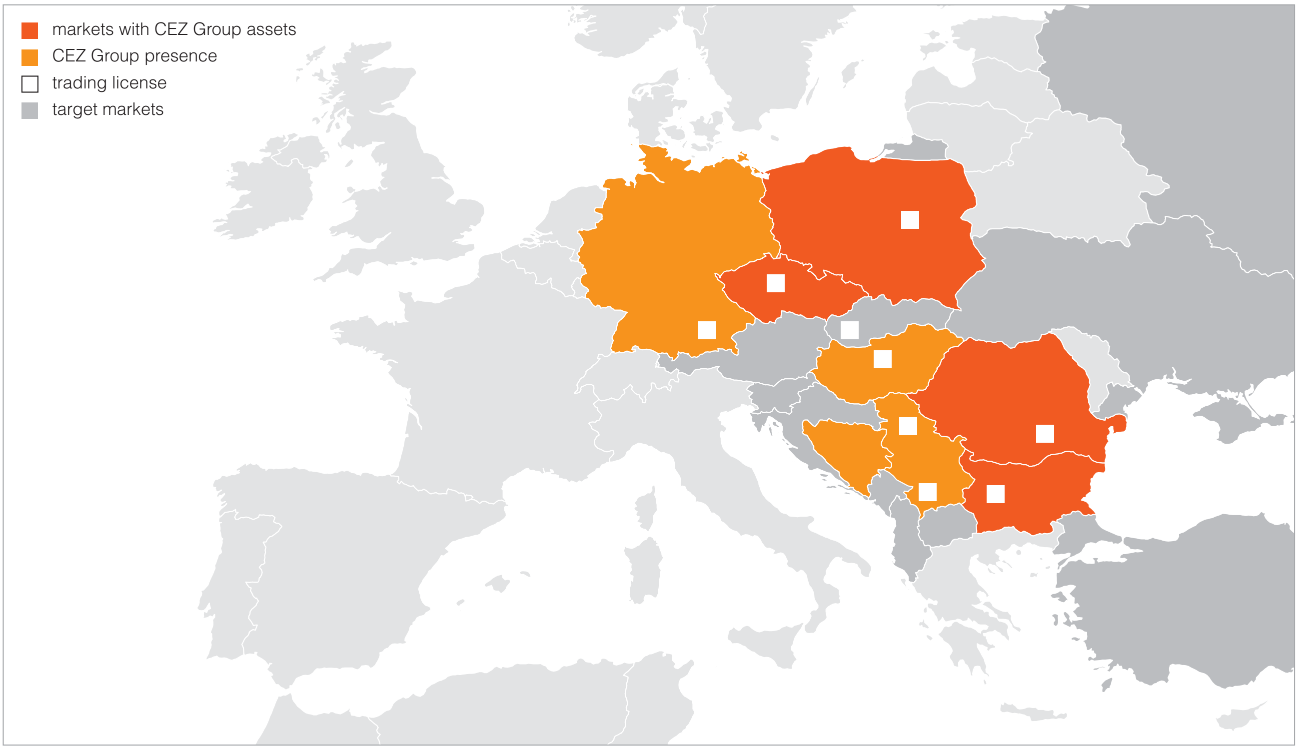
10.2
Economic
Value Added (EVA)
(CZK billions)

28.8
Net income
(CZK billions)

85.7
Electricity sales
(TWh)

CEZ Group

CEZ Group Territory



The Leader in the Power Market of Central and Southeastern Europe

CEZ Group is a dynamic, integrated electricity conglomerate based in the Czech Republic and with operations in a number of countries in the region of Central and Southeastern Europe. Its principal businesses encompass generation, distribution, and sale of electricity and heat as well as coal mining.
The shares of the parent company ČEZ, a. s. are traded in Prague and Warsaw, and they are also a significant part of the stock exchange indexes there. The company's largest shareholder is the Czech Republic. Over the past few years, ČEZ, a. s. has become one of the largest companies, by market capitalization, in this entire region.
A critical part of CEZ Group's mission is to maximize returns and ensure long-term growth in shareholder value. To this end, CEZ Group focuses its efforts on fulfilling the vision of becoming the leader in the power markets of Central and Southeastern Europe.

Operational Excellence

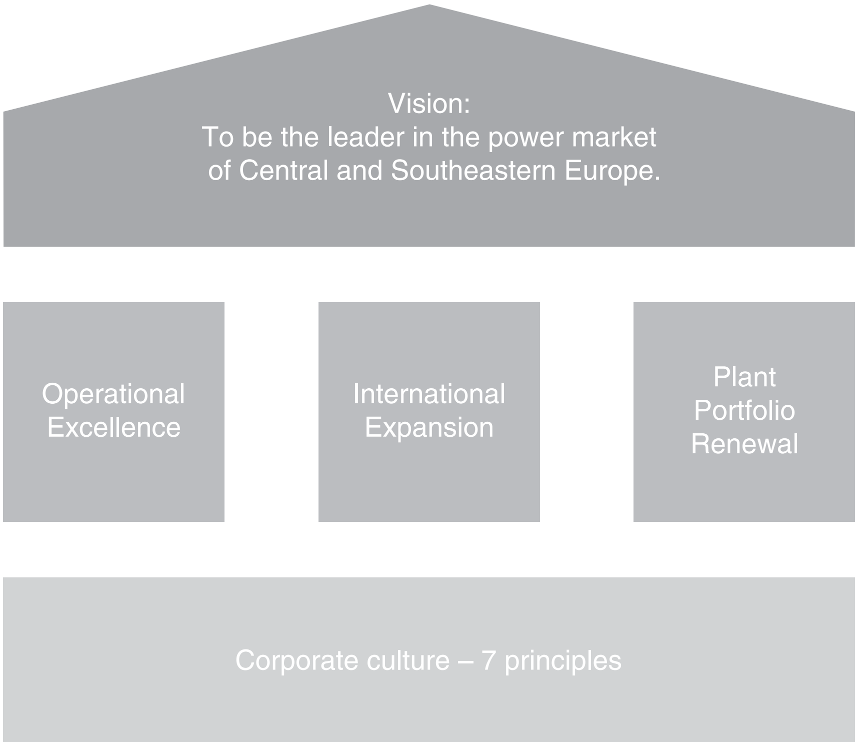
The first pillar for fulfilling the CEZ Group's vision is operational excellence through continual improvements in efficiency. Increased productivity, cost savings, and improvements in the services we provide comprise the foundation for sustained growth in the company's market value and its competitiveness. CEZ Group began pursuing integration and efficiency improvements in the Czech Republic with the project VIZE 2008, whose primary goal was to transform the legacy organization, which was based on geographically defined subsidiaries, into a standard process-based organization and implement unbundling. The requirement of Czech and European Union legislation to separate, or "unbundle", the licensed and regulated activity of distribution from the sale of electricity was fulfilled at the beginning of 2006. Since 2003, VIZE 2008 and subsequent changes to the organization and optimizing of individual processes have yielded a cumulative savings of CZK 7.9 billion. In addition, 2006 saw the commencement of more key CEZ Group projects designed to focus companies more on the customer, improving internal processes toward this end, developing human resources, and thereby bringing about a major improvement in the quality of customer services.

International Expansion

Another part of the CEZ Group vision is to develop operations beyond the borders of the Czech Republic. CEZ Group's priority focus is on the markets of Central and Southeastern Europe, where we can best employ our unique experience in managing an electricity conglomerate during a period of transition to a liberalized power market and unbundling of regulated activities from the rest of the conglomerate.
Successful acquisitions in Poland, Bulgaria and Romania have opened up new markets for CEZ Group. The Group's subsidiaries in Hungary and Serbia have gained a solid foothold in their respective markets. A joint venture engaged in upgrading and expanding a generating plant has been started in Republika Srpska in Bosnia and Herzegovina. ČEZ, a. s. is quickly integrating new companies into the Group and implementing best practices in both core and ancillary processes.

Plant Portfolio Renewal

The third pillar for achieving CEZ Group's ambitious goal is the renewal, or retrofitting, of our existing power stations. Currently documentation is being prepared for a complete retrofit of the brown coal-fired Tušimice II Power Station in the Czech Republic, and realization of the project is slated to begin in June 2007. Another big project is the construction of a new



660 MW brown coal-fired plant in the Ledvice Power Station compound in North Bohemia. In this project, documentation for administrative proceedings has been completed.
A third project – the complete retrofit of Prunéřov II Power Station – has also been commenced.
The increased efficiency of the retrofitted and new coal-fired power stations will increase fuel efficiency by 15–25% compared to the technology currently in use. At the same time there will be a reduction in emissions of the gases produced by coal combustion. The reduction in CO_2 emissions is in line with the reduction in fuel consumption, i.e. 15–25%. Emissions of nitrogen oxides will be cut by approximately 60%, while sulfur dioxide emissions will fall by roughly 50%.
Plant renewal is also taking place in the Republika Srpska in Bosnia and Herzegovina, in the form of a joint venture. Renewal of plants in Poland is in the planning stage.
CEZ Group is interested in developing similar activities in the target territory of Central and Southeastern Europe and is participating in tenders toward this end.

Corporate Culture
To accomplish these demanding goals in a long-term, sustained fashion, CEZ Group will need to systematically develop its corporate culture and human resources.
The corporate culture is based on the following seven key principles:
1. creating value while maintaining safety standards,
2. individual responsibility for meeting ambitious targets,
3. building unity within CEZ Group,
4. developing human potential,
5. creating an international organization,
6. accepting constant change,
7. moral integrity.

Corporate Citizenship and Environmental Stewardship
CEZ Group's business is governed by strict ethical standards that include behaving responsibly toward society and the environment. CEZ Group is a major supporter of a number of non-profit organizations and public-benefit projects. In addition to continually reducing the environmental impact of coal mining and electricity generation and distribution, CEZ Group commenced two major environmental initiatives in 2006: first, the disbursement of proceeds from the sale of Green Energy to fund third-party projects for developing renewable sources of energy and, second, a public declaration of CEZ Group's contribution toward sustainable development. One of the main points of the declaration is a pledge to utilize gains realized on sales of CO_2 allowances saved by investing them in technologies that protect the environment.

Anticipated Commercial and Financial Situation in 2007
In 2007, CEZ Group anticipates continued rapid growth in commercial performance, driven by the successful implementation of strategic initiatives (operational excellence, international expansion, plant portfolio renewal) and changes in the electricity markets (in particular, growth in wholesale electricity prices). In view of the above, consolidated net income is expected to be up over 22% compared to 2006 (i.e. more than CZK 35 billion) and income before other income (expenses) and income taxes, depreciation and amortization (EBITDA) are to rise by more than 10% (i.e. to over CZK 70.9 billion). The aggregate contribution of foreign operations to EBITDA is expected to be 19% higher, i.e. a minimum of CZK 5.8 billion.

Contents

Selected Indicators of CEZ Group

Selected Indicators of CEZ Group (IFRS, consolidated)

	Units	2001	2002	2003	2004	2005	2006	Index 2006/2005 (%)
Installed capacity	MW	10,146	11,146	12,297	12,297	12,298	14,392	117.0
Electricity generated (gross)	GWh	52,162	54,118	61,399	62,126	60,016	65,532	109.2
Electricity sold	GWh	50,910	53,174	69,005	67,662	74,432	85,674	115.1
Electricity purchased	GWh	3,972	4,274	15,932	14,254	25,936	31,025	119.6
Heat sold	TJ	10,473	9,550	10,942	10,008	9,790	11,274	115.2
Employee head count at December 31	persons	8,011	7,677	23,098	22,768	29,905	31,161	104.2
Total revenues	CZK millions	56,055	55,578	87,264	102,670	125,083	159,580	127.6
of which: sales of electricity	CZK millions	53,300	52,938	78,974	92,183	115,949	148,295	127.9
EBITDA	CZK millions	24,117	22,944	33,561	39,627	50,126	64,344	128.4
EBIT	CZK millions	14,751	11,223	15,048	19,785	29,403	40,064	136.3
Net income	CZK millions	9,123	8,421	10,213	14,268	22,282	28,756	129.1
of which: net income attributable to equity holders of the parent	CZK millions	9,123	8,421	9,594	13,213	21,438	27,697	129.2
Net income per share – basic	CZK/share	15.4	14.3	16.2	22.3	36.3	47.0	129.4
Net income per share – diluted	CZK/share	15.4	14.2	16.2	22.3	36.2	46.8	129.2
Dividend per share (gross) *)	CZK/share	2.0	2.5	4.5	8.0	9.0	15.0	166.7
Return on Invested Capital (ROIC)	%	4.9	3.7	4.5	6.0	8.6	11.2	129.6
Return on Equity (ROE), net	%	6.9	6.0	6.3	7.9	12.3	14.9	121.1
Total assets	CZK millions	229,027	231,465	296,638	299,250	324,209	368,655	113.7
Equity (including minority shares)	CZK millions	136,726	143,675	171,075	178,447	191,289	207,653	108.6
Net debt/Equity	%	33.8	24.9	20.9	19.1	12.4	9.0	72.3
Net debt/EBITDA	%	191.8	155.8	100.8	83.0	43.8	27.2	62.2
Capital expenditure (CAPEX)	CZK millions	(15,706)	(10,419)	(26,381)	(16,925)	(15,671)	(23,745)	151.5
Investments **)	CZK millions	–	–	(28,373)	(18,166)	(12,258)	(21,925)	178.9
Operating cash flow	CZK millions	22,205	19,001	38,329	36,641	43,895	62,908	143.3

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

Key Figures by Business Segment, 2006

	Units	Power Production and Trading		Distribution and Sale		Mining		Other		Consolidated	
		2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Sales other than intersegment sales	CZK millions	47,376	64,286	72,906	88,457	2,738	3,476	2,063	3,361	125,083	159,580
Intersegment sales [1]	CZK millions	22,872	37,849	2,480	4,535	5,260	5,456	6,592	11,029	–	–
Total revenues	CZK millions	70,248	102,135	75,386	92,992	7,998	8,932	8,655	14,390	125,083	159,580
EBITDA	CZK millions	33,642	43,778	11,239	13,434	3,607	4,363	1,638	2,769	50,126	64,344
EBIT	CZK millions	19,734	29,685	6,579	8,261	2,660	3,369	430	(1,251)	29,403	40,064
CAPEX	CZK millions	8,198	10,553	5,243	7,419	1,239	1,866	2,215	5,358	16,851 [2]	22,545 [2]
Employee head count at December 31	persons	7,174	8,756	13,765	13,092	3,554	3,525	5,412	5,788	29,905	31,161

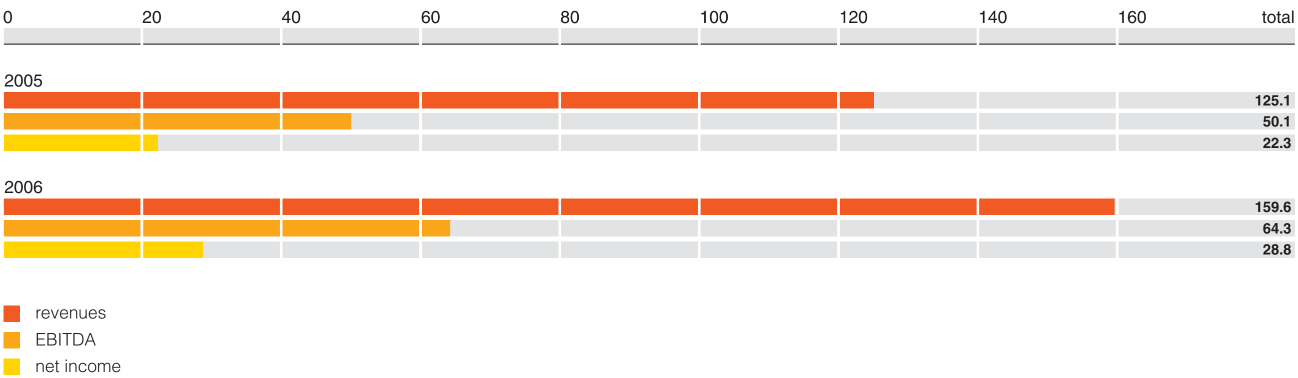
[1] All intersegment sales have been eliminated from the consolidated figures (column Consolidated).
[2] Of which: elimination of transactions within Group -44 million CZK, or -2,651 million CZK for advance payments for CAPEX within CEZ Group.

Key Figures by Geographical Segment, 2006

	Units	Central Europe		South East Europe		Consolidated	
		2005	2006	2005	2006	2005	2006
Sales other than intersegment sales	CZK millions	110,648	136,312	14,435	23,268	125,083	159,580
Intersegment sales [1]	CZK millions	106	153	3	4	–	–
Total revenues	CZK millions	110,754	136,465	14,438	23,272	125,083	159,580
EBITDA	CZK millions	48,132	60,171	1,994	4,173	50,126	64,344
EBIT	CZK millions	28,590	37,798	813	2,266	29,403	40,064
CAPEX	CZK millions	16,059	20,065	792	2,480	16,851	22,545
Employee head count at December 31	persons	22,243	22,638	7,662	8,523	29,905	31,161

[1] All intersegment sales have been eliminated from the consolidated figures (column Consolidated).

CEZ Group Results of Operations (CZK billions)



Important Events of 2006 and 2007 Up to Annual Report Closing Date

Important Events of 2006

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 allowances.

March
- Hungarian subsidiary, CEZ Hungary Ltd., obtains electricity trading license.

April
- ČEZ, a. s. and ŠKODA PRAHA Invest s.r.o. sign contract for comprehensive retrofit of Tušimice II Power Station.

May
- signing of agreement with Government of Bulgaria on sale of coal-fired power plant in Varna,
- signing of contract with Russia-based TVEL OAO for supply of nuclear fuel to both reactor units of Temelín Nuclear Power Station during the period 2010–2020,
- Annual General Meeting of ČEZ, a. s.,
- ČEZ, a. s. acquires majority stakes in the Poland-based power companies Elektrownia Skawina S.A. and Elektrociepłownia Chorzów "ELCHO" Sp. z o.o., with combined installed capacity of 830 MW, for total purchase price of EUR 383.3 million,
- project to build a new 660 MW with supercritical parameters at Ledvice Power Station approved.

June
- opening ceremony of CEZ Hungary Ltd. trading office in Budapest,
- ownership rights to participating securities of minority shareholders in Severočeské doly a.s. pass to ČEZ, a. s., making it the company’s sole shareholder.

July

- establishment of new 100% subsidiaries: ČEZ Srbija DOO, New Kosovo Energy L.L.C. and ČEZ LABORATORIES BULGARIA EOOD.

August

- inception of subsidiary ČEZ ELEKTRO BULGARIA AD in Sofia, co-owned by ČEZ, a. s. (67%) and Bulgarian government (33%),
- auction of electricity for 2007 in the form of a "virtual power plant",
- wholesale electricity sales campaign begins with a two-part auction; part 1 is for the 500 MW one-year baseload (Yellow Electricity), part 2 – sale of all other products except one-year baseload,
- in Vienna, Austrian Supreme Court rules that Austrian courts have jurisdiction over issues of protection from airborne pollutants; based on this ruling, the Regional Court of Linz begins hearing a suit against ČEZ, a. s. brought by the Province of Upper Austria,
- General Meeting of Severočeská energetika, a.s. decides on the passage of all other participating securities of the company to the principal shareholder, ČEZ, a. s. (squeeze-out) effective 30 October 2006.

October

- shares of ČEZ, a. s. commence trading on the Warsaw Stock Exchange (GPW),
- ČEZ, a. s. takes a 100% stake in the Varna Power Plant for EUR 206 million as well as increasing the plant's registered capital by EUR 100 million. ČEZ, a. s. will invest another EUR 40 million in a fund for future investment projects in the Bulgarian power industry; this fund will be used only for projects that are acceptable for CEZ Group,
- new spent fuel storage facility at Dukovany Nuclear Power Station enters trial operation; the facility has a capacity of 134 casks, sufficient to cover 40 years of plant operation,
- Standard & Poor's increases CEZ Group's rating from BBB+ to A-,
- 4th Eurobond issue (EUR 500 million) released, 2nd Eurobond issue retired.

November

- final building approval issued for Units 1 and 2 of Temelín Nuclear Power Station.

December

- agreement on construction of new power plant in Gacko, Republika Srpska, Bosnia and Herzegovina signed and related joint venture NERS d.o.o. established,
- ČEZ, a. s. shares on the GPW become part of WIG 20 blue chip index,
- WANO conducts inspection at Temelín Nuclear Power Station and concludes that the plant complies with common safety standards,
- in consortium with AES, CEZ Group qualifies for tender for power projects in Kosovo,
- inception of ČEZ Ukraine CJSC.

Important Events of 2007 Up to Annual Report Closing Date

January

- business plan for comprehensive retrofit of Prunéřov II Power Station approved.

March

- Electrica Oltenia S.A. split into two companies, CEZ Vanzare S.A. (sales of electricity) and Electrica Oltenia S.A., with the latter subsequently renamed to CEZ Distributie S.A.; inception of third company, CEZ Servicii, planned for the first half of 2007,
- establishment of CEZ TRADE ROMANIA S.R.L. as a trading platform,
- Czech cabinet approves privatization of 7% of government's stake in ČEZ, a. s.; sale to take place during 2007.

April

- CEZ Group in the top 500 of the Forbes 2000, a listing of the world's top companies based on a combination of revenues, market value, assets, and income.

Development in the domestic portion of CEZ Group consisted in its ongoing restructuring, based on implementation of the approved strategy for domestic equity stakes and reinforcing the position of the process-driven companies within the Group.

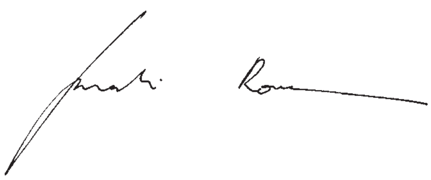
During the course of 2006 the book value of ČEZ, a. s. equity stakes increased from CZK 75 billion to CZK 102 billion.

Development in the international portion of CEZ Group's portfolio was based in particular on successful acquisitions. At 31 December 2006 CEZ Group, including the parent, consisted of 98 business entities, 66 of which were based in the Czech Republic and the remaining 32 abroad.

CEZ Group is an important part of the Czech economy. It is the first Czech conglomerate in history to post net income of over EUR 1 billion.

Letter to Shareholders

Dear shareholders:
Allow me once again to report to you in person on the most important events in CEZ Group during the past year.
Three years ago, we likened the CEZ Group strategy to an ancient Greek temple. The roof is upheld by three pillars: plant portfolio renewal, international expansion, and the integration project called VIZE 2008 by which we changed the structure of the entire CEZ Group of over 90 companies.
I am pleased to report that we completed VIZE 2008 early, and its targets have now been met. In its place, we have erected a new third pillar – operational excellence – to raise the level of our individual processes so that we are on a par with the world's top energy companies.
To ensure the foundations of our temple are truly solid, it stands on the principles of our corporate culture so that all our efforts are directed toward increasing the Company's shareholder value.
The temple roof symbolizes our vision: to be the leader in the power market of Central & Southeastern Europe.
I am pleased to report that we succeeded in reinforcing and strengthening all three pillars in 2006 so that now, one year on, our temple is more stable and capable of withstanding unforseen tremors. Once again, we succeeded in increasing the Company's value for you, our shareholders.
During 2006 the share price grew by over 30%, from CZK 736 to CZK 960, bringing the Company's market capitalization to CZK 565 billion. In early 2007 the share price even broke through the magical CZK 1,000 barrier for a short time. In late October 2006, the shares of ČEZ, a. s. began trading on the Warsaw Stock Exchange, confirming the status of ČEZ, a. s. as an international company with multiple share listings. The Company's value was reaffirmed a short time later when the shares were integrated into the Warsaw Stock Exchange's WIG 20 blue chip index with a weighting of 2.23%.
2006 was also a very successful year for CEZ Group in terms of financial performance, as shown by record income. Consolidated net income reached CZK 28.8 billion, up CZK 6.5 billion from the previous year. We became the first Czech corporate grouping in history to post net income of over EUR 1 billion. We are sure to hold the trend in 2007 as well and I am fully confident that the performance will improve even more. Our positive financial performance was also confirmed in October when Standard & Poor's increased the long-term rating of CEZ Group to A- from the previous BBB+ rating.
As part of our work in the International Expansion pillar, we added three major power plants to our portfolio. Two of them, Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. and Elektrownia Skawina S.A., both in neighboring Poland not far from the Dětmarovice Power Station on the Czech side of the international border, joined CEZ Group in May, forming a strong black-coal portfolio with formidable synergic potential. We also significantly expanded our business in Bulgaria, the country where ČEZ, a. s. began its international growth. Late in the year we acquired a 100% stake in the black-coal power plant TEC Varna EAD in addition to the distribution company we already own in the western part of the country. The establishment of a joint venture in Republika Srpska, Bosnia and Herzegovina to retrofit the existing Gacko Power Plant, build a new generating unit and develop an adjoining coal mine represented the culmination of a phenomenally successful year of international growth.
In the Czech Republic, 2006 was the first year of CEZ Group's operation under a completely restructured organization. It tested and confirmed that the VIZE 2008 project – part of one of the pillars of our corporate strategy – was well planned and viable in practice. Even so, we are still finding weak points and room for improvement, which we are endeavoring to fill in an effective manner. In addition, in 2006 we began to transfer our know-how and experience to our international subsidiaries which also faced or are facing the requirement of clearly separating the non-regulated generation and trading functions from the regulated ones, i.e. distribution.
Work continued on reinforcing the last pillar, renewing CEZ Group's production portfolio. Projects initially announced in 2005 moved closer to implementation. Construction work on the comprehensive retrofit of the Tušimice II Power Station is set to begin in early June 2007. We are also planning a comprehensive retrofit of the neighboring Prunéřov II Power Station and construction of a new power plant in Ledvice.
In the new generating units we plan to use cutting-edge, environmentally friendly technologies, all in full accordance with CEZ Group's public declaration in which we pledged to contribute to sustainable development. In addition to the use of modern technologies, the specific steps for doing this also include approximately CZK 30 billion in planned investments in renewable sources of energy, use of proceeds from sale of CO_2 emission allowances to invest in measures that further reduce CO_2 emissions, and promotion/support of energy conservation.
A major milestone in 2006 was November 6, when the final building approval for Units 1 and 2 of Temelín Nuclear Power Station entered into force.
In terms of events in the Czech and European energy markets, 2006 was a very rich and varied year. And so, our thanks go out also to all CEZ Group employees for rising to the challenges and successfully growing value for you, our shareholders. Growing the Company's value will be our motto in 2007 as well.



Martin Roman
Chairman of the Board and CEO

Directors and Officers

In accordance with the ČEZ, a. s. Articles of Association, the Company's highest governing body is the General Meeting, which elects and removes the members of the Supervisory Board, except for members elected and removed by the employees. The Supervisory Board elects and removes the members of the Board of Directors. Under the Labor Code and Articles of Association valid in 2006, the Board of Directors elected and removed the Company's executives pursuant to Section 27 of the Labor Code.

Supervisory Board

As at 17 April 2007, the Supervisory Board has twelve members, eight of which are elected and removed by the General Meeting and four of which are elected by the employees in accordance with Section 200 of Act No. 513/1991 Sb., the Commercial Code, as amended. Members of the Supervisory Board serve for 4-year terms. The Supervisory Board is the Company's oversight body, which oversees the Board of Directors' exercise of authority and the Company's business activities. The Supervisory Board's powers include, in particular: inspecting for general compliance with laws and regulation, the Company's Articles of Association, and resolutions of the General Meeting; inspecting how the Board of Directors exercises the Company's rights of ownership in other legal entities; reviewing the year-end and extraordinary financial statements, including income distribution proposals and stipulations of dividends and Board member bonuses and pay-out procedures; and discussing the financial performance results, the half-year report, and the annual report. The Supervisory Board also reviews the Related Parties Report compiled by the Board of Directors and reports on its review to the General Meeting. The Board of Directors is required to obtain its prior consent for key decisions. The Supervisory Board convenes the General Meeting if required to do so by the Company's interests, and proposes necessary measures at the General Meeting.

In accordance with the Articles of Association, the Supervisory Board meets, as a rule, once per month. In 2006 there were 11 regular and 2 extraordinary meetings. The 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 and answering questions on the matters at hand.

The Supervisory Board 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 Company executives. The Personnel Committee deals with staffing the Board of Directors and gives recommendations to the Supervisory Board for issuing its opinions on appointments of the Chief Executive Officer and members of the Board of Directors who are employed by the Company, as well as on their remuneration. The Strategic Planning Committee assesses the effectiveness of key investments (both plant and equipment and financial investments) before they are executed.

Members of the ČEZ, a. s. Supervisory Board

Martin Kocourek (* 1966)
Chairman since 14 December 2006,
Member since 22 September 2006

A graduate of the Czech Technical University, Prague, where he majored in Economics and Management, Mr. Kocourek has done internships in investment banking (London, 1994) and the financial sector (USA, 1997).

Since July 2006 he has been an economic, financial, and organizational consultant and as of February 2007 he is an external economic consultant to the Prime Minister of the Government of the Czech Republic. He serves on the Supervisory Boards of the following institutions: Václav Klaus Foundation Fund (member since 22 December 1999), Classical Music Foundation Fund (member since 22 October 2004), and Baskets Against Drugs Foundation (Chairman since 22 November 2004).

In 1998–2006, Mr. Kocourek served in Parliament as Vice Chairman of the Budget Committee of the Chamber of Deputies. From April 1999 to January 2006 he was a member of the Supervisory Board of the National Property Fund of the Czech Republic (with a break from October 9–22, 2002). From April 2002 to December 2005 he was a member of the Presidium of the Czech Republic Land Fund.

Tomáš Hüner (* 1959)
Vice Chairman and Member since 22 September 2006

A graduate of the Brno University of Technology, major in thermal and nuclear machinery and equipment.

On 14 September 2006 Mr. Hüner was appointed Deputy Minister of Industry and Trade. Since 11 October 2006 he has been Vice Chairman and member of the Board of Directors of Osinek, a.s., since 19 December 2006 he has been Chairman and member of the Supervisory Board of ČEPS, a.s., and since 21 March 2001 he has been Vice Chairman and member of the Supervisory Board of Union Group, a.s. (under a decision of the Regional Court the latter was declared bankrupt and a bankruptcy administrator was appointed; the decision took effect on 10 September 2004).

From 13 September 2004 to 13 September 2006 he was employed by ČEZ, a. s. as Country Manager in Bulgaria. From 30 September 1997 to 21 March 2003 he was Chairman and member of the Supervisory Board of Union Leasing, a.s., from 17 June 1994 he was a member and from 22 June 1995 to 25 February 2003 Chairman of the Board of Directors of Severomoravská energetika, a. s., from 31 March 2000 to 21 March 2003 he was a member of the Board of Directors of Energetika Vítkovice, a.s., from 29 August 2001 to 11 July 2003 he was a member of the Board of Directors of ePRIM, a.s. (under a decision of the sole shareholder the company was wound up with liquidation as of 1 July 2005; the company was struck from the Commercial Register at the liquidator's request on 5 April 2006), from 11 June 2003 to 2 March 2006 he was a member of the Board of Administration of Mezinárodní hudební festival Janáčkův máj, o.p.s., and from 25 April 2005 to 28 September 2006 he was Chairman of the Board of Directors of ČEZ Bulgaria EAD and Chairman of the Board of Directors of Elektrorazpredelenie Stolichno AD.

Zdeněk Židlický (* 1947)
Vice Chairman since 29 August 2006,
Member elected by the employees since 13 June 2002,
re-elected by the employees on 29 June 2006

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.

Aleš Cincibus (* 1956)
Member since 20 June 2005

A graduate of the Institute of Chemical Technology, Prague.

Since 19 June 2006, Mr. Cincibus has been employed as Sales Director of R.I.G.I., spol. s r.o., and since 23 October 2006 he is Senior Project Manager of SLAVIA CAPITAL Praha, a.s. Since 12 December 2006 he has been a member of the Supervisory Board of Agropodnik, akciová společnost, Jihlava. He is also a partner in the companies R.G.I., spol. s r.o., R.I.G.I., spol. s r.o., B.R.G., spol. s r.o., A.R.G., spol. s r.o. From 1 May 2003 to 18 June 2006 he was head advisor to the Ministry of Industry and Trade of the Czech Republic. Other board memberships: AERO Vodochody a.s. (member of the Supervisory Board from 6 December 2004 to 20 April 2006), ČPP Transgas, s.p. (member of the Supervisory Board from June 2003 to 23 October 2006), Severočeské doly a.s. (Vice Chairman of the Board of Directors from 27 June 2003 to 14 March 2006), ČEPRO, a.s. (member of the Board of Directors from 26 May 2003 to 28 June 2004, member of the Supervisory Board from 29 June 2004 to 23 November 2006, Chairman of the Supervisory Board from 26 August 2004 to 23 November 2006), R.I.G.I., spol. s r.o. (Managing Director from 17 November 1993 to 5 December 2002), Vodohospodářská společnost Vrchlice – Maleč, a.s. (member of the Supervisory Board from 14 December 2000 to 22 May 2003), Second Cooperative of Apartment Owners in Čáslav (Vice Chairman of the Board of Directors from 16 March 2001 to 31 May 2003), First Cooperative of Apartment Owners in Čáslav (Vice Chairman of the Board of Directors from 8 June 2001 to 7 January 2003), ČEZ Foundation (member of the Administrative Board from 13 November 2004 to 28 August 2005). From November 2000 to 30 April 2003 he was Deputy Mayor of the city of Čáslav.

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. Since 30 June 2006, Mr. Demjanovič has been Chairman of the Board of Directors and General Manager of Severočeské doly a.s. His previous positions at Severočeské doly a.s. included Sales Director (until 30 June 2006) and member of the Board of Directors (from 25 June 1999 to 27 June 2003) and he was re-elected to the Board of Directors on 27 June 2003. He is also on the Board of Directors of Coal Energy, a.s. (member since 17 October 2001, Vice Chairman from 31 October 2001 to 17 January 2005, re-elected as a member on 30 November 2005, Vice Chairman since 7 December 2005).
Other board memberships: Teplárna Ústí nad Labem, a.s. (member of the Supervisory Board from 17 June 1998 to 26 March 2002, member of the Board of Directors from 27 March 2002 to 7 May 2004), Severozápadní ENERGO GROUP, a.s. (member and Chairman of the Supervisory Board from 21 December 2000 to 30 May 2003), SD - Kolejová doprava, a.s. (Vice Chairman of the Supervisory Board from 7 November 2001 to 26 September 2002, member of the Supervisory Board from 26 September 2002, and again Vice Chairman of the Supervisory Board from 25 November 2002 to 20 July 2006), SD - Humatex, a.s. (member and Vice Chairman of the Supervisory Board from 16 December 2002 to 3 January 2003), and ENETECH a.s. (member and Chairman of the Supervisory Board from 23 April 2003 to 6 June 2004).

Zdeněk Hrubý (* 1956)
Member since 22 February 2007
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. Since 13 September 2005 he has been a member of the Board of Directors of GARNET MINING a.s. and since 12 May 2003 he is a member of the Board of Administration of SEVEn, Středisko pro efektivní využívání energie, o.p.s. (Energy Efficiency Center).
From 2002 to 15 April 2005 he served as Deputy Minister of Finance of the Czech Republic. From 20 February 2001 to 29 June 2004 he was a member of the Board of Directors of Sokolovská uhelná, a. s., from 12 June 2001 to 22 October 2002 he was a member of the Board of Directors of Kongresové centrum Prague, a.s., 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 December 2002 to 13 June 2003 he was a member of the Board of Directors of ČESKÝ TELECOM, a.s. and from 13 June 2003 he was a member and from 26 November to 23 June 2003 Vice Chairman of the Supervisory Board of the same company, from 9 April 2003 to 26 May 2004 he was a member of the Supervisory Board of České aerolinie, a. s., from 8 April 2004 to 23 June 2005 he was a member of the Supervisory Board of Eurotel Praha, spol. s r.o., from 24 February 2003 to 25 January 2006 he was Vice Chairman of the Supervisory Board of ČEZ, a. s., and from 26 January 2006 to 13 December 2006 he was Chairman of the Supervisory Board of ČEZ, a. s.

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.

Petr Kousal (* 1954)
Member since 20 June 2005
A graduate of the University of Transport, Žilina, Slovak Republic.
Since 1 August 2005, Mr. Kousal has been the General Representative of České dráhy, a.s. (Czech Railways) in Vienna.
From 10 January 2003 to 3 June 2005 he was a member of the Board of Directors of Czech Railways and of this period he served as Chairman of the Board from 28 February 2003 to 9 May 2005 and, at the same time, Director General of Czech Railways from 4 March 2003 to 9 May 2005.
In 2003–2005 he was First Vice President of the Transport Union of the Czech Republic.

Jan Ševr (* 1947)
Member elected by the employees since 9 November 2000, re-elected on 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.
From June 2003 to December 2003 he was Vice Chairman of the Administrative Board of ČEZ Foundation.

Drahoslav Šimek (* 1953)
Member elected by the employees since 29 June 2006
A graduate of the Secondary Vocational School in Domažlice (electromechanic) and the Secondary Vocational School in Chomutov (operational metalworker).
Mr. Šimek has been an employee of ČEZ, a. s. since 1974. Currently he works at Dukovany Nuclear Power Station as a mechanical technician on the secondary cooling circuit of the main generating unit.
Since 1995 he has served as Vice Chairman of the Labor Union of Shift Workers at Dukovany Nuclear Power Station and since 2000 he has been a member of the Governing Council of the Energy Workers Labor Union based in Dukovany.

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, Institute of Process and Manufacturing Technology. Since 20 January 1995 he has been President of the European Federation of National Engineering Associations (FEANI), since 17 December 2001 he has been a member of the Board of Trustees of the University of Hradec Králové and since 19 May 2000 he has been a member of the Supervisory Board of Střední průmyslová škola dopravní, a.s. and since 17 January 2001 he has been Vice Chairman of the same company.
In 2004–2005 he was an advisor to the Minister of Local Development, from 1 May 2005 to 30 June 2006 he was an advisor to the Prime Minister of the Government of the Czech Republic. From 17 August 1999 to 11 March 2003 he was a member of the Board of Directors of Dopravní podnik hl. m. Prahy, akciová společnost, from 14 December 1999 to 11 June 2003 he was a member of the Supervisory Board of Pražská energetika, a.s., from 18 June 1999 to 2 June 2003 he was Chairman of the Supervisory Board of TCP - Vidoule, a.s., and from 27 June 2001 to 14 April 2003 he was a member of the Supervisory Board of Pražská energetika Holding a.s.

Karel Zeman (* 1956)
Member since 17 November 2006
A graduate of the University of Agriculture, Prague, in 1984 Mr. Zeman became a court-appointed expert in economics. In 1986 he was awarded a post-graduate degree in management systems.
He is an advisor to the Minister of Finance of the Czech Republic. In 2003 he was reappointed (current term expires in 2010) a member of the Science Council of the National Economy Faculty of the University of Economics, Prague. Since 19 December 2006 he has been a member of the Supervisory Board of ČEPS, a.s.
From September 2006 to January 2007 he served as acting Deputy Minister of Finance of the Czech Republic. From 5 March 2001 to 5 March 2006 he was a member of the Executive Committee and head of the property section of the Czech Republic Land Fund. In 2002–2004 he lectured at the University of Economics, Prague, Faculty of Business Administration.

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

Jiří Bis (* 1941)
Vice Chairman from 26 January 2006,
Member from 22 September 2005 to 21 September 2006

Jiří Havel (* 1957)
Chairman from 20 June 2005 to 26 January 2006

Jan Juchelka (* 1971)
Member from 11 June 2002 to 23 June 2006

Václav Krejčí (* 1953)
Vice Chairman from 20 June 2002,
Member re-elected by the employees
from 13 June 2002 to 29 June 2006

Pavel Suchý (* 1954)
Member from 24 February 2003 to 16 November 2006

Zdeněk Hrubý (* 1956)
For personal data, see entry in the Supervisory Board, above.

ČEZ, a. s. Board of Directors

Since 2000, ČEZ, a. s. has used the "German model" of corporate governance, in which members of the Board of Directors serve as executives, each managing a defined area of the Company's operations. The Chairman of the Board of Directors also serves as Chief Executive Officer.
As the Company's statutory body, the Board of Directors manages the Company's operations. Members of the Board of Directors serve for four-year terms. 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 is responsible for running the Company's business, including proper bookkeeping and setting of Company strategy, commercial policy principles and risk management policy. It also makes decisions concerning contracts, establishment and winding-up of subsidiaries or interest groups of legal entities, and on investing in or divesting of equity stakes in other legal entities. The Company's Articles of Association require the prior consent of the Supervisory Board for implementation of certain decisions. In accordance with the Commercial Code, the Board of Directors convenes and organizes the General Meeting.
The Board of Directors met 48 times in 2006.

Members of the ČEZ, a. s. 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. Since 1 July 2006 he has been a member of the Science Council of the National Economy Faculty of the University of Economics, Prague.
From 1 April 2000 to 20 March 2003 and from 25 March 2003 to 19 February 2004 he was Chairman of the Board of Directors of ŠKODA HOLDING a.s., and from 6 October 2001 to 12 November 2003 he was a member of the administrative board of CMC Graduate School of Business o. p. s.

Daniel Beneš (* 1970)
Vice Chairman since 10 May 2006,
Member since 15 December 2005

A graduate of the Mechanical Engineering Faculty, Technical University of Ostrava and Brno International Business School – Nottingham Trent University (MBA).
Supervisory Board memberships: Severočeské doly a.s. (member since 21 February 2006, term expires 20 February 2010, Chairman since 14 March 2006). ŠKODA PRAHA Invest s.r.o. (member since 11 July 2005, term expires 10 July 2010, Chairman since 12 July 2005), ŠKODA PRAHA a.s. (member since 11 January 2006, term expires 10 January 2011, Vice Chairman since 17 January 2006), Coal Energy, a.s. (member since 11 April 2006, term expires 10 April 2010, Chairman since 26 April 2006), and PRODECO, a.s. (Chairman since 30 March 2006, term expires 29 March 2010).
Other board memberships: ČKD VAGONKA, a.s. (Vice Chairman of the Board of Directors from 25 September 2003 to 28 May 2004), Severočeské doly a.s. (Member of the Board of Directors from 25 June 2004 to 21 February 2006), ČEZ Logistika, s.r.o. (member of the Supervisory Board from 2 August 2004 to 15 June 2006, Chairman of the Supervisory Board from 13 September 2004 to 15 June 2006), ČEZ Správa majetku, s.r.o. (Vice Chairman of the Supervisory Board from 1 July 2005 to 3 March 2006), and ŠKODA PRAHA a.s. (member of the Supervisory Board from 3 December 2004 to 22 June 2005).

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 International 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.
Supervisory Board memberships: ŠKODA PRAHA Invest s.r.o. (member since 11 July 2005, term expires 10 July 2010, Vice Chairman since 12 July 2005), ŠKODA PRAHA a.s. (member since 22 June 2005, term expires 21 June 2010, Vice Chairman since 17 January 2006), Ústav jaderného výzkumu Řež a.s. (substitute member since 13 October 2006, term expired 22 March 2007, Vice Chairman since 10 November 2006, officially elected a member on 23 March 2007, term expires 22 March 2011).
From 14 October 1999 to 7 September 2002 he was Managing Director of ABB Service Ostrava, s.r.o. in liquidation. From 1 December 2000 to 15 December 2004 he was a member of the Board of Directors of ŠKODA JS a.s., from 1 December 2000 to 20 October 2004 he was Chairman of that board, from 16 March 2001 to 12 February 2002 he was a member of the Supervisory Board of UJP PRAGUE a.s., from 11 April 2002 to 7 June 2005 he was a member of the Board of Directors of the Chamber for Economic Relations with the CIS, Special Chamber of Commerce, and was a member of the Presidium of that organization from 29 November 2002 to 24 June 2003. From 20 April 2004 to 1 November 2004 he was Managing Director of OMZ Machines s.r.o.

Zdeněk Pasák (* 1966)
Member since 22 April 2006
A graduate of the Charles University, Prague, Faculty of Philosophy & Arts, major in psychology.
From 15 October 1997 to 28 February 2006 he was Chairman of the Board of Directors of MADSEN & TAYLOR Consulting a.s. and until 22 February 2006 he was the sole shareholder of the same company.

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 from 31 March 2005 to 11 May 2006, re-appointed to the same office on 19 May 2006, term expires 18 May 2011), Severomoravská energetika, a. s. (member since 17 June 2004, term expires 17 June 2009), Elektrorazpredelenie Stolichno AD (member since 16 June 2006, term expires 15 June 2011), and ČEZ Bulgaria EAD (member since 30 June 2006, term expires 29 June 2011).
Other board memberships: CEZTel, a.s. (member of the Board of Directors from 18 July 2000 to 19 June 2003), ČEZnet, a.s. (member of the Supervisory Board from 20 December 2001 to 19 June 2003), JVCD, a.s. (member of the Board of Directors from 10 August 2000 to 28 June 2004), ePRIM, a.s. (member of the Board of Directors from 19 May 2003 to 30 June 2004, Chairman of the Board of Directors from 27 August 2003 to 30 June 2004), Severomoravská energetika, a. s. (Vice Chairman of the Board of Directors from 6 May 2003 to 16 June 2004), Union Leasing, a.s. (member of the Supervisory Board from 19 May 2003 to 30 June 2004, Chairman of the Supervisory Board from 20 June 2003 to 30 June 2004), ENPRO, a.s. (Chairman of the Supervisory Board from 7 April 2004 to 30 June 2004), Elektrovod Holding, a.s. (member of the Supervisory Board from 20 May 2003 to 22 September 2006), ČEZ ENERGOSERVIS spol. s r.o. (member of the Supervisory Board from 18 March 1994 to 30 June 2003), SIGMA - ENERGO s.r.o. (Chairman of the Supervisory Board from 31 March 1994 to 14 June 2001), and ČEZData, s.r.o. (Vice Chairman of the Supervisory Board from 16 May 2004 to 10 April 2007).

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

Radomír Lašák (* 1965)
Member from 1 September 2004 to 26 January 2006

Alan Svoboda (* 1972)
Vice Chairman since 3 May 2004,
Member from 27 April 2004 to 21 April 2006

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 pursuant to rules approved by the General Meeting;
- 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 one-month weighted average of the prices achieved in public-market trading prior to the date the member joined the Board of Directors (six-month average until May 2006). After each anniversary of stock option granting/board member appointment, the member may exercise up to 1/3 of the number of stock options in question and all options must be exercised within 12 months of the end of board membership. The options are limited: the increase in value of Company shares may be at most 100% relative to the purchase price. For option agreements entered into before May 2006, all options may be exercised at any time after the first three months of board membership. The stock options program for members of the Supervisory Board was cancelled by the General Meeting 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 may be taken out for members of the 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,
  - endowment life insurance which, upon the termination of board membership or the Company’s withdrawal from the endowment life insurance policy, is transferred free-of-charge to the board member. Endowment 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 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. The Company also does not provide any other benefits not permitted by law to such Supervisory Board members.

ČEZ, a. s. Senior Management – Division Heads

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

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
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.
Supervisory Board memberships: ČEZ Prodej, s.r.o. (Vice Chairman since 31 March 2005, term expires 30 March 2010, re-election is possible), Západočeská energetika, a.s. (member since 18 June 2004, term expires 17 June 2009, Vice Chairman since 15 February 2007), ČEZ Zákaznické služby, s.r.o. (member since 21 March 2005, term expires 20 March 2010, re-election is possible). In addition, he has been a director of Brussels-based international association EURELECTRIC since 1 January 2006 and since 1 December 2005 he has been a member of the General Assembly and Executive Committee of the international association Foratom, also based in Brussels.
Other board memberships: ČEZ, a. s. (Vice Chairman of the Board of Directors from 27 April 2004 to 21 April 2006), ČEZData, s.r.o. (Chairman of the Supervisory Board from 29 June 2004 to 31 August 2004, Vice Chairman of the Supervisory Board from 1 September 2004 to 10 April 2007).

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.
He was a member of the ČEZ, a. s. Board of Directors from 6 November 2002 to 15 December 2005 and from 5 May 2003 to 23 June 2004 he was a member of the Supervisory Board of Středočeská energetická a.s.

ČEZ, a. s. Senior Management – Section Heads

Jan Brožík (* 1972)
Director, Financing Section since 14 February 2007
A graduate of the University of Economics, Prague, Faculty of Finance.
Mr. Brožík has participated in M&A projects with Patria Finance, including advising on the sale of Česká spořitelna, a.s., an acquisition of an independent power producer in the Czech Republic, and an acquisition of a major Slovak producer of packaging glass. Past positions include head of capital markets trading at ABN AMRO Bank N.V. and Treasurer at Živnostenská banka, a.s.
From 23 May 2001 to 12 May 2005 he was a member of the Board of Directors of Patria Direct, a.s., and from 16 September 2002 to 13 July 2005 he was a member of the Board of Directors of Patria Finance CF, a. s.

Pavel Cyrani (* 1976)
Director, Planning and Controlling Section since 1 May 2006
Holder of an MBA from the Kellogg School of Management in Evanston, Illinois, USA, Mr. Cyrani is also a graduate of the University of Economics, Prague, major in International Trade. In 1999–2006 he worked for McKinsey & Company.

Jiří Feist (* 1962)
Director, Development Section since 1 January 2005
A graduate of the Czech Technical University, Faculty of Electrical Engineering, major in Generation and Distribution.
Since 29 May 2006 he has been a member of the Supervisory Board of Elektrownia Skawina S.A. (term expires 28 May 2009).
From 1 August 2004 to 31 August 2006 he was a member of the Supervisory Board of the subsidiary CEZ Deutschland GmbH.

Vladimír Hlavinka (* 1966)
Director, Power Plants Section, Acting Director of Temelín Nuclear Power Station since 18 July 2006
A graduate of the Brno University of Technology, Faculty of Mechanical Engineering, major in Construction of Thermal and Nuclear Machines and Equipment, and the Masaryk University in Brno, Faculty of Law.
Since 14 October 2005 he has been a member of the Supervisory Board of RIPSL a.s. "in liquidation".
Other Supervisory Board memberships: SLÉVÁRNA KUŘIM, A.S. (Vice Chairman from 27 June 2005 to 31 August 2006), TOS KUŘIM - OS,a.s. (Vice Chairman from 26 July 2005 to 31 August 2006), KULIČKOVÉ ŠROUBY KUŘIM, a.s. (Vice Chairman from 26 July 2005 to 16 July 2006). Also, from 26 September 2005 to 17 June 2006 he was a member of the Board of Directors of ALTA, akciová společnost and from 20 December 2005 to 1 August 2006 he was Managing Director of TOS REALITY s.r.o.

Jan Krenk (* 1951)
Director, Fixed Assets Administration Section since 1 April 2006
A graduate of the Czech Technical University, Prague, Faculty of Electrical Engineering, major in power engineering. Since 8 November 2000 he has been a partner in QTA, s.r.o. Board memberships: Ústav jaderného výzkumu Řež a.s. (member of the Board of Directors from 4 March 1999 to 8 January 2002), Servis Leasing a.s. (member of the Supervisory Board from 23 June 2003 to 29 March 2005), QTA, s.r.o. (Managing Director from 8 November 2000 to 31 March 2006), Infotea s.r.o. (Managing Director from 21 December 2000 to 14 April 2004), Czech Coal a. s. (member of the Board of Directors from 1 September 2002 to 15 March 2005), and Mostecká uhelná společnost, a.s., legal successor (member of the Board of Directors from 1 April 2004 to 15 March 2005).

Karel Křížek (* 1953)
Director, Technology Section since 1 April 2005
A graduate of the University of Mechanical and Electrical Engineering, Plzeň, major in Technical Cybernetics, Mr. Křížek was also awarded an MBA from Sheffield Hallam University. Since 25 June 2004 he has been a member of the Supervisory Board of Ústav jaderného výzkumu Řež a.s. (term expires 24 June 2009), and since 22 August 2002 he has been Vice Chairman of the Committee of the Association of Apartment Owners at Dr. Bureše 13, České Budějovice. From 24 June 2003 to 15 August 2006 he was a member of the Board of Directors of OSC, a.s. and from 27 June 2003 to 24 June 2004 he was a member of the Board of Directors of Ústav jaderného výzkumu Řež a.s.

Martin Novák (* 1971)
Director, Accounting Section since 1 March 2006
A graduate of the University of Economics, Prague, major in International Trade and Business Law, Mr. Novák is currently studying in the Executive MBA program of the University of Pittsburgh which he plans to complete in December 2007. Since 1996 he has been a tax advisor and member of the Chamber of Tax Advisors of the Czech Republic.
Prior to joining ČEZ, a. s., in 2001–2006 he worked for ConocoPhillips, first in management positions at the company's worldwide headquarters in Houston and in the regional headquarters in London. Later he served as finance director with responsibility for the Central & Eastern Europe region. In this position he also held various statutory positions in several ConocoPhillips branches in the Central European region. In 1996–2001 he worked for Česká rafinérská, a.s. as Controller, Assistant Director of Finance and chairman of the supervisory boards of subsidiaries in Poland and Slovakia.
From 18 March 2003 to 23 January 2006 he was Managing Director of ConocoPhillips Czech Republic s.r.o., and from 10 March 2006 to 28 February 2007 he was a member of the Supervisory Board of Severočeská energetika, a.s.

Vladimír Schmalz (* 1966)
Director, M&A Section since 1 January 2005
A graduate of the University of Economics, Prague, Faculty of International Relations, major in Foreign Trade.
Since 29 December 2004 he has been a member of the Supervisory Board of Elektrorazpredelenie Stolichno AD (term expires 28 December 2007) and since 27 April 2005 he has been a member of the Supervisory Board of ČEZ Bulgaria EAD (term expires 26 April 2008).
Board memberships: Severočeská energetika, a.s. (member of the Supervisory Board from 25 June 2004 to 10 June 2005), ŠKODA PRAHA a.s. (member of the Supervisory Board from 2 May 2005 to 28 November 2006), Komplexní služby, s.r.o. – in liquidation (Managing Director from 21 June 1991 to 24 February 2003, partner from 1 August 1995 to 24 February 2003), MM CHANNEL s.r.o. (partner from 24 November 1993 to 9 October 2004), S.C.T. s.r.o. (partner from 8 March 2004 to 29 April 2004), SAWBAC Česká republika a.s. (member of the Board of Directors from 7 May 2003, Chairman of the Board of Directors from 12 May 2003 to 26 May 2004), Schmalz & Co., s.r.o. (Managing Director from 4 August 1994 to 10 October 2006, partner from 4 August 1994 to 10 November 2006; company was wound up and struck from the Commercial Register as of 10 November 2006).

Michal Skalka (* 1975)
Director, Trading Section since 1 September 2005
A graduate of the University of Economics, Prague, major in Information Technologies.
Before joining ČEZ, a. s., Mr. Skalka did power engineering and risk management consulting work for ČEZ, a. s., Slovenské elektrárne a.s., MVM Rt., DELTA N.V., ONS and others, mostly European power utilities. In 1998–2001 and 2003–2005 he worked for Deloitte Czech Republic B.V., in 2001–2003 he was with Treasury Capital Markets (Deloitte), Amsterdam.

Lubomír Štěpán (* 1955)
Director, ICT Strategy Section since 1 December 2005
A graduate of the Czech Technical University, Prague, major in Technical Cybernetics.
Board memberships: ELTODO CITELUM, s.r.o. (member of the Supervisory Board since 31 March 1999; term 18 April 2006 – 17 April 2011), Východočeská energetika, a.s. (member of the Board of Directors since 26 November 1998; term 7 May 2003 – 6 May 2008), ČEZ Měření, s.r.o. (member of the Supervisory Board since 8 April 2005, term expires 7 April 2010), ČEZData, s.r.o. (member of the Supervisory Board since 22 June 2005, term expires 21 June 2010), ČEZnet, a.s. (Vice Chairman of the Supervisory Board since 5 June 2006, term expires 4 June 2011).
From 31 March 2005 to 2 June 2006 he was a member of the Board of Directors of ČEZ Distribuce, a. s.

List of members of the ČEZ, a. s. Senior Management whose positions terminated in 2006 or before the Annual Report closing date

Radomír Lašák (* 1965)
Chief Administration Officer from 1 January 2005 to 18 January 2006

Jaroslav Suk (* 1954)
Director, Financing Section from 1 January 2005 to 14 February 2007

Luboš Tejkl (* 1968)
Director, Personnel Section from 1 May 2005 to 31 January 2006,
Deputy Chief Personnel Officer from 1 February 2006 to 30 April 2006

Remuneration Principles – Senior Management

The terms and conditions for remunerating individual members of the Company's senior 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. In 2006, the base monthly wage was 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. Expressed as a percentage of annual income (sum of the annual bonus and the base monthly wages in the given calendar year) the annual bonus may be as much as:
  – 77.8% for the Chief Executive Officer,
  – 60.0% for the other Chief Officers,
  – 33.3% (as a rule) for other executives.

  In rare cases of other executives, the bonus percentage is different: in two cases it is higher (44.4% and 50%) and in one case lower (20%). For one of the executives, only a target-based bonus system is used with regard to the special character of the unit this executive is in charge of. Similarly, the target-based bonus principle is also applied in the case of one of the Chief Officers.

  The basic criterion determining the granting of a bonus to an executive and its amount (bonus pool), is fulfillment of the EBITDA figure called for in the Company's budget – adjusted for certain items, such as impairment charges, that the executive cannot influence. Fulfillment can range from 85% (no bonus paid) to 110% (110% of annual bonus is paid if EBITDA is equal to or greater than 110% of budget).

  The criteria for granting an individual annual bonus to a Company executive are based on the strategic priorities and principal objectives of the Company that are announced in writing each year by the Chief Executive Officer following discussion by the Board of Directors. For 2006, the criteria and their weightings were stipulated as follows:
  – 5% – CEZ Group financial performance figure (ROIC),
  – 15% – financial performance figure for unit executive is in charge of,
  – 30% – fulfillment of specific targets by the stipulated deadlines,
  – 50% – assessment of overall work performance and approach to fulfillment of targets.

  The criteria for individual executives and the dependence of annual bonus amount on their fulfillment are assessed by the executive's direct superior (or by the Board of Directors in the case of the CEO), and reviewed by the Supervisory Board in the case of the CEO and the other Chief Officers. The financial figures in question are taken from the Board of Directors-approved and Supervisory Board-reviewed budget, and fulfillment is assessed by the Controlling unit based on the financial statements of the Company/CEZ Group;
- stock options – members of the Executive Committee 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 one-month weighted average of the prices achieved in public-market trading prior to the date the member joined the Board of Directors (six-month average until May 2006). After the date of each anniversary of stock option granting/EXCO appointment, the member may exercise up to 1/3 of the number of stock options in question and all options must be exercised within 12 months of the end of board membership. The options are limited: the increase in value of Company shares may be at most 100% relative to the purchase price. For option agreements entered into before May 2006, approximately half of the options may be exercised after one year in office, and the rest may be exercised after two full years in office, and no more than three months after leaving office;
- company car – to which the executive 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 executive 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 endowment life insurance at its own expense for the benefit of selected executives. Upon the termination of the executive or the Company's withdrawal from the endowment life insurance policy, said insurance is transferred free-of-charge to the executive. Endowment life insurance premiums paid by the Company are treated as part of the executive's wages and are subject to taxation as such;
- reimbursement of travel expenses – when traveling on business, executives 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 [1)] – paid in accordance with the Labor Code and the terms set forth in the Collective Agreement;
- cash settlement upon termination of contract [1)] – the employer agrees to provide executives, 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.

1) These types of compensation cannot be combined as they are linked to the type of contract and manner in which the person in question left office.

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

	Units	Supervisory Board	Board of Directors	ČEZ, a. s. Chief Officers and Section Heads
Information on cash and in-kind income				
Base wage [1]	CZK'000	3,522		74,145
Bonus linked to Company performance [1]	CZK'000	14,529		64,643
Remuneration of Company governance bodies	CZK'000	7,084	4,499	0
2005 bonus paid to members of governance bodies [2]	CZK'000	9,978	9,221	0
Severance pay	CZK'000	0	0	7,107
Other cash income [1]	CZK'000	163	191	474
of which: supplemental Pension Insurance contributions [1]	CZK'000	38	0	152
electricity contributions [1]	CZK'000	12	0	39
use of employee personal account [1]	CZK'000	30	0	91
business travel reimbursement within limit	CZK'000	2	17	107
business travel reimbursement above limit	CZK'000	20	174	83
life insurance contribution	CZK'000	61	0	1
Other in-kind income [1]	CZK'000	11,809	7,511	3,599
of which: endowment life insurance	CZK'000	11,430	6,237	1,563
company car for private use [1]	CZK'000	376	1,274	1,997
mobile telephone for private use [1]	CZK'000	2	0	39
Citi card contribution	CZK'000	0	0	0
Income from entities controlled by ČEZ, a. s.	CZK'000	10,464	0	8,259
of which: bonuses to board members of controlled companies	CZK'000	10,464	0	7,673
endowment life insurance	CZK'000	0	0	586
Information on securities				
Number of shares on which option arose	pcs	600,000	2,550,000	850,000
average option price	CZK	129.78	327.76	423.40
Number of shares on which option was exercised	pcs	150,000	310,000	200,000
average option price	CZK	101.92	186.23	253.03
resulting in-kind income (taxed by Company)	CZK'000	96,687	198,538	106,803
Number of options held at 31 December 2006	pcs	450,000	2,240,000	540,000
average option price	CZK	139.07	347.34	502.43
Number of Company shares at 31 December 2006				
held by members of governance bodies and executives [3]	pcs	50,238	0	50,713
held by close persons [3]	pcs	165	0	1,192

[1] Cash and in-kind income of Supervisory Board members in these items include income from their present and/or past employment by the Company.
[2] Includes only bonuses paid to persons who were members of a governance body for at least part of the year; does not include bonuses to former board members.
[3] Figure is for persons that were members of Company's governance bodies or Company executives as of 31 December 2006.

There are no conflicts of interest among members of the Supervisory Board, Board of Directors, and Executive Management who serve in the governance bodies of other companies.
No member of the Supervisory Board, Board of Directors, or Executive Management was convicted of a fraud-related crime.
On 14 December 2006, charges were filed under a resolution of the Police of the Czech Republic, City of Prague Administration, against Mr. Zdeněk Hrubý for violation of duties in administering third-party assets. The Prague Municipal State Attorney's office dropped the charges on 14 February 2007.
On 5 April 2006, charges were filed against Mr. Alan Svoboda for abuse of business information under Sections 128(1) and (3) of the Criminal Code, which he was alleged to have committed while trading in shares of ČEZ, a. s.

In 2006, ČEZ's market capitalization substantially exceeded CZK 500 billion.

CEZ Group consolidated assets grew CZK 44.5 billion (13.7%) year-on-year, to CZK 368.7 billion. The increase is attributable primarily to inclusion of the new international acquisitions.

Net cash provided by operating activities, at CZK 62.9 billion, was up CZK 19.0 billion (43.3%) year-on-year, thanks in particular to the improved income result.

CEZ Group focuses all its efforts
on fulfilling its vision: to be the leader
in the power market of Central
and Southeastern Europe.

Report on Operation
CEZ Group Financial Performance

CEZ Group in 2006

As at 31 December 2006 CEZ Group, including the parent company, encompassed 98 business entities, 66 of which were based in the Czech Republic and 32 in other countries. A list of the companies is provided in the ČEZ, a. s. Related Parties Report for the Year Ended December 31, 2006, which is included in the 2006 Annual Report.
The domestic segment of the portfolio was affected by the continued restructuring of CEZ Group through implementation of the approved domestic equity stakes strategy and reinforcement of the position of process-based companies within the electric power group. Growth in the foreign segment of the CEZ Group portfolio was driven, in particular, by successful acquisitions.
During 2006 the book value of equity stakes held by ČEZ, a. s. rose from CZK 75 billion to CZK 102 billion.

Equity Stakes

Czech Republic
In accordance with the equity stakes strategy and within the VIZE 2008 framework, 2006 saw the following key changes:

a) stated capital of ČEZ Distribuce, a. s. increased through in-kind capital contributions and company seat moved from Prague to Děčín;
b) stated capital of ČEZ Distribuční služby, s.r.o., ČEZ Prodej, s.r.o., ČEZ Správa majetku, s.r.o., ČEZData, s.r.o., and ČEZnet, a.s. increased by transformation of assets;
c) ČEZ, a. s. stake in Severočeská energetika, a.s. increased from 56.93% to 100% in three steps;
d) ČEZ, a. s. stake in Středočeská energetická a.s. increased from 97.72% to 97.91% by purchasing shares from municipalities. On 8 January 2007, ČEZ, a. s. became 100% owner in a squeeze-out;
e) ČEZ, a. s. stake in Severočeské doly a.s. increased from 93.10% to 100% in a squeeze-out;
f) purchased 100% stake in KRAPPA TRADE a.s., stated capital increased and company renamed to PPC Úžín, a.s.,
g) purchased 100% stake in ŠKODA VÝZKUM s.r.o. for benefit of Ústav jaderného výzkumu Řež, a.s.;
h) remaining 25% stake in KOTOUČ ŠTRAMBERK, spol. s r. o. sold after contracts signed to secure limestone supplies for ČEZ, a. s.;
i) ePRIM, a.s., Plzeňská energetika a.s., and PRO ENERGO Plzeň, spol. s r.o. sold, AHV, s.r.o. and ESE, s.r.o. liquidated.

An important part of CEZ Group consists of companies that support the principal businesses but do not themselves conduct any spun-off process of the electric power group. These include the engineering and design company ŠKODA PRAHA a.s., the research company Ústav jaderného výzkumu Řež a.s., and power plant maintenance companies I & C Energo a.s. and Energetické opravny, a.s.
Material equity stakes arising before VIZE 2008 from the outsourcing of ancillary activities are owned, in particular, by the regional electricity distribution companies, Severočeské doly a.s., and Ústav jaderného výzkumu Řež a.s. The ongoing divestment process is gradually reducing the number of these companies.

Republic of Bulgaria
a) 100% stake in coal-fired Varna Power Station obtained,
b) ČEZ LABORATORIES BULGARIA EOOD established, ČEZ, a. s. stake is 100%,
c) ČEZ ELEKTRO BULGARIA AD established, ČEZ, a. s. stake is 67%.

Kosovo
a) 100% subsidiary New Kosovo Energy L.L.C. established.

Kingdom of the Netherlands
a) 100% stake in CEZ Silesia B.V. acquired,
b) 100% stake in CEZ Chorzow B.V. acquired,
c) 100% stake in CEZ Poland Distribution B.V. acquired.

Republic of Poland
a) 75.2% stake in voting rights of coal power company Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. acquired,
b) 74.82% stake in coal power company Elektrownia Skawina S.A. acquired,
c) CEZ Polska Sp. z o.o. established, ČEZ, a. s. stake is 100%.

Republic of Serbia
a) 100% subsidiary ČEZ Srbija DOO established.

Republika Srpska, Bosnia and Herzegovina
a) Nove elektrane Republike Srpske d.o.o., Gacko established, ČEZ, a. s. stake is 51%.

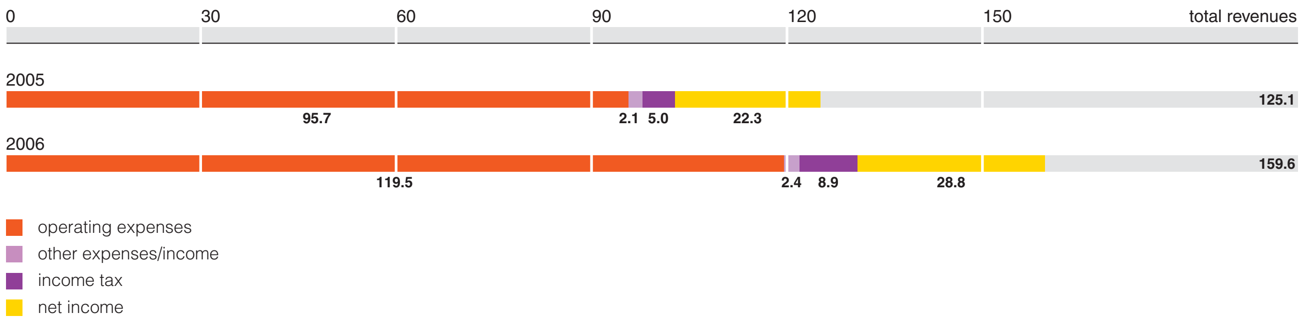
Russian Federation
a) 100% stake in ZAO "TransEnergo" acquired.

Ukraine
a) 100% subsidiary ČEZ Ukraine CJSC established.

CEZ Group Financial Performance Results

CEZ Group net income was up CZK 6.5 billion (29.1%) to CZK 28.8 billion year-on-year and earnings before income tax, depreciation and amortization (EBITDA) grew by CZK 14.2 billion (28.4%) to CZK 64.3 billion. Income before tax reached CZK 37.7 billion on growth of CZK 10.4 billion (38.1%). Income tax increased by CZK 3.9 billion to CZK 9.0 billion.
The biggest increase in EBITDA, CZK 10.1 billion (30.1%), was seen in the Power Production & Trading segment as a result of record power and heat generation, growth in wholesale prices, successful optimizing of electricity production, and subsequent sale of CO_2 emission allowances saved. Generation volume totaled 65.5 TWh, up 5.5 TWh (9.2%) from 2005, the sale of emission allowances saved yielded CZK 3.1 billion, and heat sales totaled CZK 2.3 billion, up CZK 0.3 billion (18.0%). Contributing to the income growth in this segment was the addition to the Group of the Poland-based power plants ELCHO and Skawina, which entered the books in June 2006, and the Varna Power Station. Overall operating revenues in this segment were up CZK 16.9 billion (35.7%).
EBITDA in the Distribution & Sale segment rose by CZK 2.2 billion (19.5%), while total revenues were up CZK 17.6 billion (23,4%). The Group maintained its share of the Czech Republic market for sales to end customers (loss of only 0.6 TWh), while volume of distributed electricity grew by 0.7 TWh (2%) in line with growth in demand. For the first time, foreign acquisitions made a substantial contribution to the growth. In Romania EBITDA was up CZK 1.7 billion. In 2005, however, only part of it was included in the consolidated result. Strong growth (CZK 0.4 billion, or 25%) was also achieved in Bulgaria.
The Mining segment saw EBITDA grow by CZK 0.8 billion (21%) thanks in particular to a 1 million ton increase in sales outside of CEZ Group. The increased stake in Severočeské doly a.s. from 93.1% to 100% was reflected in the financial statements only as a change in minority interests, not as a year-on-year expansion of the Group.
The ongoing restructuring of CEZ Group led to major growth in EBITDA in the segment Other (up CZK 1.1 billion, or 69.0%). This segment consists of functions that are centralized for the entire Group.
Throughout CEZ Group we were able to keep fixed operating expenses (after deduction of purchases of fuel, electricity and related services) under control. Although some expense items in this category did increase (personnel expenses by CZK 1.7 billion, or 12.3%, materials expenses by CZK 1.0 billion, or 23.9%, and repairs and maintenance expenses by CZK 1.3 billion, or 29.7%), the increases are attributable in large part to the addition of new companies to CEZ Group. After adjustment for this discrepancy, the overall growth in fixed operating expenses is only 4% and, within that, personnel expenses grew by 6%. The increase in repairs & maintenance and materials costs was due to upgrades in generation assets during 2006 (e.g., a 30 MW increase in the achievable capacity on Unit 2 of Temelín Nuclear Power Station, a 16 MW increase in another unit at Dukovany Nuclear Power Station, etc.).

Net Income Breakdown (CZK billions)

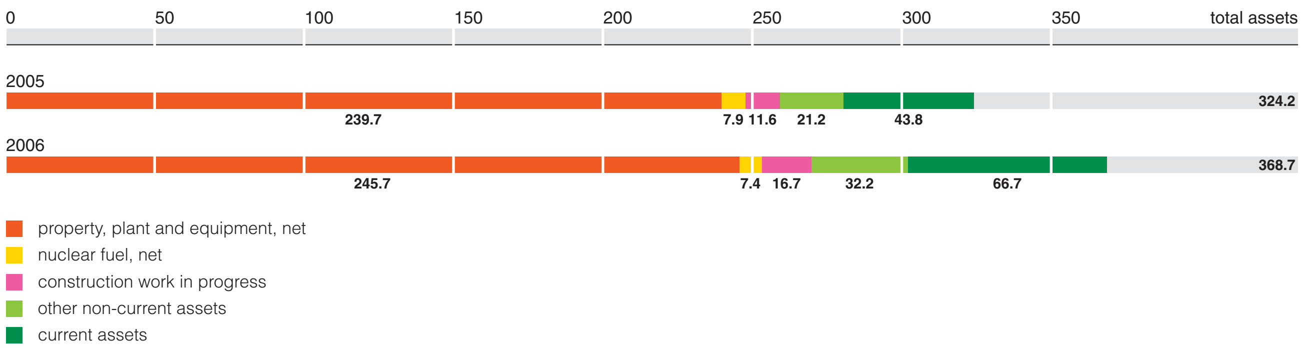


Assets

The consolidated assets of CEZ Group were up year-on-year by CZK 44.5 billion (13.7%) to CZK 368.7 billion, driven primarily by the inclusion of new foreign acquisitions. Fixed assets swelled by CZK 21.6 billion, mostly in property, plant and equipment from the acquisition of the power plants in Poland.

Current assets increased by CZK 22.9 billion (52.2%) to CZK 66.7 billion. Cash and cash equivalents grew CZK 14.1 billion and receivables grew CZK 1.5 billion – the latter consist mainly of receivables of ČEZ, a. s. and the new foreign subsidiaries. Income taxes receivable fell by CZK 1.3 billion to CZK 0.2 billion.

Assets Structure at December 31 (CZK billions)



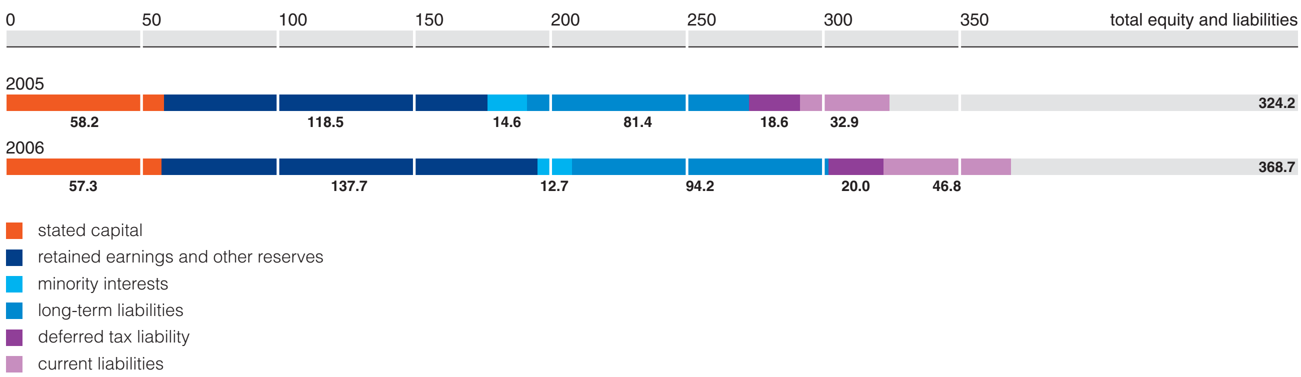
Equity and Liabilities

Equity increased by CZK 16.4 billion (8.6%) to CZK 207.7 billion. Equity of the corporate parent's shareholders increased by CZK 18.3 billion (10.3%) to CZK 194.9 billion due to a CZK 19.2 billion increase in retained earnings. The CZK 1.0 billion difference is attributable to purchases of treasury shares to cover the corporate parent's share options program. These were recognized as a decrease in the stated capital.

Long-term liabilities were up CZK 12.8 billion (15.7%) to CZK 94.2 billion. Long-term debt was up CZK 11.4 billion (37.2%) in conjunction with the issue and repayment of bonds. Deferred tax liabilities grew by CZK 1.5 billion (7.9%) to CZK 20.0 billion.

Short-term liabilities increased by CZK 13.9 billion (42.1%) to CZK 46.8 billion. This increase consists primarily of growth in trade and other payables (up CZK 6.7 billion, or 41%), income taxes payable (up CZK 5.6 billion, nearly 900%), and other equity and liabilities (up CZK 3.3 billion, or 41.5%).

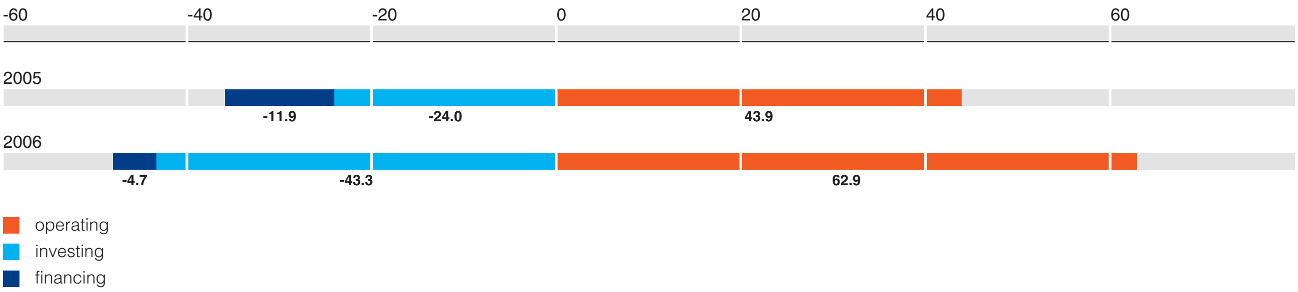
Structure of Equity and Liabilities at December 31 (CZK billions)



Cash Flows

Net cash flows from operating activities, at CZK 62.9 billion, were up CZK 19.0 billion (43.3%) year-on-year, driven in particular by the improved income result. Cash used in investing activities (CZK 43.3 billion) rose by CZK 19.3 billion (80.6%) in conjunction with the purchase of power plants in Poland and the Varna Power Station in Bulgaria, and with the taking of increased stakes in Severočeské doly a.s. and Severočeská energetika, a.s. Of this amount, capital expenditures were up CZK 8.1 billion (51.5%) to CZK 23.7 billion – driven, among other things, by the retrofit of Tušimice II Power Station. Investments in subsidiaries and associates (net of cash acquired in the transactions in question) rose CZK 9.7 billion (79%) to CZK 21.9 billion. Cash used in financing activities was down CZK 7.2 billion year-on-year due to the release of the 4th Eurobond issue and the retirement of the 2nd Eurobond issue, though this influence was partially offset by CZK 3.5 billion higher dividend pay-outs.

Cash Flows (CZK billions)



Key Performance Indicators

	Units	2005	2006
Return on Invested Capital (ROIC)	%	8.6	11.2
Return on Equity (ROE), net	%	12.3	14.9
Return on Assets (ROA), net	%	7.1	8.3
EBIT margin	%	23.5	25.1
EBITDA margin	%	40.1	40.3
Net debt/Equity	%	12.4	9.0
Net debt/EBITDA	%	43.8	27.2
Current ratio	%	133.0	142.4
Operating cash flow-to-liabilities ratio	%	53.9	66.8
Assets turnover	1	0.40	0.46
Fixed assets coverage	%	103.9	106.6
Extent of depreciation	%	45.5	47.1

Solvency in 2006

Neither the companies of CEZ Group nor the corporate parent ČEZ, a. s. had any solvency-related problems in 2006.
On 1 July 2006 CEZ Group began real cash pooling, further optimizing the Group's financing structure.
CEZ Group continues to comply with the terms of its loan agreements.

Expenses incurred by CEZ Consolidated Group companies in conjunction with external auditor activities in 2006 (CZK millions)

	Audit services	Tax consulting	Economic and organizational consulting	Other	Total
ČEZ, a. s.	16.0	1.7	13.0	1.1	31.7
Fully consolidated CEZ Group companies	41.9	3.9	19.3	1.6	66.8
CEZ Group total	57.9	5.6	32.3	2.7	98.5

CEZ Group external audit firms

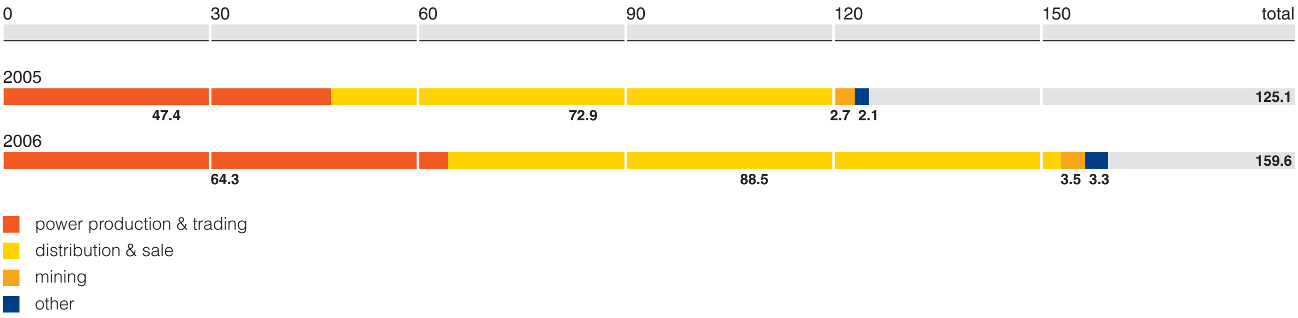
Audit firm	CEZ Group company
Ernst & Young Audit & Advisory, s.r.o., člen koncernu	ČEZ, a. s.
	ČEZ Distribuce, a. s.
	ČEZ Distribuční služby, s.r.o.
	ČEZ Logistika, s.r.o.
	ČEZ Měření, s.r.o.
	ČEZ Obnovitelné zdroje, s.r.o.
	ČEZ Prodej, s.r.o.
	ČEZ Správa majetku, s.r.o.
	ČEZ Zákaznické služby, s.r.o.
	ČEZData, s.r.o.
	ČEZnet, a.s.
	Severočeská energetika, a.s.
	Severočeské doly a.s.
	Severomoravská energetika, a. s.
	Středočeská energetická a.s.
	ŠKODA PRAHA a.s.
	Východočeská energetika, a.s.
	Západočeská energetika, a.s.
Ernst & Young Audit, OOD	ČEZ Bulgaria EAD
	ČEZ ELEKTRO BULGARIA AD
	Elektrorazpredelenie Pleven AD
	Elektrorazpredelenie Sofia Oblast AD
	Elektrorazpredelenie Stolichno AD
Ernst & Young AG	CEZ Deutschland GmbH
Ernst & Young Advisory LTD	CEZ Hungary Ltd.
Ernst & Young SRL	Electrica Oltenia S.A.
Ernst & Young Audit Sp. z o.o.	Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.
Ernst & Young Spólka Sp. z o.o.	Elektrownia Skawina S.A.
ACTA M., s.r.o.	PPC Úžín, a.s.
AFA	ČEZ ELEKTRO BULGARIA AD
ALFA Ltd.	Elektrorazpredelenie Stolichno AD
AGIS, spol. s r.o.	SD - 1.strojírenská, a.s.
AUDIT PROFESIONAL, s.r.o.	Energetika Vítkovice, a.s.
AV-AUDITING spol. s r.o.	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.
Consultas-Audit s.r.o.	STE - obchodní služby spol. s r.o. in liquidation
Daně a audit, s.r.o.	Energetika Vítkovice, a.s.
Horwath TPA Notia Audit s.r.o.	I & C Energo a.s.
Ing. Libor Hlava	SD - Kolejová doprava, a.s.
Ing. Karel Brada	Energetické opravny, a.s.
KEPS, s.r.o.	PPC Úžín, a.s.
KPMG	Electrica Oltenia S.A.
MEDVĚD AUDIT s.r.o.	SD - Autodoprava, a.s.
PKM audit s.r.o.	Ústav jaderného výzkumu Řež a.s.
PRICEWATERHOUSECOOPERS ROMANIA	Electrica Oltenia S.A.
PRIMASKA AUDIT, a.s.	MSEM, a.s.
RT 2004 EOOD	ČEZ Trade Bulgaria EAD
TMF ROMANIA	Electrica Oltenia S.A.
TÜV NORD Czech, s.r.o.	Ústav jaderného výzkumu Řež a.s.

CEZ Group – Business Segments

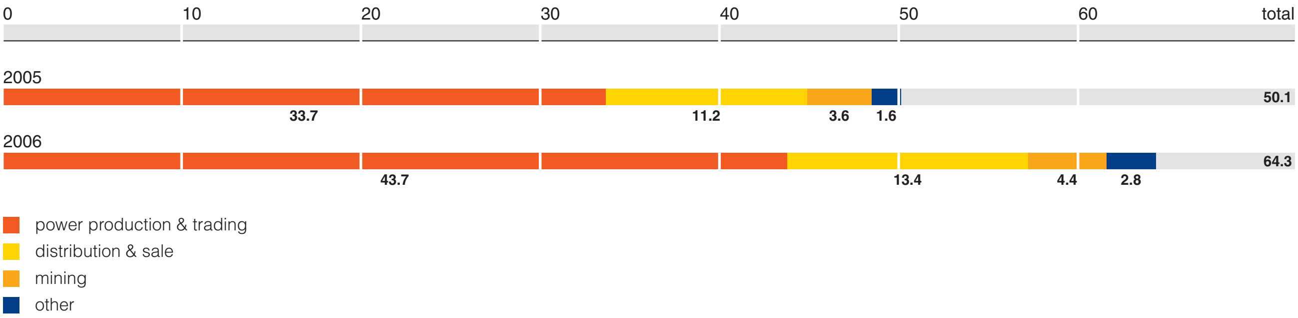
As at 31 December 2006, the CEZ Consolidated Group consisted of a total of 55 companies, of which 30 Czech and 22 foreign companies were fully consolidated. Three associated Czech companies were consolidated by the equity method. CEZ Group segments its activities primarily by business and secondarily by geography.

Business Segments

Revenues by Business Segment (CZK billions)



EBITDA by Business Segment (CZK billions)



Power Production & Trading Segment

Selected Indicators – Power Production & Trading Segment

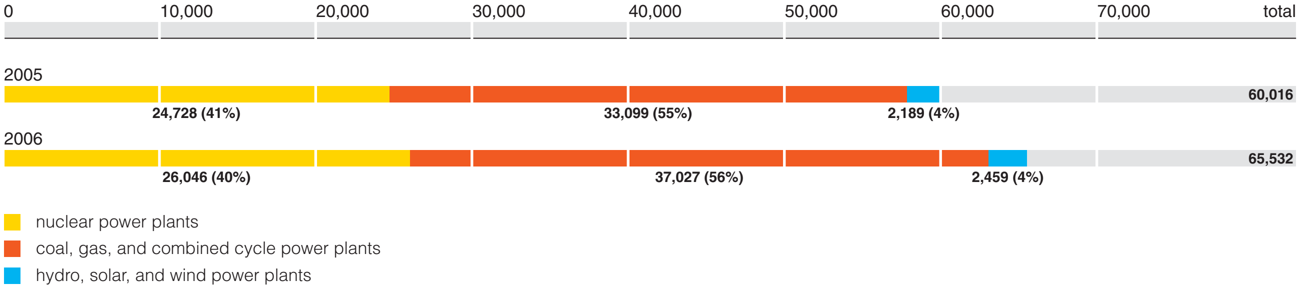
	Units	2005	2006	Index 2006/2005 (%)
Sales other than intersegment sales	CZK millions	47,376	64,286	135.7
Intersegment sales	CZK millions	22,872	37,849	165.5
Total revenues	CZK millions	70,248	102,135	145.4
EBITDA	CZK millions	33,642	43,778	130.1
EBIT	CZK millions	19,734	29,685	150.4
CAPEX	CZK millions	8,198	10,553	128.7
Electricity generated (gross)	GWh	60,016	65,532	109.2
Electricity traded	GWh	54,033	59,136	109.4
of which: sales of electricity to end customers outside of CEZ Group	GWh	4,002	903	22.6
Employee head count at December 31	persons	7,174	8,756	122.1

Electricity

Production of Electricity

Compared to 2005, CEZ Group electricity generation increased by 5,516 GWh (9.2%). The coal-fired power plants acquired by CEZ Group in Bulgaria and Poland were among the major drivers of this growth.

Production of Electricity, Gross (GWh)



The Central Europe segment produced 64,874 GWh of power, 4,858 GWh more than in 2005. Of that, production growth in the Czech Republic was 2,467 GWh (4.1%) and our power plants in Poland generated 2,391 GWh from June 1 to the end of the year. As of the 4th quarter, we have a South East Europe segment consisting of the Varna Power Station, which produced 658 GWh of electricity during the period.

Location of CEZ Group Generating Facilities in the Czech Republic

2 nuclear	1 black coal
31 hydro	2 wind
3 pumped storage	1 solar
13 brown coal	1 black coal and coking gas
1 power heating plant	1 combined cycle

Name in orange letters = owned by ČEZ, a. s.
Name in black letters = owned by other CEZ Group members

Location of CEZ Group Generating Facilities in Poland

2 black coal
1 hydro

Location of CEZ Group Generating Facilities in Bulgaria

1 black coal

Installed Capacity at 31 December 2006

In 2006, CEZ Group owned generating facilities in the Czech Republic, Bulgaria, and Poland. CEZ Group's installed capacity at 31 December 2006 totaled 14,392 MW, up 2,094 MW from the previous year. The increase occurred mainly in the coal-fired category, where installed capacity rose by 2,088 MW on new acquisitions of the power plants ELCHO and Skawina (Poland) and Varna (Bulgaria). Installed capacity in hydropower rose by 1.6 MW with the addition of the small-scale plant Skawina/Skawinka (Poland) and in the Czech Republic with the addition of the Mohelnice combined cycle plant (4 MW).

Nuclear Power Plants

Name	Owner	Installed capacity (MW) at 31 December 2006	Year commissioned
Dukovany	ČEZ, a. s.	4 x 440	1985–1987
Temelín	ČEZ, a. s.	2 x 1,000	2002–2003
Nuclear power plants, total		3,760	x

Coal Power Plants

Name	Owner	Type of fuel	Installed capacity (MW) at 31 December 2006	Year commissioned	Desulfurized since
Mělník II	ČEZ, a. s.	brown coal	2 x 110	1971	1998
Mělník III	ČEZ, a. s.	brown coal	1 x 500	1981	1998
Tisová I	ČEZ, a. s.	brown coal	3 x 57; 1 x 12.8	1959–1960	1996–1997
Tisová II	ČEZ, a. s.	brown coal	1 x 112	1961	1997
Poříčí II	ČEZ, a. s.	black coal brown coal	3 x 55	1957–1958	1996, 1998
Dvůr Králové nad Labem	ČEZ, a. s.	brown coal	1 x 6.3; 1 x 12	1955, 1963	1997
Dětmarovice	ČEZ, a. s.	black coal brown coal	4 x 200	1975–1976	1998
Chvaletice	ČEZ, a. s.	brown coal	4 x 200	1977–1978	1997, 1998
Ledvice II	ČEZ, a. s.	brown coal	2 x 110	1966	1996
Ledvice III	ČEZ, a. s.	brown coal	1 x 110	1968	1998
Tušimice II	ČEZ, a. s.	brown coal	4 x 200	1974–1975	1997
Počerady	ČEZ, a. s.	brown coal	5 x 200	1970–1971, 1977	1994, 1996
Hodonín	ČEZ, a. s.	lignite	1 x 50; 1 x 55	1954–1958	1996–1997
Prunéřov I	ČEZ, a. s.	brown coal	4 x 110	1967–1968	1995
Prunéřov II	ČEZ, a. s.	brown coal	5 x 210	1981–1982	1996
Ostrava – Vítkovice	Energetika Vítkovice, a.s.	black coal	2 x 16; 1 x 25; 1 x 22	1983–1995	x
ELCHO	Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.	black coal	2 x 119.2	2003	x
Skawina	Elektrownia Skawina S.A. [1)]	black coal	4 x 110; 3 x 50	1957	x
Varna	TEC Varna EAD	black coal	6 x 210	1968–1969, 1977–1979	x
Coal power plants, total		x	8,691	x	x

[1)] 100 MW will be shut down in 2007 (liquidation of turbines, 2 x 50 MW).

Combined Cycle and Gas Power Plants

Name	Owner	Type of fuel	Installed capacity (MW) at 31 December 2006	Year commissioned
Mohelnice	Energetika Vítkovice, a.s.	natural gas	4	1988
Combined cycle and gas power plants, total		x	4	x

Hydro Power Plants

Accumulation and Run-of-River Power Plants Name	Owner	Installed capacity (MW) at 31 December 2006	Year commissioned
Lipno I	ČEZ, a. s.	2 x 60	1959
Orlík	ČEZ, a. s.	4 x 91	1961–1962
Kamýk	ČEZ, a. s.	4 x 10	1961
Slapy	ČEZ, a. s.	3 x 48	1954–1955
Štěchovice I	ČEZ, a. s.	2 x 11.25	1943–1944
Vrané	ČEZ, a. s.	2 x 6.94	1936
Střekov	Severočeská energetika, a.s.	3 x 6.5	1936
Accumulation and run-of-river power plants, total		724	x
Small-scale Hydro Power Plants Name	Owner	Installed capacity (MW) at 31 December 2006	Year commissioned
Lipno II	ČEZ, a. s.	1 x 1.5	1957
Hněvkovice	ČEZ, a. s.	2 x 4.8	1992
Kořensko I	ČEZ, a. s.	2 x 1.9	1992
Mohelno	ČEZ, a. s.	1 x 1.2; 1 x 0.56	1977, 1999
Dlouhé Stráně II	ČEZ, a. s.	1 x 0.16	2000
Kořensko II	ČEZ, a. s.	1 x 0.94	2000
Želina	ČEZ, a. s.	2 x 0.315	1994
Přelouč	ČEZ Obnovitelné zdroje, s.r.o.	2 x 0.68; 2 x 0.49	1927, refurbished 2005
Spálov	ČEZ Obnovitelné zdroje, s.r.o.	2 x 1.2	1926, refurbished 1999
Hradec Králové	ČEZ Obnovitelné zdroje, s.r.o.	3 x 0.25	1926
Práčov	ČEZ Obnovitelné zdroje, s.r.o.	1 x 9.75	1953, refurbished 2001
Pastviny	ČEZ Obnovitelné zdroje, s.r.o.	1 x 3	1938, refurbished 2003
Obříství	ČEZ Obnovitelné zdroje, s.r.o.	2 x 1.679	1995
Les Království	ČEZ Obnovitelné zdroje, s.r.o.	2 x 1.06	1923, refurbished 2005
Předměřice nad Labem	ČEZ Obnovitelné zdroje, s.r.o.	1 x 2.1	1953
Pardubice	ČEZ Obnovitelné zdroje, s.r.o.	1 x 1.96	1978
Spytihněv	ČEZ Obnovitelné zdroje, s.r.o.	2 x 1.3	1951
Brno – Kníničky	ČEZ Obnovitelné zdroje, s.r.o.	1 x 3.1	1941
Veselí nad Moravou	ČEZ Obnovitelné zdroje, s.r.o.	1 x 0.12; 1 x 0.15	1914, 1927
Brno – Komín	ČEZ Obnovitelné zdroje, s.r.o.	2 x 0.106	1923
Vydra	ČEZ Obnovitelné zdroje, s.r.o.	2 x 3.2	1939
Hracholusky	ČEZ Obnovitelné zdroje, s.r.o.	1 x 2.55	1964
Čeňkova Pila	ČEZ Obnovitelné zdroje, s.r.o.	1 x 0.09	1912
Černé jezero	ČEZ Obnovitelné zdroje, s.r.o.	1 x 1.5; 1 x 0.04; 1 x 0.37	1930, 2004, 2005
Skawina/Skawinka	Elektrownia Skawina S.A.	1 x 1.6	1961
Small-scale hydro power plants, total		65	x
Pumped Storage Hydro Power Plants Name	Owner	Installed capacity (MW) at 31 December 2006	Year commissioned
Štěchovice II	ČEZ, a. s.	1 x 45	1947–1949, refurbished 1996
Dalešice	ČEZ, a. s.	4 x 112.5	1978
Dlouhé Stráně I	ČEZ, a. s.	2 x 325	1996
Pumped storage hydro power plants, total		1,145	x
Hydro power plants, total		1,934	x

Wind Power Plants

Name	Owner	Installed capacity (MW) at 31 December 2006	Year commissioned
Mravenečník [1)]	ČEZ, a. s.	1 x 0.220; 1 x 0.315; 1 x 0.630	1998
Nový Hrádek [2)]	ČEZ Obnovitelné zdroje, s.r.o.	4 x 0.4	2002
Wind power plants, total		2.765	x

[1)] Shut down on 1 January 2007 (eliminated from installed capacity).
[2)] Not in operation, preparations underway for refurbishment.

Solar Power Plants

Name	Owner	Installed capacity (MW) at 31 December 2006	Year commissioned
Dukovany	ČEZ, a. s.	0.01	1998, 2003
Solar power plants, total		0.01	x

Compared to 2005, CEZ Group electricity generation increased by 5,516 GWh (9.2%) to a record level of 65,532 GWh. Sales of electricity to end customers totaled 44 TWh, up 14.8% from 2005.

The VIZE 2008 project and other changes to the organization, as well as process optimizing, have brought cumulative benefits of CZK 7.9 billion in the 2003–2006 period.

2006 saw the opening of trade and other representation entities in Serbia, Hungary, Kosovo, and Bosnia and Herzegovina.

CEZ Group is focusing on electricity generation and optimizing of production processes and using its best efforts to improve customer service quality. A new program to renew our plant portfolio in the Czech Republic is underway and we are also participating in new-build plant projects abroad. These initiatives are designed to strengthen CEZ Group's future position in the power market.

Electricity Generation Outlook

The principal power generation initiatives in the Czech Republic are focused on the ability of ČEZ, a. s. to maintain its production capacity over the long term. This involves, on the one hand, improving the parameters of the Dukovany and Temelín Nuclear Power Stations and, on the other hand, renewing coal power plants. The Dukovany Nuclear Power Station's program calls for the achievable capacity of each reactor unit to be increased by over 40 MW (i.e. for a total growth in capacity by over 160 MW) and, furthermore, for creation of technical conditions for prolonging the facility's useful life by up to 20 years. Toward the renewal of coal power plants, the refurbishment of Units 3 and 4 of Tušimice II Power Station will begin in 2007. At the same time, intensive preparations are underway for other projects – in particular, the retrofit of the Prunéřov II Power Station and the construction of a new generating unit in Ledvice.

Outside the Czech Republic, CEZ Group is focusing on three areas in power production:
1) compliance with environmental standards at the newly acquired power plants (desulfurization in Skawina and Varna),
2) acquiring more generating facilities in Central and Southeastern Europe; for example, in 2007 we are preparing for the privatization of brown coal power plants and mines in Romania,
3) the biggest potential for investment, though, is opening up in the construction of new plants – ČEZ, a. s. is already working with the local government to build a brown coal power plant in Gacko, Republika Srpska, Bosnia and Herzegovina. Also, a number of other projects are in the pipeline in this area, and ČEZ, a. s. is interested in participating in them.

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, but also provides conversion and enrichment services as well as some of the base raw material (uranium). In 2006, an improved version of the second-generation fuel with an optimized enrichment profile was supplied and a license was obtained to use it. An agreement was reached with the Russian side, which will allow either campaigns to be extended, or reactor output to be increased to 105%, while retaining the full five-year fuel cycle.
Currently, fuel for Temelín Nuclear Power Station is fabricated and supplied by Westinghouse Electric Company LLC (USA) under a contract which covers the plant's fuel requirement until approximately 2010. A tender was organized for fuel fabrication beyond that time, and two companies submitted bids: Westinghouse Electric Company LLC and TVEL OAO. Based on the tender, a contract was signed with TVEL OAO in 2006.
The Company has worked with Westinghouse Electric Company LLC to find technical means for limiting flexing of fuel elements and fuel assemblies during operation in the reactor core. New, modified fuel assemblies entered production in 2006 and were loaded into the reactor core for the first time in February 2007. The basic modifications include replacing the materials used to cover the fuel elements and the structural guide tubes in the fuel assembly. The previously used alloy Zircaloy-4 was replaced by the modern alloy ZIRLO™, which shows substantially lower radiation growth, helping to limit flexing of fuel elements and assemblies during operation. Furthermore, the number of links between the spacer grids and the structural guide tubes has been increased to make the assembly stiffer. These and other modifications are helping to improve the behavior of fuel assemblies in the reactor core. Conversion and enrichment services to provide fuel for Temelín Nuclear Power Station are sourced in the world markets in accordance with the diversification policy and with regard to ensuring maximum reliability of supplies.
ČEZ, a. s. also purchases some uranium to meet the fuel requirements of both nuclear power plants from the domestic supplier DIAMO, státní podnik. However, since uranium mining in the Czech Republic is being phased out and the domestic producer has entered the world market, supplies of domestic uranium have fallen to roughly one third of their previous level. The remaining uranium requirement is being sourced in the world market under long-term contracts entered into before 2004.

Coal

In the Czech Republic in 2006, power generation coal for ČEZ, a. s. power plants was supplied under one-year purchase contracts and annexes to medium-term contracts. The largest suppliers of power generation coal are Severočeské doly a.s., Czech Coal a.s., Sokolovská uhelná, právní nástupce, a.s., and OKD, a.s.
In 2006, ČEZ, a. s. purchased a total of 29 million tons of power generation coal from all suppliers. Brown coal covered 95.9% (27.8 million tons) of the coal requirement, while the remaining 4.1% (1.2 million tons) was black coal.
The Company has long-term contracts with Severočeské doly a.s. for the period until 2052 (agreement on future purchase agreements) and with Sokolovská uhelná, a. s. for the period until 2027 (purchase contract). A Cooperation Agreement has been signed with Mostecká uhelná a.s. under which negotiations are underway on a long-term purchase contract.
Medium-term purchase contracts have been entered into with Severočeské doly a.s. for 2006–2010, with Czech Coal a.s. for 2006–2012, with Sokolovská uhelná, právní nástupce, a.s. for 2005–2009 and with Lignit Hodonín, s.r.o. for 2005–2010.
One-year purchase contracts are being entered into with OKD, a.s., GEMEC - UNION a.s. and coal suppliers in Poland.
Under a long-term contract, the principal supplier of coal to the ELCHO Power Station in Poland is Katowice-based Kompania Węglowa SA from a Ziemowit mine. The Skawina Power Station sources coal from multiple suppliers, the largest of which are KWK Piast, KWK Mysłowice and Katowicki Węgiel. Supplies are made under one-year contracts and purchase orders.
The Varna Power Station in Bulgaria fires anthracite, most of which is imported from Russia and Ukraine. In late 2006 this coal increased in price as a result of supply blockades from these two countries. Due to breach of contracts by the above mentioned countries it was necessary to purchase coal on an ad hoc basis, and this caused electricity prices to rise by 22–25%. In order to limit the risk inherent in being dependent on only one region, we began importing coal from Vietnam.

Electricity Trading

In 2006, CEZ Group expanded its trading operations and became an active trader at the European level. ČEZ, a. s. trades in electricity and CO_2 emission allowances and provides ancillary services to transmission grid operators in addition to selling heat. In geographical terms, ČEZ, a. s. operates in the markets of Central and Southeastern Europe, where it has gradually built up electricity trading infrastructure and obtained the necessary licenses. We also participate in auctions for cross-border transmission capacity on most of the borders in the region.
ČEZ, a. s. is a supporter of market liberalization and endeavors to help make markets more transparent through its operations. We also advocate these positions through our participation in the professional associations EURELECTRIC, EFET and IETA.

Electricity

ČEZ, a. s. trades electricity in Western European markets – primarily EEX and electronic brokerage platforms. In Central Europe, ČEZ, a. s. electricity is traded through auctions conducted by an independent auction house as well as through the bilateral market and electronic brokerage platforms. Markets in Southeastern Europe are still in transformation and are characterized primarily by bilateral trades, although auctions are now being held as well.
The Central European electricity market is being impacted more and more by a decline in overall available capacity which, combined with rapid growth in demand, is bringing ever nearer the day when there will be no reserve capacity left. The market is reacting to this development, of course, driving prices up across the region.
During 2006 we saw gradual increases in the liquidity of spot and forward markets in the Central Europe region. New trading platforms are being formed and trading relations are being standardized under EFET contracts. This trend is contributing to the achievement of fully functional market mechanisms. One element that is still missed, however, is cross-border intra-day trading, which is planned to begin in 2008 (Directive EC1228/2003).

Czech Republic

The bulk of ČEZ, a. s. electricity in 2006 went to the Czech market. Most trades are contracted one year in advance ("one-year forward"). During the year most business is in one-month and one-day trades relating to ongoing optimizing of the production and trading position. The principal trading channels are the spot market OKO (organized by the market operator) as well as auctions, brokerage platforms (TFS) and bilateral trades for the forward market.
In 2006, ČEZ, a. s. contracted electricity on a one-year basis for 2007 by auctioning electricity generated in a Virtual Power Plant on a 400 MW one-year band (with reduced output in the summer months) – this auction was ordered by the Antitrust Office, through a voluntary auction on a 500 MW one-year band organized by an independent auction house, and through direct sale of other, seasonal products. A smaller portion of contracting was realized through brokerage platforms and bilateral platforms.
The resulting prices achieved for 2007 were 1,220 CZK/MWh in the Virtual Power Plant auction and 1,244 CZK/MWh in the 500 MW auction, for a year-on-year rise of 17.1% and 19.5%, respectively. The price of electric power in an average consumption diagram rose by 16.8%. The price growth was caused primarily by rising demand for electricity in the region, as well as by price levels in neighboring countries.

Abroad

As a result of the overall development of supply and demand in Central Europe and the associated price growth and availability of cross-border transmission capacities, there was a continuation of the trend towards shifting ČEZ, a. s. exports from the west to the east, i.e. mainly to Slovakia and Hungary. In 2006, the international trade surplus was 8.2 TWh (at the transmission grid level), with supplies to Germany accounting for 6.3 TWh and eastbound transactions 5.4 TWh (3.5 TWh of which was subsequently swapped for supplies destined for the Czech Republic).
In most markets in 2006, contracting for 2007 took place through bilateral trades, brokerage platforms, and ČEZ, a. s. participation in auctions organized by other market players. Contracting for 2007 included export of electricity from the Czech Republic to Slovakia and Hungary under one-year contracts. In autumn 2006 there was also a one-year contracting campaign in Poland, including both free-market trading and contracting of supplies from the Skawina Power Station.

Ancillary Services

ČEZ, a. s. continues to sell ancillary services generated in its power plants, primarily to ČEPS, a.s., the transmission grid operator. In 2006, we also provided smaller supplies of these services to a similar company in the Slovak Republic. ČEZ, a. s. is under rising competitive pressure in the ancillary services market, resulting in a decline in our market share in the Czech Republic, which stood at 63.1% in 2006.
The ELCHO, Skawina and Varna Power Stations supply ancillary services to the national transmission grid operators in their respective countries.

CO_2 Emission Allowances

ČEZ, a. s. trades actively in emission allowances, taking into account price movements and power plant needs. Allowance trading takes place through the ECX (futures trading) and during 2006 we also began trading on PowerNext (spot trading).
2005 saw the beginning of the first trading period for greenhouse gas emission allowance trading. In early 2006 the greenhouse gas-emitting facilities operated by CEZ Group successfully underwent the greenhouse gas emission report verification process conducted by the audit firm DET NORSKE VERITAS AS.
Greenhouse gas emissions are a long-standing focus area for us.
The entire anticipated surplus for the first trading period was sold either directly or through forward trades, mainly during the second and third quarter, while the market price of allowances was declining.
Based on electricity sales results and the planned composition of generation in 2007 (partial shift from nuclear to coal) there subsequently arose a shortfall in allowances for 2007 which we are dealing with on an ongoing basis by purchasing them in the market. Overall, this is having a positive financial impact because the 2007 allowances are being purchased at a much lower price than the price at which 2006 allowances were sold.
The other CEZ Group companies that are part of the EU ETS, i.e. Energetika Vítkovice, a.s. in the Czech Republic and Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. and Elektrownia Skawina S.A. in Poland, have included emission allowances in their optimizing processes. Based on the resulting optimization, they identified their overall allowance surplus/deficit for the phase NAP I. Surplus allowances were sold during 2006 in the form of contracts with settlement in both 2006 and 2007. Thus, the dramatic fall in the price of emission allowances in late 2006 will not have a negative impact on the Company's bottom line. Purchasing of emission allowances in 2007 to cover potential generation needs will be made at substantially lower prices.

CO_2 Emission Allowances (millions of tons)

	2005	2006
Received, including those acquired through M&A	37.5	42.7 *)
Used	(33.3)	(39.1) **)
Sold	(3.1)	(10.5)
Purchased	0.8	3.7
Brought forward to next year	1.9	(3.3)

*) Of which: 42.1 million tons received.
**) Of which: 1.8 million tons used in Polish plants prior to date of acquisition.

The generating facility Energetika Vítkovice, a.s. received allowances for 655 thousand tons for the period 2005–2007, ELCHO Power Station received 1,725 thousand tons and Skawina Power Station received 2,895 thousand tons. ČEZ, a. s. power plants received 36,867 thousand tons per year for the period 2005–2007. The allocations fully cover the plants' requirements.

Heat

Generation of Thermal Energy at CEZ Group

Supplies of heat by CEZ Group companies to customers totaled 11,274 TJ, up 15% from 2005 due in particular to the expansion of CEZ Group to include power plants in Poland. Almost all heat supplies are based on combined heat and power generation.
Supplies of heat by CEZ Group companies in the Czech Republic to customers, at 9,443 TJ, were down 4% from 2005. Given that the number of customers remained practically unchanged, the lower heat sales were due in particular to weather factors and a continued decline in demand for district heat supplies in both the household and business segments.
In Poland, the ELCHO and Skawina Power Stations supplied customers with 5,006 TJ of heat in 2006, 1,831 TJ of which was supplied after they joined CEZ Group (June–December 2006). Compared to 2005 there was a slight drop in sales.
Very small amounts of heat and hot water from Varna Power Station are supplied to Town of Ezerovo.

Distribution & Sale Segment

Selected Indicators – Distribution & Sale Segment

	Units	2005	2006	Index 2006/2005 (%)
Sales other than intersegment sales	CZK millions	72,906	88,457	121.3
Intersegment sales	CZK millions	2,480	4,535	182.9
Total revenues	CZK millions	75,386	92,992	123.4
EBITDA	CZK millions	11,239	13,434	119.5
EBIT	CZK millions	6,579	8,261	125.6
CAPEX	CZK millions	5,243	7,419	141.5
Electricity sold to end customers	GWh	38,350	44,034	114.8
Electricity distributed to end customers	GWh	43,488	51,428	118.3
Number of connection points at December 31	thousands	6,774	6,783	100.1
Grid extended length at December 31	km	259,634	259,872	100.1
Employee head count at December 31	persons	13,765	13,092	95.1

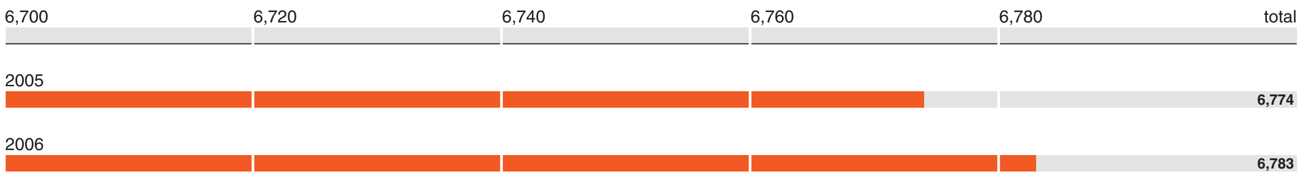
Electricity Sales

Sales of electricity to end customers grew 14.8% year-on-year to reach 44 TWh.
ČEZ Prodej, s.r.o. sold 32 TWh of electricity in the Czech Republic for end consumption (2 TWh of which in CEZ Group – mainly to ČEZ Distribuce, a. s. to cover losses in the distribution grid). In year-on-year terms this is only a slight (0.6 TWh) drop in sales, attributable to intensified competition in the liberalized market. The share of ČEZ Prodej, s.r.o. in the end-customer market was 53.4%.
Our distribution companies in Bulgaria and Romania sold a total of 12.1 TWh, up 3.1 TWh (34.5%) from 2005 thanks to growing demand in both countries and, in particular, the fact that the Romania-based company was not included in the consolidated group until October 2005.

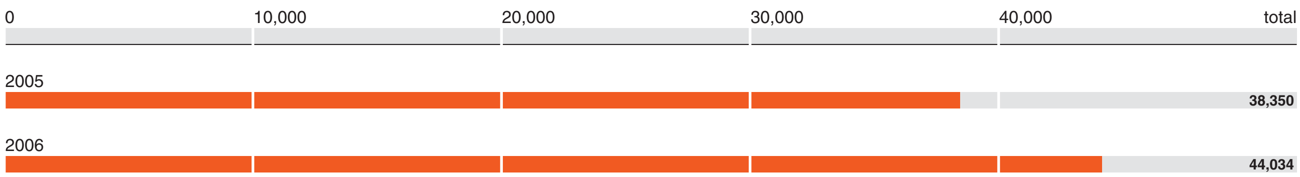
Electricity Distribution

ČEZ Distribuce, a. s. grew the volume of electricity distributed by CEZ Group companies to 33.1 TWh (+2%) in line with the overall growth in Czech Republic electricity demand.
Electricity distribution volume in Bulgaria was 9.8 TWh and in Romania 8.5 TWh.
Power losses in distribution were reduced in 2006, thanks to redoubled efforts.

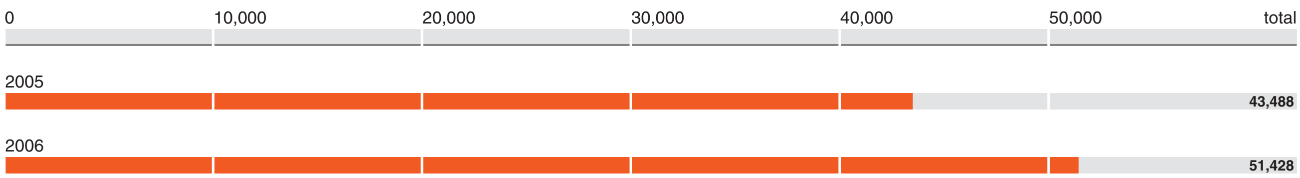
Number of Connection Points (thousands)



Total Electricity Sales (GWh)



Electricity Distributed to End Customers (GWh)



CEZ Group Total Electricity Sales

Electricity Procured and Supplied (GWh)

	2005	2006	Index 2006/2005 (%)
Procured			
Produced in-house (gross)	60,016	65,532	109.2
Purchased in CEZ Group home markets *)	23,671	21,576	91.2
Purchased in foreign markets and imports	1,458	9,449	648.1
Total procured	**85,145**	**96,557**	**113.4**
Supplied			
Sold to distribution companies	16,089	15,547	96.6
Sold to end customers in the distribution grid	36,185	41,142	113.7
Sold to traders and other sales	13,975	11,588	82.9
Sold in foreign markets and exports	8,183	17,397	212.6
Total supplied	**74,433**	**85,674**	**115.1**
Losses in distribution grids, including other and in-house consumption	10,712	10,883	101,6
Total	**85,145**	**96,557**	**113.4**

*) CEZ Group domestic markets are: Czech Republic, Poland, Bulgaria, and Romania.

Overall, CEZ Group external sales totaled 85,674 GWh, up 15% over 2005. In 2006, sales to end customers in the distribution grid rose by 14% on higher consumption in the Czech Republic and due to the fact that Electrica Oltenia S.A. was included in the 2005 procurement and supply figures only in the fourth quarter. The growth in export and import is related to growth in trading activity in the markets of Central and Southeastern Europe, which is bringing continual optimizing of trading flows and thereby increasing both imports and exports. The net balance of export and import was up 18% year-on-year.

Mining Segment

Selected Indicators – Mining Segment

	Units	2005	2006	Index 2006/2005 (%)
Sales other than intersegment sales	CZK millions	2,738	3,476	126.9
Intersegment sales	CZK millions	5,260	5,456	103.7
Total revenues	CZK millions	7,998	8,932	111.7
EBITDA	CZK millions	3,607	4,363	121.0
EBIT	CZK millions	2,660	3,369	126.7
CAPEX	CZK millions	1,239	1,866	150.6
Total coal sales	thousands of tons	21,776	22,461	103.1
of which: outside CEZ Group	thousands of tons	4,720	5,686	120.5
Employee head count at December 31	persons	3,554	3,525	99.2

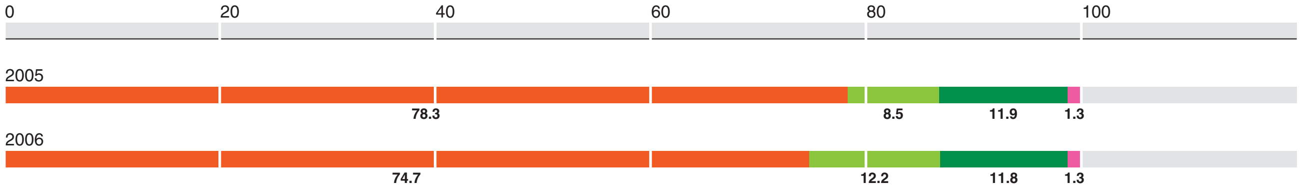
Severočeské doly a.s., the largest brown coal mining company in the Czech Republic and a member of CEZ Group, extracted 22.8 million tons of coal in 2006. Mining activity took place in two locations: Nástup Tušimice Mines (13.6 million tons of coal extracted) and Bílina Mines (9.2 million tons).

At Nástup Tušimice Mines, coal is mined in two areas: Libouš – West and Libouš – East. Most of the coal extracted passes via a homogenization dump to the nearby power plants in Tušimice and Prunéřov. Nástup Tušimice Mines are operating under a mining permit for the 2006–2015 period.

Coal from Bílina Mines is characterized by high heat content and low sulfur content. The coal is further processed at the coal processing facility in Ledvice. Bílina Mines has a mining permit valid for the period 2003–2010 or until the permit's geographical borders are reached.

Coal Sales
In 2006, Severočeské doly a.s. sold a total of 22.5 million tons of coal. Most of the difference between gross extraction and sales volume consists of non-coal matter removed in processing. Another, smaller component in the difference is the amount of coal on-hand at year end.

Coal Sales in 2006, by Customer Category (%)



- CEZ Group
- power heating plants (over 50 MW)
- regional dealer networks, including boiler rooms up to 50 MW
- export

Compared to 2005, coal sales increased by 0.7 million tons. Czech Republic market share was 45.9% (up 1.1% from 2005), or 26.4% when supplies to ČEZ, a. s. are excluded. Sales in the Czech Republic to customers outside of CEZ Group grew year-on-year by 1 million tons, to 5.4 million tons, while supplies to CEZ Group power stations fell slightly (by 0.3 million tons) to 16.8 million tons. Coal export remained at the same level as in 2005 (0.3 million tons).

Outlook
As at 31 December 2006, Severočeské doly a.s. had 506.5 million tons of extractable coal reserves in both locations. In 2007 the company anticipates coal extraction of 22 million tons with quality parameters similar to those seen in 2006.

"Other" Segment

Selected Indicators – "Other" Segment

	Units	2005	2006	Index 2006/2005 (%)
Sales other than intersegment sales	CZK millions	2,063	3,361	162.9
Intersegment sales	CZK millions	6,592	11,029	167.3
Total revenues	CZK millions	8,655	14,390	166.3
EBITDA	CZK millions	1,638	2,769	169.1
EBIT	CZK millions	430	(1,251)	–
CAPEX	CZK millions	2,215	5,358	241.9
Employee head count at December 31	persons	5,412	5,788	106.9

This segment includes companies which support the principal businesses of CEZ Group providing services that can be sourced within the Group to economic advantage.

As of the 4th quarter, the South East Europe segment's plant portfolio consists of the Varna Power Station, which generated 658 GWh in the given period.

The Central Europe segment generated 64,874 GWh of electricity, up 4,858 GWh from 2005. Of this figure, generation growth in the Czech Republic totaled 2,467 GWh (4.1%) and, from 1 June 2006 to year end, our power plants in Poland generated 2,391 GWh.

A unified system for organizing operations has being rolled out in all the countries where CEZ Group is present. The system takes local conditions into account.

CEZ Group is actively seeking opportunities for growth in the Czech Republic and the other countries of Central and Southeastern Europe that constitute our target territory. In Central Europe we have Group member companies in the Czech Republic, Poland, Hungary, the Netherlands, and Germany. In Southeastern Europe we are present in Bulgaria, Romania, Kosovo, Serbia, and Russia. 2006 saw a major increase in CEZ Group's activities in Republika Srpska in Bosnia and Herzegovina and in Ukraine.

CEZ Group – Geographical Segments

CEZ Group also categorizes its financial performance results by geographical segments. In terms of risk exposure, there are two segments: Central Europe and South East Europe. The Central Europe segment includes companies from the Czech Republic, Poland, Hungary, the Netherlands, and Germany. The South East Europe segment includes Bulgaria, Romania, Kosovo, Serbia, and Russia.
In each country where CEZ Group has operations, we are rolling out a unified yet flexible organization that takes local conditions into account. This system is based on strict separation of processes taking place in the power group, with each process being handled by a separate company formed for this purpose. The management model makes it easier to implement CEZ Group best practices and run individual processes more effectively, while respecting the unbundling requirement in European Union Member States.

In each country, the following processes are to a greater or lesser extent spun off to separate companies:

- electricity and heat generation,
- generation of electricity from renewable energy sources,
- electricity distribution,
- electricity sales,
- electricity trading,
- retail customer services,
- distribution grid maintenance,
- telecommunication services,
- IT services,
- procurement and storage of materials,
- metering,
- non-energy asset management,
- support for acquisition teams and post-acquisition initiatives.

As the individual process-driven companies co-form the operation of the power group as a whole, their relations to other CEZ Group members are of paramount importance. Surplus capacities in certain areas are offered for sale in the free market.

Central Europe Segment

The Central Europe segment includes consolidated companies in the Czech Republic, Poland, Hungary, the Netherlands, and Germany.

Selected Indicators – Central Europe Segment

	Units	2005	2006
Sales other than intersegment sales	CZK millions	110,648	136,312
Intersegment sales	CZK millions	106	153
Total revenues	CZK millions	110,754	136,465
EBITDA	CZK millions	48,132	60,171
EBIT	CZK millions	28,590	37,798
CAPEX	CZK millions	16,059	20,065
Employee head count at December 31	persons	22,243	22,638

CEZ Group has built a strong position for itself in the markets of Central Europe and is an active trader in the Czech Republic, Germany, Poland, Hungary, Austria, and Slovakia. Trading activities in Germany, Poland, Hungary, and Slovakia are supported by a network of special-purpose trading entities that are set up as organization units or subsidiaries owned by ČEZ, a. s. In 2006, supplies to the German market from the Czech Republic totaled 6.3 TWh. ČEZ, a. s. continues to be an active trader in Germany and utilizes short-term sale and purchase transactions on this market to optimize its portfolio. ČEZ, a. s. has a similar relationship to its special-purpose trading entities in Slovakia and Hungary. The sum of eastbound sales from the Czech Republic in 2006 was 5.4 TWh, 3.5 TWh of which was through swaps with a destination in the Czech Republic. In both of these markets, ČEZ, a. s. and its special-purpose trading subsidiaries trade actively for portfolio optimizing purposes, buying and selling electricity in reaction to movements in the market and the volume needs of its portfolio.
In 2006, ČEZ, a. s. heavily reinforced its position in the Polish market, primarily by acquiring power companies there. Thus, by late 2006 contracting for the year 2007 included not only free market trading transactions but supplies from the power company Elektrownia Skawina S.A. as well.

Czech Republic

Business Environment in the Power Sector
The Czech electricity market is fully liberalized as of 1 January 2006. Wholesale prices are set by supply and demand, and the wholesale market is dominated by one-year bilateral contracts. One-day trades, spot trades, and trades on the balancing market account for less than two percent of overall electricity trading.
Over 20 traders are active in the market. Over half of electricity supplies may be covered by suppliers other than CEZ Group and the price of electricity is highly correlated with the price in neighboring Germany.
Ancillary services are sold through auctions for a wide range of products and various time slots. This segment is one of the most competitive in Europe, with independent producers offering over 30% of the capacity necessary to power ancillary services.
The right of third party access to transmission and distribution grids is now fully implemented. The separation of the regulated electricity distribution function from other functions was achieved by CEZ Group one year in advance of the deadline set by law.
Cross-border transmission capacity is offered in joint auctions of transmission grid operators on the border in question.
The Czech-Polish border is an exception – here, the transmission grid operators, i.e. PSE (Polskie Sieci Elektroenergetyczne SA) and ČEPS, a.s., hold separate auctions, selling a wide range of contracts, from one year to one day in duration.

Development of the Power Industry Legislative Framework
In the power sector, the legislative framework consists of the following:
- Act No. 458/2000 Sb. on the Conditions for Doing Business and Exercising State Administration in the Energy Sectors (the Energy Act),
- Act No. 18/1997 Sb. on the Peaceful Use of Nuclear Energy and Ionizing Radiation (the Atomic Energy Act),
- Act No. 406/2000 Sb. (the Act on Energy Management),
- Act No. 180/2005 Sb. on Promotion of Electricity Produced from Renewable Sources.

Almost all of these Acts were amended in 2006. The most significant content changes were made in Act No. 186/2006 Sb. on Amendments to Certain Acts, relating to the passage of the Building Act and the Act on Expropriation, Act No. 342/2006 Sb. amending certain acts relating to civil registration and certain other acts, and Act No. 177/2006 Sb. amending Act No. 406/2000 Sb. (the Act on Energy Management).

In the year in question, supplementary regulations implementing the above Acts were promulgated as well:
- Decree of the Energy Regulatory Authority No. 51/2006 Sb. on Conditions for Connection to the Power System,
- Government Directive No. 428/2006 Sb. amending Government Directive No. 63/2002 Sb. on rules for providing subsidies from the State budget to support energy conservation and the utilization of renewable and secondary resources,
- Decree of the Energy Regulatory Authority No. 552/2006 Sb. amending Decree No. 541/2005 Sb. on the Electricity Market Rules, price setting principles via activities of the market operator, and implementation of certain other provisions of the Energy Act.

The following environmental protection regulations have a direct impact on the business of CEZ Group:
- Act No. 100/2001 Sb. on Environmental Impact Assessment
- Act No. 185/2001 Sb. on Waste,
- Act No. 254/2001 Sb. (the Clean Water Act),
- Act No. 86/2002 Sb. (the Clean Air Act),
- Act No. 76/2002 Sb. on Integrated Prevention,
- Act No. 695/2004 Sb. on Conditions for Trading in Greenhouse Gas Emission Allowances.

These Acts were also amended in 2006. The more significant amendments included: Act No. 163/2006 Sb. amending Act No. 100/2001 Sb. on Environmental Impact Assessment, Act No. 314/2006 Sb. amending Act No. 185/2001 Sb. on Waste and Act No. 140/1961 Sb. (the Criminal Code), Act No. 212/2006 Sb. amending Act No. 695/2004 Sb. on Conditions for Trading in Greenhouse Gas Emission Allowances, Act No. 86/2002 Sb. (the Clean Air Act), and Act No. 455/1991 Sb. (the Trade Licensing Act), and Act No. 222/2006 Sb. amending Act No. 76/2002 Sb. on Integrated Prevention and Limitation of Pollution, on the Integrated Pollution Register, and amending several other Acts (the Act on Integrated Prevention).

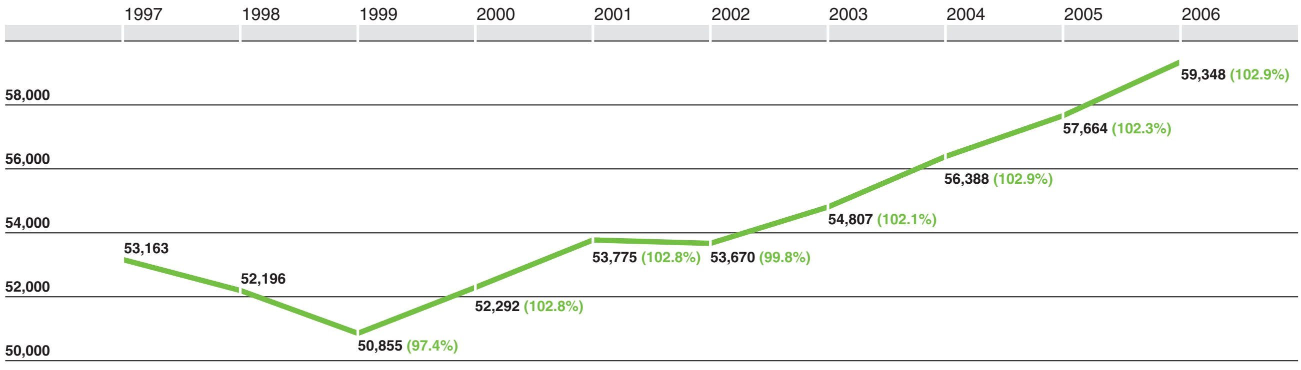
The following sub-statutory regulations were promulgated in the year in question to implement and clarify the above Acts:
- Government Directive No. 354/2006 Sb. amending Government Directive No. 315/2005 Sb. on the National Allocation Plan of the Czech Republic for the Years 2005–2007,
- Decrees of the Ministry of the Environment No. 363/2006 Sb. and No. 570/2006 Sb. amending Decree of the Ministry of the Environment No. 356/2002 Sb. stipulating a list of pollutants, general emission limits, reporting and disclosure requirements, determining amounts of pollutants discharged, smoke darkness, permissible levels of malodorous gases and odor intensity, conditions for authorizing persons, requirements for keeping operational records of sources of air pollution and conditions for enforcing these requirements,
- Government Directive No. 597/2006 Sb. on monitoring and assessing air quality,
- Government Directive No. 615/2006 Sb. on stipulation of emission limits and other conditions for operating other stationary sources of air pollution.

The basic standards regulating the financial and commercial aspects of CEZ Group's activities are contained in Act No. 513/1991 Sb. (the Commercial Code). This key piece of legislation saw changes in 2006 principally by the passage of Act No. 56/2006 Sb. amending Act No. 256/2004 Sb. on Doing Business in the Capital Market, and other related acts, Act No. 57/2006 Sb. amending acts in conjunction with unification of financial market supervision, and Act No. 79/2006 Sb. amending Act No. 85/1996 Sb. on Advocacy, and other related acts.

Public procurement is regulated by the new Act No. 137/2006 Sb. on Public Procurement and the following related decrees:
- Decree of the Ministry of Local Development No. 328/2006 Sb. stipulating a flat rate for costs of proceedings for reviewing an applicant's legal acts for the purposes of the Public Procurement Act,
- Decree of the Ministry of Local Development No. 329/2006 Sb. stipulating more detailed requirements concerning electronic means of communication, electronic devices, and electronic legal acts in the course of public procurement,
- Decree of the Ministry of Local Development No. 330/2006 Sb. on publishing tender announcements for the purposes of the Public Procurement Act.

Selected Indicators – Czech Republic

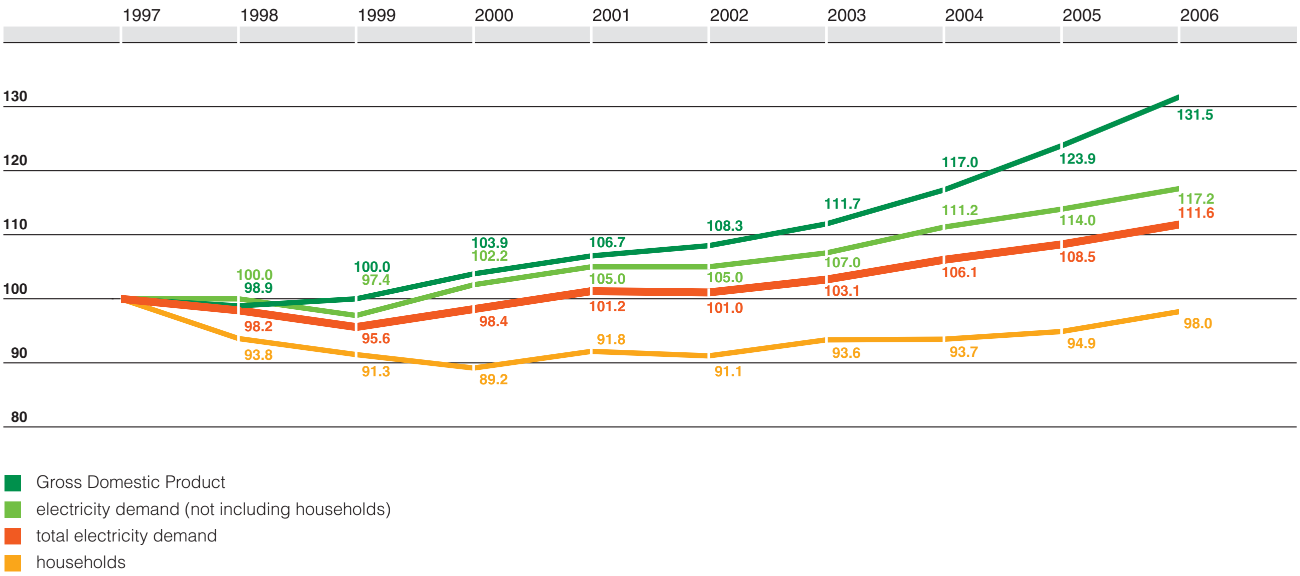
Czech Republic Electricity Demand Over Time (GWh)



year-on-year change in (%)

Average growth in 2000–2006: 102.2%.

Comparison of Czech Republic GDP and Electricity Demand Over Time (index, 100% = 1997)

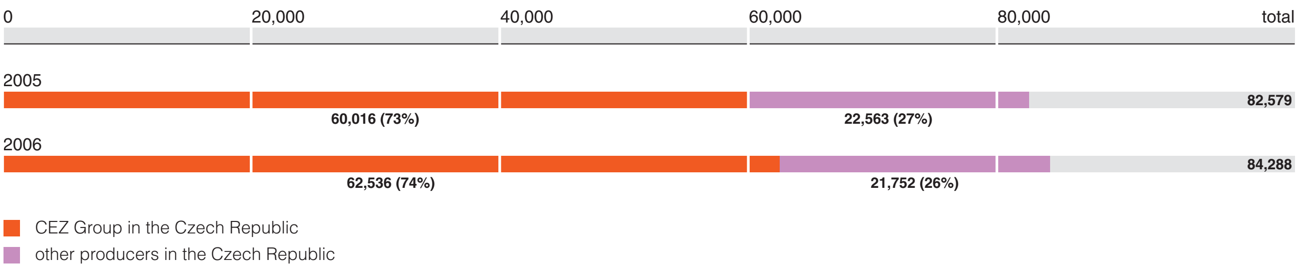


Note: GDP in 2006 – preliminary estimate by Czech Statistical Office.

In line with the growth in Gross Domestic Product in 2006, Czech Republic electricity demand also rose – by 1,684 GWh or 2.9%, despite the average temperature for the year being 1.1°C higher than the long-term average. When adjusted for the long-term average temperature, the year-on-year growth was 3.1% (1,802 GWh).

The growth was most visible in industrial consumption (up 3.3%) and household consumption grew by the same percentage due to the rising standard of household comfort. The growth in consumption for heating during the hard frosts of the first quarter was offset by very low heating-related electricity consumption in the fourth quarter due to record high temperatures, especially in December. Retail consumption by businesses grew by 2.1%.

Czech Republic Electricity Generation, Gross (GWh)



CEZ Group Members

The corporate parent of CEZ Group – ČEZ, a. s. – has its seat in the Czech Republic. The Company was established on 6 May 1992 and its principal shareholder is the State, i.e. the Czech Republic. It is involved in generation and trading of electricity, including generation of electricity from renewable sources of energy – in wind, solar, and hydro power plants – as well as generation, distribution and sale of heat. It also has teams for acquisition and post-acquisition activities.

Electricity Procured and Supplied in the Czech Republic (GWh)

	2005	2006	Index 2006/2005 (%)
Procured			
Produced in-house (gross)	60,016	62,483	104.1
Purchased in the Czech Republic	13,542	6,538	48.3
Imports	1,458	9,449	647.9
Total procured	75,016	78,470	104.6
Supplied			
Sold to distribution companies	16,049	13,975	87.1
Sold to end customers in the distribution grid	27,336	29,549	108.1
Sold to traders and other sales	13,975	9,739	69.7
Exports	8,183	17,397	212.6
Total supplied	65,543	70,659	107.8
Losses in distribution grid, including other and in-house consumption	9,473	7,811	82.5
Total	75,016	78,470	104.6

In the Czech Republic, the CEZ Group model of process-driven companies is already in place and functioning. Here, 10 process-driven companies are in operation with the following businesses:

a) power generation from renewable sources of energy – ČEZ Obnovitelné zdroje, s.r.o.,
b) distribution of electricity – ČEZ Distribuce, a. s.,
c) sales of electricity to end customers – ČEZ Prodej, s.r.o.,
d) retail customer services – ČEZ Zákaznické služby, s.r.o.,
e) distribution grid operation and maintenance – ČEZ Distribuční služby, s.r.o.,
f) telecommunication services – ČEZnet, a.s.,
g) IT services – ČEZData, s.r.o.,
h) procurement and storage of materials – ČEZ Logistika, s.r.o.,
i) metering – ČEZ Měření, s.r.o.,
j) non-energy asset management – ČEZ Správa majetku, s.r.o.

CEZ Group has another 55 member companies and equity stakes in the Czech Republic, the most significant of which are the brown coal mining company Severočeské doly a.s. and the engineering company ŠKODA PRAHA a.s. A list of controlled companies appears on page 190.

Corporate Parent (ČEZ, a. s.) Economic and Financial Figures (IFRS)

Selected Indicators

	Units	2005	2006	Index 2006/2005 (%)
Installed capacity	MW	12,153	12,153	100.0
Electricity generated	GWh	59,470	62,011	104.3
Electricity sold	GWh	59,613	72,177	121.1
Electricity purchased	GWh	5,920	16,178	273.3
Heat sold	TJ	7,856	7,578	96.5
Employee head count at December 31	persons	6,467	6,404	99.0
Revenues	CZK millions	67,644	95,970	141.9
of which: electric power sales *)	CZK millions	58,936	85,915	145.8
sales of ancillary and other services relating to sales of electricity	CZK millions	6,263	7,339	117.2
EBITDA	CZK millions	33,379	43,023	128.9
EBIT	CZK millions	19,609	29,678	151.3
Net income	CZK millions	17,635	25,803	146.3
Income per share – basic	CZK/share	29.9	43.8	146.5
Income per share – diluted	CZK/share	29.8	43.6	146.3
Dividend per share (gross) **)	CZK/share	9.0	15.0	166.7
Total assets	CZK millions	274,208	311,377	113.6
Equity	CZK millions	174,276	190,822	109.5
Financial debt	CZK millions	38,250	41,872	109.5
CAPEX	CZK millions	7,701	10,182	132.2
Investments ***)	CZK millions	17,450	25,737	147.5
Operating cash flow	CZK millions	32,202	44,131	137.0
Return on Equity (ROE), net	%	10.5	14.1	134.3
Return on Assets (ROA), net	%	6.7	8.8	132.4
Net debt/Equity	%	21.4	14.1	65.8
Net debt/EBITDA	%	111.6	62.4	55.9
Current ratio	%	75.6	97.0	128.3
Operating cash flow-to-liabilities ratio	%	48.5	60.8	125.4
Assets turnover	1	0.26	0.33	126.9
Coverage of fixed assets	%	98.1	99.6	101.5
Extent of depreciation	%	44.8	48.4	108.0

*) Including changes in fair value of derivatives.
**) Paid out of the previous year's net income.
***) Acquisitions of subsidiaries and associates.

ČEZ, a. s. Financial Performance Commentary

Revenues, Expenses, Income

Income in 2006 reflected the favorable developments in both the operations and financial components of the income statement. Operating income was up CZK 10.1 billion (51.3%) year-on-year thanks to a CZK 28.1 billion (43.0%) increase in electricity sales revenues, accompanied by a CZK 18.3 billion (38.0%) increase in operating expenses. Electric power revenues grew, driven primarily by a 21.1% increase in electricity sales volume as well as by a higher average selling price. Revenues from sales of ancillary and other services related to electricity sales grew by CZK 1.1 billion (17.2%).

The CZK 18.5 billion increase in expenses for purchasing of electricity and related services is related in particular to the higher trading volume. Fuel consumption rose by CZK 1.1 billion (8.2%), primarily due to higher fuel prices and higher consumption related to the growth in electricity generation volume. Personnel expenses were up CZK 0.1 billion (2.8%). Depreciation and amortization fell by CZK 0.4 billion (3.1%). Gains on sales of emission allowances totaled CZK 3.1 billion, up CZK 2.1 billion (199.2%) from the previous year.

The CZK 1.9 billion year-on-year improvement in the financial result was driven primarily by dividends received (CZK 5.1 billion, up CZK 1.0 billion year-on-year). Improvement in the balance of FOREX losses and gains (by CZK 1.7 billion) was caused primarily by the domestic currency's appreciation relative to both the U.S. Dollar and the Euro. The CZK 0.4 billion decrease in interest on nuclear provisions was caused by a change in the discount rate from 7% in 2005 to 4.5% in 2006.

Structure of Assets and Capital

Total assets increased by CZK 37.2 billion over the previous year's figure, to reach CZK 311.4 billion. Net property, plant and equipment was down CZK 10.2 billion from 2005, due in particular to depreciation. Long-term financial assets grew by CZK 26.3 billion, increasing their share in total assets to nearly 35%. Most of the increase relates to the acquisitions in Poland and Bulgaria as well as with the increased stakes in Severočeská energetika, a.s. and Severočeské doly a.s. Current assets rose to CZK 33.5 billion from CZK 15.6 billion in 2005. The primary driver of the growth in current assets was a CZK 14.0 billion increase in cash and cash equivalents in conjunction with planned acquisitions. The cash was sourced by drawing down Eurobonds and from a cash pool account on which cash surpluses are held by subsidiaries. Income tax receivable fell by CZK 1.4 billion to nil. Receivables, net were up CZK 1.4 billion. Other financial assets grew by CZK 3.8 billion due, in particular, to growth in derivative-related receivables.

Equity was up CZK 16.5 billion (9.5%) year-on-year, driven in particular by the 2006 net income. Long-term liabilities grew by CZK 6.3 billion in conjunction with a new Eurobond issue, repayment of long-term borrowings, and transfer of the Yankee bonds to short-term liabilities. Current liabilities were up CZK 13.9 billion. The growth in these liabilities was due mainly to trade and other payables, which were up CZK 11.2 billion on the introduction of cash pooling within CEZ Group. Part of the current portion of long-term debt fell by CZK 2.0 billion when the 2nd Eurobond issue (CZK 5.9 billion) was repaid, while the Yankee bonds (CZK 3.8 billion) were shifted to current liabilities as they will mature in 2007. Income tax payable rose by CZK 4.3 billion year-on-year.

Cash Flows

Net cash provided by operating activities grew by CZK 11.9 billion in year-on-year terms, to a total of CZK 44.1 billion. Dividends received were up CZK 1.0 billion and income taxes paid fell by CZK 2.9 billion. A CZK 2.7 billion change in the balance of other current assets, in particular, had an opposite effect on cash.

Total cash used in investing activities grew by CZK 9.6 billion (39.9%). The main expenditures were for acquisition of subsidiaries (power plants in Poland and Bulgaria, increased stakes in Severočeská energetika, a.s and Severočeské doly a.s.).

Net cash flow from financing activities reached a positive figure of CZK 4.0 billion, an increase of CZK 12.3 billion over 2005. The main reason for this is that new borrowings exceeded repayments by CZK 5.8 billion, due in particular to the new Eurobond issue in October 2006. Comparing the figures to the previous year, we see a large difference in both repayments and new borrowings, as in 2005 there were no new borrowings and only CZK 1.9 billion was repaid. Dividends paid (CZK 8.8 billion) were up CZK 3.5 billion over the previous year. A new item was added – change in payables/receivables from group cashpooling – with a value of CZK 8.3 billion.

Company Financing

Borrowings and Their Maturity
a) Long-term Loans

Creditor	Currency	Maximum loan amount in given currency (millions)	Valuation of debt at 31 Dec 2006 (CZK millions)	Maturity	Collateral
Citibank International	USD	317	695	2007	State guarantee, 95% of principal currency-hedged
European Investment Bank	USD	55	618	2007	
European Investment Bank	EUR	44	663	2013	
European Investment Bank	CZK	3,441	1,853	2012–2013	89% of principal interest rate-hedged until 15 Mar 2007
Fortis Bank	USD	55	207	2007	State guarantee
International Bank for Reconstruction and Development	USD	246	200	2007	State guarantee, 68% of principal currency-hedged
Long-term loans, total			4,236		
of which: current portion			2,055		
Long-term loans, net of current portion			2,181		

b) Short-term Loans

	Indebtedness at 31 Dec 2006 (CZK millions)
Short-term bank loans	0
Current portion of long-term loans	2,055
Short-term bank loans, total	2,055

Outstanding Bonds as at 31 December 2006

Security	ISIN	Issue date	Volume	Interest	Maturity	Form
6th bond issue	CZ0003501066	26 Jan 1999	CZK 4.5 billion	Zero coupon [1]	2009	booked to owner
7th bond issue	CZ0003501058	26 Jan 1999	CZK 2.5 billion	9.22% [2]	2014	booked to owner
9th bond issue	CZ0003501348	23 Jun 2003	CZK 3.0 billion [4]	3.35% [3]	2008	booked to owner
3rd Eurobond issue [8]	XS0193834156	8 Jun 2004	EUR 400 million	4.625%	2011	booked to owner
4th Eurobond issue	XS0271020850	17 Oct 2006	EUR 500 million	4.125%	2013	booked to owner
Yankee bonds [8]	[5]	17 Jul 1997	USD 200 million [6]	7.125%	2007	booked to owner

[1] Yield is given by the difference between the issue price (CZK 1,862,905,005) and face value (CZK 4,500,000,000) of the bonds.
[2] Starting in 2006, the bonds will bear interest at a variable rate defined as CPI + 4.2%.
[3] Offering price: 100.05%.
[4] 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.
[5] Yankee bonds are registered with the U.S. Securities and Exchange Commission.
[6] Bought back by issuer for USD 22 million.
[7] Chase Manhattan Trustees Limited and The Chase Manhattan Bank were merged in 2001; current name of administrator is J.P. Morgan Chase Bank.
[8] Issuer is Netherlands-based subsidiary CEZ FINANCE B.V.

As Severočeské doly a.s. owns part of the 9th bond issue with face value CZK 130 million, the long-term debt reported by CEZ Group is lower by this amount.
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.
With the exception of ČEZ, a. s., no CEZ Group company has any outstanding bonds.
On 16 June 2006 the Yankee Bonds were deregistered by the U.S. Securities and Exchange Commission (SEC). Deregistration terminated ČEZ's disclosure obligation vis-à-vis the SEC in implementation of Section 404 of the Sarbanes-Oxley Act of 2002.
October saw the release of the 4th Eurobond issue with a face value of EUR 500 million and, at the same time, retirement of the 2nd Eurobond issue with a face value of EUR 200 million.

Changes in ČEZ, a. s. Long-term Financial Assets in 2006, Net (CZK millions)

	Domestic	Foreign	Total
Share purchases, including related expenses	5,818	16,889	22,707
of which: acquisitions in Poland	–	10,930	10,930
Varna Power Station	–	5,954	5,954
increase of Severočeská energetika, a.s. stake	4,615	–	4,615
Contributions to registered capital of subsidiaries	1,405	2,961	4,366
of which: Varna Power Station	–	2,850	2,850
ČEZData, s.r.o.	997	–	997
Change in long-term receivables	(863)	–	(863)
Other	309	(179)	130
Net change, total (increase)	6,669	19,671	26,340

Face value	Manager	Administrator	Market	Traded since
CZK 1,000,000	ING Barings Capital Markets	Citibank, a.s.	PSE Second Tier RM-Systém	26 Jan 1999 7 Dec 2001
CZK 1,000,000	ING Barings Capital Markets	Citibank, a.s.	PSE Second Tier RM-Systém	26 Jan 1999 5 Dec 2001
CZK 10,000	Československá obchodní banka, a. s.	Československá obchodní banka, a. s.	PSE Third Tier	23 Jun 2003
EUR 1,000 EUR 10,000 EUR 100,000	BNP Paribas, Merrill Lynch	J.P. Morgan Corporate Trustee Services Limited 7)	Bourse de Luxembourg	8 Jun 2004
EUR 50,000	Deutsche Bank Société Générale Corporate & Investment Banking	Deutsche Bank Luxembourg S.A.	Bourse de Luxembourg	17 Oct 2006
USD 1,000	J.P. Morgan, Merrill Lynch, Salomon Brothers	The Chase Manhattan Bank	not traded	not traded

Republic of Poland

Power Sector

The privatization of power sector assets in Poland was suspended pending a change in the power sector master plan. Consolidation into larger entities is anticipated. ČEZ, a. s. is prepared to respond to the new conditions and participate in the privatization process when it is renewed.

CEZ Group Members

CEZ Group owns two power plants in Poland – one in Upper Silesia and one in Lesser Poland. Both were acquired in May 2006 from PSEG Europe B. V. ČEZ, a. s. paid EUR 202.5 million for a 75.2% share in ELCHO Power Station's voting rights and EUR 180 million for a 74.82% stake in Skawina Power Station. Both companies were gradually integrated into CEZ Group in the second half of 2006 in the areas of trading and intra-Group services.

Skawina Power Station, which fires black coal, had an installed capacity of 590 MW as at 31 December 2006, and in 2007 we are planning to reduce it by 100 MW due to the poor technical condition of two turbines (2 x 50 MW). Since the plant operates combined heat and power generation, it provides heat and hot water to the city of Skawina and the western portion of Krakow; its share in the Greater Krakow district heat market is over 20%. The electricity it produces is sold to local distribution companies. The ELCHO Power Station, also firing black coal, is located northwest of Katowice in the city of Chorzów, and operates combined heat and power generation in two modern generating units with a combined installed capacity of 238 MW. 100% of the electricity generated is sold to PSE, the Polish transmission grid operator, while heat is supplied to the local distribution company PEC Katowice S.A.

The plant's share in the Katowice district heat market is 37%.

In 2006, ČEZ, a. s. also established a new company, CEZ Polska Sp. z o.o., whose mission is to provide service and managerial services to CEZ Group members in Poland and provide support for further acquisition activities.

Kingdom of the Netherlands

ČEZ, a. s. has registered four 100% owned companies in the Netherlands. The first, CEZ Finance B.V., was established in 1994 and ČEZ, a. s. used it as a platform for issuing foreign bonds prior to the Czech Republic's accession to the European Union. The other three companies – CEZ Silesia B.V., CEZ Chorzow B.V. and CEZ Poland Distribution B.V. – were acquired by ČEZ, a. s. in conjunction with the acquisition of stakes in the Poland-based power companies Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. and Elektrownia Skawina S.A. ČEZ, a. s. adopted the seller's ownership model for the Poland power plants.

Federal Republic of Germany

In Germany we have a representation subsidiary named CEZ Deutschland GmbH. The company, originally named rpg Energiehandel GmbH, operated as an electricity trader in the German market. Since these operations were taken over by the corporate parent, ČEZ, a. s., the company's activities have been restricted to presenting CEZ Group in Germany and supporting any acquisition opportunities. The company's name was changed to CEZ Deutschland GmbH on 21 February 2006.

Republic of Hungary

CEZ Hungary Ltd. – CEZ Magyarország Kft., a 100% subsidiary of ČEZ, a. s., obtained an electricity trading license in March 2006 and commenced actual trading activity during the year. It is an active trader in electricity in the Hungarian market.

South East Europe Segment

The South East Europe segment includes consolidated companies in Bulgaria, Romania, Serbia, Kosovo, and Russia.

Selected Indicators – South East Europe Segment

	Units	2005	2006
Sales other than intersegment sales	CZK millions	14,435	23,268
Intersegment sales	CZK millions	3	4
Total revenues	CZK millions	14,438	23,272
EBITDA	CZK millions	1,994	4,173
EBIT	CZK millions	813	2,266
CAPEX	CZK millions	792	2,480
Employee head count at December 31	persons	7,662	8,523

ČEZ, a. s. is ramping up its business activities in Southeastern Europe. In 2006, CEZ Group built out the necessary trading infrastructure and obtained the necessary licenses for trading in Bulgaria, Romania, Serbia, and Kosovo. Through its special-purpose trading entities, ČEZ, a. s. gradually started to participate in auctions for cross-border transmission capacity and auctions for supplies of electricity in these countries. Currently the region is home to two trading subsidiaries: ČEZ Trade Bulgaria EAD and CEZ Trade Romania S.R.L. CEZ Group is gradually increasing trading volumes. Nevertheless, growth in trading activity is conditional upon how quickly these markets are transformed as well as by the emergence of trading rules.

Varna Power Station was added to the CEZ Group production portfolio in 2006, strengthening CEZ Group's position in the region. The region is characterized by substantial differences in prices and levels of supply and demand from country to country – for the time being these cannot be equalized due to differing market rules.

Republic of Bulgaria

Power Sector

October 2006 saw completion of the privatization of the coal-fired Varna Power Station, which was acquired by ČEZ, a. s. In the second half of the year, the Bulgarian Privatization Agency held tenders for privatization of the Plovdiv, Varna and Rousse power heating plants. ČEZ, a. s. qualified for all the tenders but submitted a final bid only for the Varna power heating plant, which in the end went to a bidder from France.

CEZ Group Members

The unbundling process in Bulgaria culminated successfully on 3 January 2007, when full compliance with the requirements given by Directive 2003/54/ES was achieved.

Of the three companies owned by CEZ Group in western Bulgaria, the units engaged in selling electricity were transferred as of the above date to ČEZ ELEKTRO BULGARIA AD, which is now the only company engaged in selling electricity. Thus, after this date, the operations of the distribution companies are limited to distribution. Preparations are underway to merge them into a single distribution company in the second half of 2007.

On 2 October 2006, ČEZ, a. s. acquired a 100% stake in the Varna Power Station which, with its installed capacity of 1,260 MW (6 x 210 MW) is currently CEZ Group's largest coal-fired power plant. The purchase price was EUR 206 million and the company's stated capital was also increased by EUR 100 million in accordance with the purchase agreement. Along with the purchase agreement, ČEZ, a. s. agreed to place EUR 40 million in an investment fund to be focused on investing in renewable sources of energy, increasing energy efficiency, and infrastructure projects in Bulgaria. The entire amount placed in the investment fund is to be distributed to selected projects within four years.

In December 2006 it was decided to centralize share services (IT, customer services, human resources, asset management, and other support services) in the company ČEZ Bulgaria EAD starting in 2007 and a new company, ČEZ LABORATORIES BULGARIA EOOD, was established to provide the electric meter inspection function. The electricity trading license holder, ČEZ Trade Bulgaria EAD, was fully operational in 2006.

Electricity Procured and Supplied (GWh)

	2005	2006	Index 2006/2005 (%)
Procured			
Produced in-house (gross)		658	
Other purchasing for resale	9,590	9,827	102.5
Purchased from electricity market operator			x
Imports			x
Total procured	9,590	10,485	109.3
Supplied			
Sold in Bulgaria	7,937	8,814	111.0
Wholesale	1,882	1,928	102.4
Retail – businesses	2,419	2,538	104.9
Households	3,631	3,683	101.4
Sold to regional distribution companies	5	665	> 500.0
Export			x
Total supplied	7,937	8,814	111.0
Losses in distribution grid, including other and in-house consumption	1,654	1,672	101.1
Total	9,590	10,486	109.3

Romania

Power Sector

The fourth quarter of 2005 marked the beginning of the privatization of distribution company Electrica Muntenia Sud S.A., which provides electricity to the capital Bucharest and adjoining districts. ČEZ, a. s. made the short list for the 67.5% stake, but in the end the tender was won by another bidder.

The anticipated privatization of the three remaining distribution companies Electrica Muntenia Nord S.A., Electrica Transylvania Sud S.A. and Electrica Transylvania Nord S.A. with a total number of 3.3 million customers did not begin in 2006. The same goes for the privatization of the fuel-power complexes Turceni, Rovinari and Craiova with total installed capacity of 4,240 MW. Romanian legislation requires the regulated activity of distribution to be unbundled by 30 June 2007.

CEZ Group Members

The distribution company Electrica Oltenia S.A. was active in Romania during 2006. As of 15 March 2007 a sales company CEZ Vanzare S.A. was spun off from it (using a method similar to the corporate split defined by the Czech Commercial Code). The original company Electrica Oltenia S.A. is now focused exclusively on distribution of electricity. It has been renamed to CEZ Distributie S.A. and its stated capital and share face value have been reduced.

The Group has another Romania-based company, CEZ Romania S.R.L., whose primary objective is to provide support and managerial services to CEZ Group members as well as support acquisition teams in any future acquisitions. Until the establishment of the separate company CEZ Trade Romania S.R.L. in March 2007, it also engaged in electricity trading under license. 2006 was its first year in full operation. Preparations are underway for partial centralization of shared services, which will be provided by CEZ Servicii S.A. to the other CEZ Group companies in Romania to the extent agreed with Electrica S.A., the minority shareholder of Electrica Oltenia S.A.

Electricity Procured and Supplied (GWh)

	Q4 2005	2005	2006	Index 2006/2005 (%)
Procured				
Purchased for resale	1,345	5,421	5,057	93.3
Purchased from electricity market operator				x
Import				x
Total procured	1,345	5,421	5,057	93.3
Supplied				
Sold in Romania	953	4,170	3,852	92.4
Wholesale	421	2,182	1,439	65.9
Retail – businesses	215	819	835	101.9
Households	281	1,074	1,171	109.0
Sold to electricity market operator	10	69	115	165.8
Other sales in Romania	25	25	292	> 500.0
Exports	0	0	0	x
Total supplied	953	4,170	3,852	92.4
Losses in distribution grid, including other and in-house consumption	392	1,251	1,205	96.3
Total	1,345	5,421	5,057	93.3

Kosovo

The company New Kosovo Energy L.L.C. was established in Kosovo on 24 July 2006.
The company is tasked with laying the groundwork for CEZ Group's participation in tenders, announced in August 2006 by the Ministry of Energy and Mining, for energy projects in Kosovo.
In November 2006, ČEZ, a. s. expressed interest in participating in a tender in consortium with AES (American Energy Systems). This consortium is on the short list of four bidders announced on 28 December 2006. The Kosovo side anticipates that final bids will be submitted during 2007 and negotiations with the winner will be completed by the end of 2007. Estimated costs for the project are EUR 3 billion (approximately CZK 85 billion).
On 30 October 2006 ČEZ, a. s. obtained a license to trade electricity in Kosovo.

Republic of Serbia

ČEZ Srbija DOO is involved primarily in identifying acquisition opportunities. It has also obtained a license to trade in electricity in the territory of Serbia.

Russian Federation

On 15 February 2006, in order to provide for and implement investment activities in the Russian Federation, ČEZ, a. s. purchased a 100% equity stake in ZAO "TransEnergo". Through this company, we are participating in tenders held in the Russian Federation.

CEZ Group is also active in other countries of Southeastern Europe, without reflection in consolidated Group, where investment opportunities are being monitored.

Republika Srpska in Bosnia and Herzegovina

The joint venture NERS d.o.o., Gacko was registered on 22 December 2006. Our local partner in the venture is Mješoviti Holding "Elektroprivreda" Republike Srpske Trebinje-Matično preduzeće akcionarsko društvo Trebinje. The purpose of the joint venture is to acquire and subsequently operate the Gacko I Power Station (300 MW), including the adjoining mine and other assets (Ponikva limestone quarry, etc.) as well as to build a new power station, Gacko II, in the same location.
The Bosnian Serb partner will invest an existing power plant and a lignite mine in the joint venture, while ČEZ, a. s. is to invest or otherwise secure funds for construction of a new plant. The estimated investment amount is EUR 1.4 billion (approximately CZK 39 billion).
The results are not included in the consolidated Group figures because they were not economically significant in 2006.

Federation of Bosnia and Herzegovina in Bosnia and Herzegovina

In July 2006 the Ministry of Energy, Mining, and Industry of the Federation of Bosnia and Herzegovina announced a tender to find a strategic partner for eight joint projects in the energy sector. The estimated total investment amount will be close to CZK 2 billion. In October 2006 an inter-Ministry commission selected a short list of four investors, including ČEZ, a. s., out of 37 bidders for implementation of coal power plant-related projects. ČEZ, a. s. was not selected for implementing hydropower-related projects.

Ukraine

The company ČEZ Ukraine CJSC was registered on 12 December 2006. The company was established for the purpose of supporting ČEZ, a. s. projects in Ukraine.

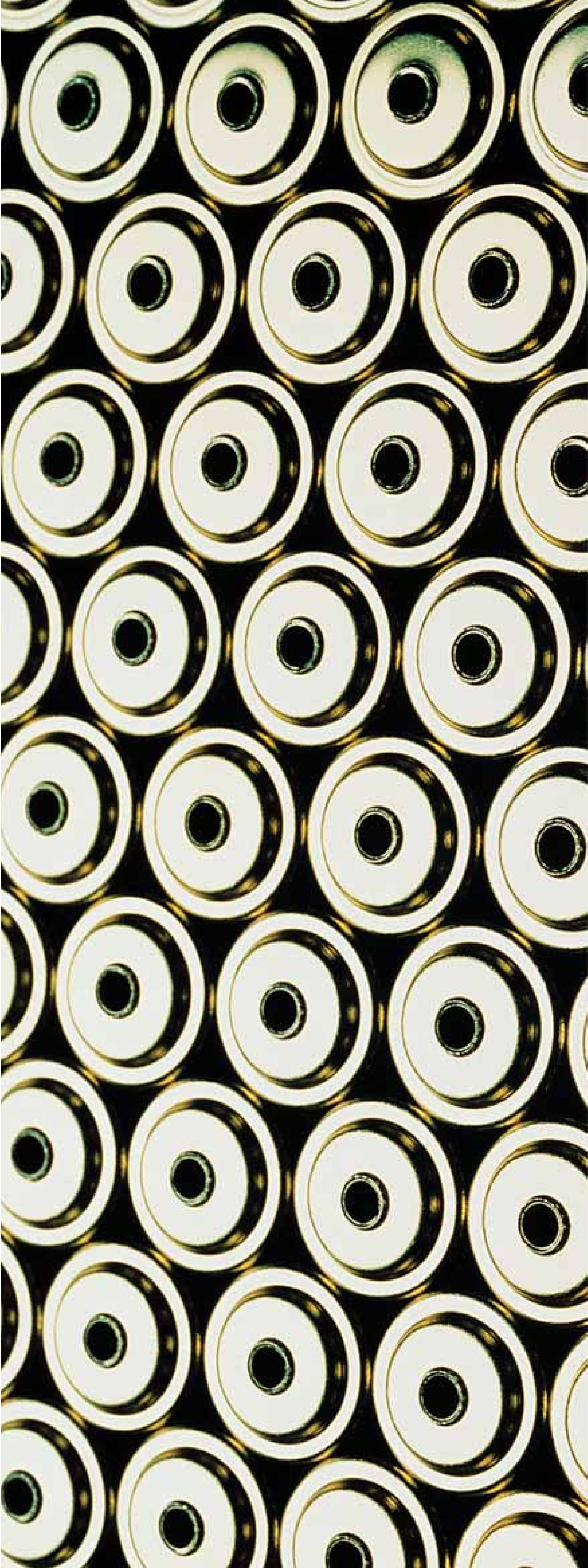
Republic of Croatia, Republic of Slovenia

Investment opportunities in these countries are being monitored. Possible opportunities for acquisitions and expansion are also being monitored in other countries of Central & Southeastern Europe, with special focus on countries in which CEZ Group already has operations.

2006 was also a very successful year for CEZ Group purely in terms of financial performance indicators. Consolidated net income reached CZK 28.8 billion, a year-on-year increase of CZK 6.5 billion.

CEZ Group invested a total of CZK 502.0 million in environmental protection in 2006.

EBITDA grew by CZK 14.2 billion (28.4%) to CZK 64.3 billion.



CEZ Group is concentrating its energies on priorities it set in accordance with the business policy, the strategic objectives, and its mission. At the same time, as the largest Czech corporation, we are aware of the wider responsibility in which we share. We pay considerable attention to protecting the environment and support for projects in the areas of education, culture, and sports.

Results of Individual CEZ Group Companies (according to IFRS)

ČEZ, a. s. and fully consolidated CEZ Group companies in the Czech Republic	Revenues 2006 CZK millions	Revenues Index 2006/2005 %	Operating expenses 2006 CZK millions	Operating expenses Index 2006/2005 %	EBITDA 2006 CZK millions	EBITDA Index 2006/2005 %
ČEZ, a. s.	95,970	141.9	(66,292)	138.1	43,023	128.9
ČEZ Distribuce, a. s.	29,138	621.7	(28,728)	660.9	6,621	525.8
ČEZ Distribuční služby, s.r.o.	1,879	–	(1,664)	–	400	–
ČEZ Logistika, s.r.o.	3,229	524.9	(2,804)	458.6	428	–
ČEZ Měření, s.r.o.	1,311	223.3	(1,083)	245.5	238	154.2
ČEZ Obnovitelné zdroje, s.r.o.	201	109.0	(208)	171.7	90	72.8
ČEZ Prodej, s.r.o.	68,556	681.2	(67,351)	671.9	1,585	–
ČEZ Správa majetku, s.r.o.	813	–	(708)	–	270	–
ČEZ Zákaznické služby, s.r.o.	1,045	154.5	(856)	163.6	190	123.5
ČEZData, s.r.o.	3,203	192.2	(3,388)	207.9	1,303	245.5
ČEZnet, a.s.	1,576	135.6	(1,048)	119.1	948	170.3
Energetické opravny, a.s.	486	128.2	(474)	128.4	20	107.3
Energetika Vítkovice, a.s.	2,580	112.1	(2,412)	108.6	273	162.0
I & C Energo a.s.	1,257	146.2	(1,174)	149.8	105	109.3
MSEM, a.s.	628	101.3	(585)	98.5	66	127.8
PPC Úžín, a.s.	–	–	(1)	–	(1)	–
SD - 1.strojírenská, a.s.	763	172.6	(744)	175.0	30	108.8
SD - Autodoprava, a.s.	458	105.6	(421)	104.5	116	99.6
SD - Kolejová doprava, a.s.	278	102.1	(263)	102.0	48	101.9
Severočeská energetika, a.s.	801	8.1	(796)	8.9	64	4.2
Severočeské doly a.s.	8,932	111.7	(5,561)	104.2	4,365	121.0
Severomoravská energetika, a. s.	517	3.4	(516)	3.8	32	1.3
STE - obchodní služby spol. s r.o. in liquidation	10	3.4	(9)	2.7	3	–
Středočeská energetická a.s.	458	3.9	(398)	3.6	105	7.9
ŠKODA PRAHA a.s.	1,276	127.0	(1,343)	141.7	(61)	–
ŠKODA PRAHA Invest s.r.o.	692	–	(680)	–	12	–
Ústav jaderného výzkumu Řež a.s.	809	96.0	(736)	95.4	163	105.7
VČE - montáže, a.s.	377	96.7	(350)	99.2	41	78.7
Východočeská energetika, a.s.	461	4.9	(379)	4.5	118	8.5
Západočeská energetika, a.s.	422	7.2	(467)	8.7	–	–
Fully consolidated CEZ Group companies in Bulgaria						
ČEZ Bulgaria EAD	227	–	(227)	–	10	–
ČEZ ELEKTRO BULGARIA AD	1	–	(1)	–	–	–
ČEZ LABORATORIES BULGARIA EOOD	3	–	(3)	–	–	–
ČEZ Trade Bulgaria EAD	51	–	(52)	–	(1)	–
Elektrorazpredelenie Pleven AD	3,116	98.8	(3,008)	95.2	350	150.2
Elektrorazpredelenie Sofia Oblast AD	3,193	103.0	(3,083)	105.4	298	81.8
Elektrorazpredelenie Stolichno AD	5,869	104.6	(4,902)	98.4	1,372	140.1
TEC Varna EAD	2,509	–	(2,411)	–	283	–
Fully consolidated CEZ Group companies in Poland						
CEZ Polska Sp. z o.o.	–	–	–	–	–	–
Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.	2,449	–	(1,657)	–	1,033	–
Elektrownia Skawina S.A.	2,792	–	(2,518)	–	361	–
Fully consolidated CEZ Group companies in Romania						
CEZ Romania S.R.L.	174	–	(173)	–	3	–
Electrica Oltenia S.A.	10,347	100.7	(9,194)	90.8	1,940	241.6
Other fully consolidated CEZ Group companies						
CEZ Deutschland GmbH	1,023	60.7	(1,024)	60.8	1	14.1
CEZ FINANCE B.V.	4	–	(2)	50.0	2	–
CEZ Hungary Ltd.	(15)	–	(200)	–	(214)	–
CEZ Chorzow B.V.	–	–	(1)	–	(1)	–
CEZ Poland Distribution B.V.	–	–	(1)	–	(1)	–
CEZ Silesia B.V.	–	–	(1)	–	(1)	–
ČEZ Srbija DOO	10	–	(14)	–	(4)	–
New Kosovo Energy L.L.C.	–	–	(3)	–	(3)	–
ZAO "TransEnergo"	–	–	(2)	–	(2)	–

Depreciation and amortization		Net income		Total assets		Equity		Employee head count	
2006 CZK millions	Index 2006/2005 %	2006 CZK millions	Index 2006/2005 %	2006 CZK millions	Index 2006/2005 %	2006 CZK millions	Index 2006/2005 %	2006 persons	Index 2006/2005 %
(13,345)	96.9	25,803	146.3	311,377	113.6	190,822	109.5	6,404	99.0
(6,211)	631.7	365	–	76,500	129.5	49,631	130.9	1,150	132.3
(184)	–	163	–	6,222	–	4,432	–	1,719	–
(2)	325.8	325	–	1,113	226.5	529	259.3	192	117.1
(11)	125.1	174	170.1	618	126.2	405	126.3	980	96.4
(98)	159.9	(12)	(50.5)	1,777	149.2	1,414	148.3	84	158.5
(380)	654.4	914	–	20,356	129.0	6,494	146.1	222	120.7
(166)	–	105	–	3,449	599.1	3,152	584.0	323	293.6
–	133.1	145	126.8	458	157.7	272	214.1	831	94.8
(1,487)	301.0	(223)	–	4,001	145.4	1,750	179.7	438	144.6
(420)	152.9	411	189.1	3,094	121.8	2,565	126.2	270	105.5
(8)	90.4	8	105.9	212	118.3	87	108.8	457	98.3
(104)	120.3	125	195.1	1,118	101.0	684	96.5	656	100.6
(23)	112.8	54	127.6	690	118.1	350	117.6	1,096	103.4
(23)	88.6	34	158.2	533	80.4	372	61.7	245	86.0
–	–	(1)	–	109	–	109	–	1	–
(12)	105.1	14	113.7	220	130.0	105	115.0	588	101.6
(79)	92.4	29	114.1	486	107.6	416	107.4	393	99.2
(33)	101.5	11	108.2	433	98.7	341	98.8	191	101.1
(59)	10.5	(8)	(0.9)	7,741	88.7	7,563	99.9	456	85.7
(994)	104.9	2,639	131.3	24,697	109.6	15,826	111.3	3,525	99.2
(31)	3.8	826	66.4	10,301	80.1	10,228	95.1	19	2.0
(2)	83.0	–	(0.8)	20	48.4	(19)	98.7	6	33.3
(45)	6.5	(55)	(5.0)	8,338	96.6	8,105	102.7	20	3.3
(6)	71.5	(127)	–	1,692	130.3	712	89.8	344	90.3
–	–	10	–	2,430	–	10	–	33	–
(91)	107.8	42	112.9	1,504	121.7	806	105.5	986	104.0
(14)	93.2	20	74.2	262	102.5	133	104.8	223	86.4
(35)	7.0	(200)	–	7,817	91.4	7,752	95.0	13	2.2
(44)	12.7	(499)	–	4,846	62.1	4,723	62.6	20	4.4
(9)	–	(1)	–	382	–	3	76.0	129	–
–	–	–	–	2	–	1	–	0	–
–	–	–	–	13	–	1	–	36	–
–	–	(2)	–	29	–	5	–	11	–
(242)	102.0	97	–	1,847	97.9	1,275	102.4	1,720	96.1
(187)	100.3	129	93.6	2,911	95.1	2,026	101.0	1,456	94.4
(405)	115.8	920	167.5	5,297	114.7	4,155	120.7	1,303	96.2
(185)	–	97	–	7,135	–	6,508	–	851	–
–	–	–	–	9	–	9	–	2	–
(241)	–	554	–	9,529	–	1,400	–	167	–
(87)	–	207	–	2,623	–	1,321	–	579	–
(2)	–	1	–	88	–	5	–	36	–
(787)	120.4	767	–	17,815	109.0	13,771	109.3	2,971	100.1
(1)	94.7	–	13.7	148	68.8	49	95.9	2	100.0
–	–	9	100.0	22,352	67.8	67	95.5	–	–
(1)	–	(184)	–	159	–	(154)	–	3	–
–	–	(19)	–	1,152	–	286	–	–	–
–	–	18	–	1,195	–	1,195	–	–	–
–	–	(57)	–	1,166	–	1,165	–	–	–
–	–	(4)	–	17	–	4	–	4	–
–	–	(3)	–	3	–	2	–	3	–
–	–	(2)	–	1	–	(2)	–	3	–

Strategic Objectives of CEZ Group

Brief Power Industry Development Forecast from CEZ Group's Perspective

For several years now, the power industry has been in a boom cycle, making it possible to deliver above-average investment returns compared to other sectors. In 2006 we witnessed record M&A activity in the electric power sector, and the trend toward price convergence continued throughout the region. The dependence between prices of key commodities such as oil, gas, electricity, and coal increased substantially thanks to the newly introduced trading scheme for CO_2 emission allowances. This is making electricity prices more sensitive than ever before to movements in prices of other commodities. By 2020, approximately 20,000 MW of installed capacity in the Czech Republic, Poland, Hungary, and Slovakia will have reached the end of its lifetime. Slovakia is set to cut one quarter of its electricity generation output within three years, with no replacement, and even now, in 2007, the country is not self-sufficient in electric power. Demand in the Czech and Slovak Republics is expected to grow by approximately 10 TWh by 2012, driven by economic growth and foreign direct investment, and this will put an end to the overall surplus of capacity in the region, which has heretofore been utilized for export. Import from Poland will be gradually restricted as environmentally non-compliant plants there are shut down. Ukraine's 550 MW of export capacity is now nearly exhausted and, more importantly, it is being used for supplies to Hungary, which also has a deficit. There are very few new projects and most of these are only in the preliminary planning stages.
The price of electricity on the German wholesale market has been rising steadily in past years due not only to these shortfalls, but also to CO_2 allowances and growing oil prices. Europe has seen blackouts become a regular part of the summer, when thousands of megawatts of forced outages in the summer months put enormous pressure on grid operators to maintain stability, regardless of cost. Since the Czech Republic power sector is part of the gradually integrating European electricity market, wholesale prices here are heavily influenced by price movements in Germany.
Therefore, the European power sector is gearing up for a wave of new-builds and upgrades of existing power plants in order to cover rising demand and meet even the strictest environmental limits. The implementation of such decisions, however, is being complicated by uncertainty surrounding regulation of CO_2 emissions after 2012, as well as by the lengthy and complicated process of approving new power plant projects. Clear rules for allocation of allowances after 2012 and acceleration of the approval process are critical for ensuring stable supplies of electricity to end users at acceptable prices. CEZ Group has very good potential to succeed in the competition among power utilities in a unified Europe.

CEZ Group Business Policy

The primary mission of CEZ Group is to deliver for its shareholders stable, long-term growth in share prices by operating a successful business in the electricity markets. All strategic, tactical, and operational processes in CEZ Group, the principles of which are summarized in the document "CEZ Group Business Policy", are designed to further this mission.

CEZ Group Strategic Objectives

The fundamental vision of CEZ Group is to become the leader in the electricity market of Central and Southeastern Europe. To this end, CEZ Group has focused its energy on developing the following key activities: electricity generation, electricity distribution, and supply of electricity to end users. To fulfill its strategic objectives, two years ago CEZ Group commenced activities aimed at:

- through efficency improvements, maintaining a strong position and achieving operational excellence in the Czech market,
- building a strong position in the markets of Central & Southeastern Europe through acquisitions and construction of new generating facilities,
- renewing the portfolio of power plants.

The generating facilities renewal project (2007–2020) aims to maintain the production base in the Czech Republic and make it more environmentally friendly while ensuring an economic return. The program calls for over CZK 100 billion to be invested in brown coal-fired power plants. It includes comprehensive retrofits of the Tušimice and Prunéřov Power Stations, the construction of a new, 660 MW high-efficiency generating unit in the Ledvice Power Station, and an upgrade of the Počerady Power Station, where the final decision on whether to build two new units or combine one new unit with comprehensive retrofits of three existing ones will be made in 2007. In 2006, technical and economic analyses were completed and preparations were commenced for the first three projects – the Tušimice, Ledvice and Prunéřov Power Stations. In the years to come, the investment program will be periodically reviewed and analyzed in light of market developments. Conditions for building new nuclear generating facilities and the viability of gas and black coal-fired projects will be analyzed as well.

In the next few years, CEZ Group is planning for further performance increases in its target region through acquisitions and construction of new plant facilities.

VIZE 2008

In 2004–2006, CEZ Group's VIZE 2008 project served as a tool for integration and improving operational performance in the sales and distribution segment, including related ancillary processes.

The project's goal was to change the original geographical organization of regional electricity distribution companies to a process-driven organization while at the same time achieving a major improvement in operating efficiency.

Already in late 2006, based on the financial performance figures reported by the process-driven subsidiaries, we can report that the project brought cumulative benefits of CZK 7.9 billion in the 2004–2006 period, compared to the originally planned benefit of CZK 5.4 billion.

All administrative steps necessary to merge parts of the businesses of the regional electricity distribution companies into ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s. and thereby increase the latter companies' stated capital) were completed in early 2006. Registration of these steps in the Commercial Register marked the culmination of this key phase of the transformation and satisfied the legal unbundling requirement in CEZ Group.

The first half of 2006 saw the termination of the regional electricity distribution companies' trade licenses, making ČEZ Prodej, s.r.o. the only company entitled to maintain commercial relationships on behalf of CEZ Group with end customers for supplies of electricity.

Effective 1 July 2006, parts of the businesses of the regional electricity distribution companies Středočeská energetická a.s., Západočeská energetika, a.s., Východočeská energetika, a.s., and Severomoravská energetika, a. s. were folded into ČEZ Distribuční služby, s.r.o. and ČEZ Správa majetku, s.r.o. The part folded into ČEZ Distribuční služby, s.r.o. was valued at a total of CZK 5.5 billion, and included the transfer of 1,650 employees, while the part folded into ČEZ Správa majetku, s.r.o. had a value of approximately CZK 2.5 billion and 220 employees were transferred.

Severočeská energetika, a.s. became a party to court proceedings in which the court imposed an injunction on the company, banning asset transfers. The injunction was later lifted (effective 14 February 2007) but until then Severočeská energetika, a.s. could not take part in the transformative steps. Since some of the steps planned for 2006 were conditional upon transfer of assets from Severočeská energetika, a.s. to ČEZ Obnovitelné zdroje, s.r.o., these steps could not be completed on time. Implementation of the planned capital contributions to ČEZ Obnovitelné zdroje, s.r.o. did not take place until 1 March 2007, while capital contributions to ČEZ Distribuční služby, s.r.o. and ČEZ Správa majetku, s.r.o. are now slated for completion on 1 May 2007.

As of 1 January 2006, all assets, processes, and employees of the IT Section were spun off to ČEZData, s.r.o., which provides for the operation of information systems and technologies.
Also as of 1 January 2006, the bookkeeping, tax administration, and internal and external communication functions of the regional electricity distribution companies were transferred to ČEZ, a. s.
2006 saw commencement of the Best Practices program for sustained performance improvement. The program is gradually evaluating individual processes, identifying areas for improvement, and putting experience from other companies into practice. For example, in the distribution function, a new “Start from Home” model was introduced, which substantially improved workflow in maintenance and repairs of distribution grid faults.
Market liberalization and the rise of competition are pressing CEZ Group to mobilize its strengths and improve customer services. For this reason, we launched the “Customer” project, the goal of which is for CEZ Group to become number one in customer service quality within three years. To reduce paperwork, an electronic invoicing system is being rolled out and a Virtual Business Office was opened, where customers can take care of selected matters. Postal vouchers for electricity can also be paid through lottery company Sazka’s on-line terminals. In selected regional capital cities, CEZ Group business centers are equipped to deal with matters relating to supplies of natural gas from RWE Group.
Materials procurement for grid build-outs and renewal has been concentrated in ČEZ Logistika, s.r.o. These materials are then used by contractors selected by ČEZ Distribuce, a. s. in their contracting work.
In early 2007, the VIZE 2008 steering committee declared that the project’s key targets had been met and decided to formally wind up the project. This does not mean, however, the end of project and integration efforts in CEZ Group.
Based on the positive experience with VIZE 2008, the CEZ Group senior management is currently analyzing opportunities for further improving efficiency and discussing a redefinition of the strategic initiatives. The creation of a new unit to manage change projects is anticipated. The targets of these new projects will be at least as ambitious as those of VIZE 2008. To reflect these moves, the first pillar of the strategy temple has been redefined from “integration and operational excellence (VIZE 2008)” to “operational excellence”.

Transfer of Functions from Regional Electricity Distribution Companies to New Process-driven Companies

New process-driven company	Regional electricity distribution company				
	Severočeská energetika, a.s.	Severomoravská energetika, a. s.	Středočeská energetická a.s.	Východočeská energetika, a.s.	Západočeská energetika, a.s.
ČEZ Distribuce, a. s.	1 Nov 2005	1 Jan 2006	1 Dec 2005	1 Oct 2005	1 Sep 2005
ČEZ Distribuční služby, s.r.o.	[1]	1 Jul 2006	1 Jul 2006	1 Jul 2006	1 Jul 2006
ČEZ Logistika, s.r.o.	1 Nov 2005	1 Jul 2005	1 Dec 2005	1 Oct 2005	1 Sep 2005
ČEZ Měření, s.r.o.	1 Jun 2005	1 Jun 2005	1 Jun 2005	1 Jun 2005	1 Jun 2005
ČEZ Obnovitelné zdroje, s.r.o.	1 Mar 2007	[2]	[2]	1 Jul 2006	1 Jul 2006
ČEZ Prodej, s.r.o.	1 Nov 2005	1 Jan 2006	1 Dec 2005	1 Oct 2005	1 Sep 2005
ČEZ Správa majetku, s.r.o.	[1]	1 Jul 2006	1 Jul 2006	1 Jul 2006	1 Jul 2006
ČEZ Zákaznické služby, s.r.o.	1 May – 1 Jul 2005	1 Jul 2005	1 Jun – 1 Jul 2005	1 Apr – 1 May 2005	1 Jan 2005
ČEZData, s.r.o.	1 Jan 2005	1 Jan 2005	1 Jan 2005	1 Jan 2005	1 Jan 2005
ČEZnet, a.s.	1 Jan 2005	1 Jan 2005	1 Jan 2005	1 Jan 2005	1 Jan 2005

[1] Transfer deferred due to litigation between Severočeská energetika, a.s. and WIKA, s.r.o.
[2] Neither Středočeská energetická a.s. nor Severomoravská energetika, a. s. operated any generating facilities.

Anticipated Economic and Financial Situation in 2007 and Outlook for Future Years (Figures According to IFRS)

In 2007, CEZ Group anticipates continued growth in business performance driven by successful implementation of strategic initiatives as well as changes in the electricity markets. Therefore, consolidated net income is expected to grow by over 22% compared to 2006 (to over CZK 35 billion) and income before income taxes, depreciation and amortization (EBITDA) is forecasted to be 10% higher (CZK 70.9 billion). We expect the cumulative contribution of foreign operations to EBITDA to grow by 19%, to at least CZK 5.8 billion.
Similarly, we anticipate seeing an improvement in financial performance in the corporate parent, ČEZ, a. s., as well – its net income is predicted to rise by 16% to at least CZK 28.5 billion and its EBITDA figure will be up 15%, surpassing CZK 48.5 billion.
2007 will see the completion of the transformation of the regional electricity distribution companies and the end of their operations, as well as continuation of projects aimed at optimizing operations – e.g. in the areas of customer services and IT services for internal customers. Heavy emphasis will be placed on making changes to generation asset maintenance processes, with the goal of saving 25% on these expenses.
Beyond the borders of the Czech Republic, reorganizations and integration of recent acquisitions will continue with the goal of optimizing expenses across the entire CEZ Group, including the latest acquisitions of power plants in Poland (ELCHO, Skawina) and Bulgaria (Varna). In Romania, sales must be unbundled from distribution in 2007. In the Czech Republic, the divestment of non-core assets will be in full swing, and CEZ Group will retain only those operations that are not economical to source in the open market.
In plant portfolio renewal, 2007 will see commencement of implementation work on the first project: on 1 June 2007 a portion (2 x 200 MW) of a plant in Tušimice will be taken off-line in the project to gradually retrofit four generating units of Tušimice II Power Station. In the other projects (Prunéřov, Ledvice), engineering work and selection of contractors will continue.
Also in 2007, we will begin to see changes in how the Czech Republic’s wholesale electricity market functions. Electricity will no longer be sold only through one-off auctions, but also continually via an exchange run in cooperation with the Prague Stock Exchange. Overall, we expect to see continued convergence of wholesale prices in the Czech Republic and Germany.

Risk Management at CEZ Group

In the course of 2006 a unified categorization of CEZ Group's risks was drawn up, reflecting the unique features of non-financial corporation. These risks are divided into four basic categories:

1. Market risk
   In the trading area, we hedge commodity risks arising out of trading in electricity and emission allowances. Starting in September 2006, market commodity and related credit risks are quantified using a new trading system, allowing the trading position to be managed on a CEZ Group-wide basis. In the finance area, standard financial instruments are used to manage/hedge currency and interest rate risks in accordance with stipulated limits. In addition, currency risk is hedged internally via managed balancing of operating and financing flows denominated in foreign currencies.

2. Credit risk
   End customer credit risk is managed through payment terms, which depend on each customer's credit rating. Credit risk associated with other business and financial partners is managed using individual limits derived from ratings 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 its annual plan. Other current operational risks include the integration of foreign equity stakes into CEZ Group and the implementation of the plant renewal process, i.e. upgrading of existing coal-fired generating facilities. Cash flow risk is managed via a cash pooling system in which the bulk of CEZ Group participates.

4. Business risk
   The most important business risks are those associated with M&A expansion in foreign countries, risks associated with electricity exports, and regulatory risks – i.e. future decisions of the European Union, the Energy Regulatory Authority, and/or the Antitrust Office), as well as risks related to development of legislation in the region where CEZ Group does business.

Risk Management

CEZ Group is successfully developing an integrated risk management system with the objective of growing CEZ Group value while taking risks that are acceptable to the shareholders. Since 2005, CEZ Group has applied the risk capital concept, allowing us to set basic frames or risk limits in various areas, unify the quantification of various types of risks, and help individual companies or process owners to expose themselves to risk only to the extent it is proportional to their contribution to CEZ Group's overall income.
Development and implementation of the risk capital model, including regular assessment of the use of CEZ Group's overall risk capital, is dealt with on a centralized basis, including reporting for the Risk Committee. The Risk Committee decides allocations of risk capital among individual risks and organizational units. In other words, it approves binding rules, accountability, and structure of limits for managing individual risks and continually monitors the overall impact of risks on the value of CEZ Group.

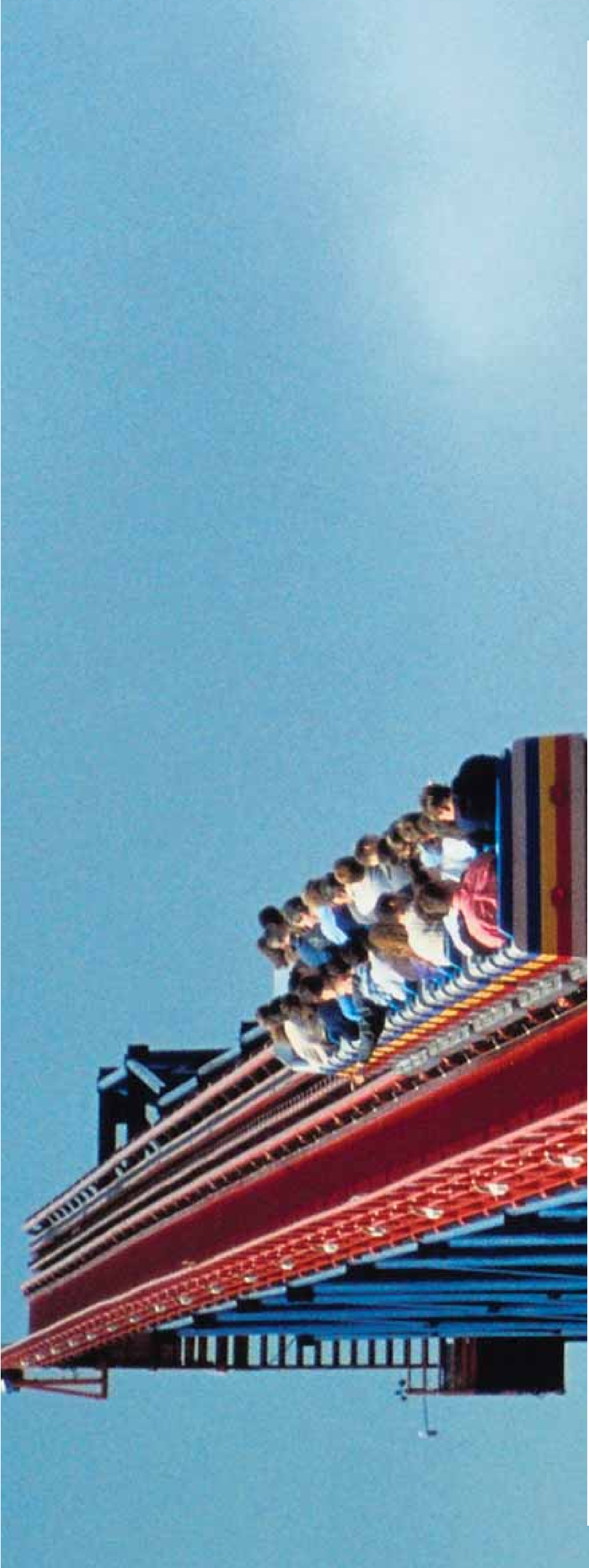
Insurance

ČEZ, a. s. carries property insurance for its coal and nuclear plants, covering natural hazard and machine risks. At the same time, selected subsidiaries also carry property insurance. This includes the property of ČEZ Distribuce, a. s., including high- and medium-voltage overhead distribution grids. The statutory obligation of ČEZ, a. s. as a nuclear facilities operator is met by liability insurance contracts covering 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.
A major factor in our stability is liability insurance covering the operations of ČEZ, a. s. This insurance also covers selected subsidiaries, including Energetika Vítkovice, a.s. among others.

In order to maintain our generation capacity and further improve its environmental profile, CEZ Group prepared a project to renew existing brown coal generating units as well as build new ones. May 2006 saw approval of a plan to build a new 660 MW generating unit in Ledvice, with supercritical parameters – the first of its kind in the Czech Republic.

In the mining area, capital expenditures included acquisition of new extraction technology, building new conveyor belt routes, and upgrading the central coal crushing plant in Tušimice.

The primary objective of the investment projects in nuclear energy was to improve the level of nuclear safety and operational reliability.



Investments and other capital expenditures are a fundamental link between a successful present and a strong future. Today's investments in new generating facilities, upgrades of existing facilities, refurbishment of grids and upgrades of extraction technologies will soon bear fruit by giving CEZ Group a comparative advantage in the electricity market.

Capital Expenditure

Capital Expenditure

Capital expenditure in 2006 focused on upgrading and developing our nuclear plants, facilities for storing spent fuel from the nuclear plants, renewing the generating facilities of our coal plants, and investing in the distribution grid and mining operations.

Acquisition of Fixed Assets (CZK millions)

	2005	2006
Property, plant and equipment	15,901	21,092
of which, e.g.: nuclear fuel	2,605	2,147
Intangible fixed assets	1,367	1,453
Financial investments	242	1,113
Impact of acquisitions of fixed assets on liabilities	(1,839)	87
Total	15,671	23,745

Nuclear Power

Dukovany Nuclear Power Station

Capital expenditures at Dukovany Nuclear Power Station went on upgrading the station and improving the efficiency of power generation. The most important projects included replacement of 0.4 kV secured subordinate power panels for powering important devices, renovation of the flow-through portions of low-pressure components of steam turbines on Unit 4 (new rotors with improved blades reducing the turboaggregate's heat rate by a minimum of 3.5%), replacement of activation systems and the ongoing renewal of I & C systems on all reactor units.

On 11 January 2007, upon completion of overhauls, the achievable capacity of the generator on Unit 4 of Dukovany Nuclear Power Station was increased from 2 x 200 MW to 2 x 228 MW. The same modification was made on Unit 3 earlier, on 1 May 2005, and will be made on Unit 2 and Unit 1 in 2007 and 2008, respectively.

Spent Nuclear Fuel Storage Facility at Dukovany Nuclear Power Station

The spent fuel storage facility at Dukovany Nuclear Power Station was commissioned in October. Its capacity will cover the power station's operation for a period of 40 years. Fuel will be stored in Castor 440/84M dry casks.

Temelín Nuclear Power Station

The primary objective of investment projects here was to increase the level of nuclear safety and reliability of operation. This included, for example, rebuilding the high-pressure component of a turbine, complete replacement of power management panel cases, replacement of nickel seals with crested seals and liquidation of special-purpose construction site buildings and land reclamation (approximately 500 acres that had previously been occupied by construction site facilities).

The use permit for structures relating to Units 1 and 2 of Temelín Nuclear Power Station entered into legal force on 6 November 2006. This permit was issued by the South Bohemia Regional Office.

As of 3 February 2006, following completion of a routine repair, the achievable capacity of Unit 1 was increased from 830 MW to 975 MW. As of 1 January 2007, following completion of an overhaul, the unit was back up to its original 1,000 MW.

Spent Nuclear Fuel Storage Facility at Temelín Nuclear Power Station

Preparations continued for a spent fuel storage facility at Temelín Nuclear Power Station. Citizens' initiatives filed an appeal of the zoning decision, which will be considered by the Ministry of Local Development. In 2006, a contract for supply of casks to hold spent fuel from Temelín Nuclear Power Station was signed, based on the results of a tender.

Activities necessary for the possible renewal of preparations for a storage facility for spent fuel from Temelín Nuclear Power Station continued at the Skalka location, as a back-up solution.

Conventional Power

Renewal of Plant Portfolio
In order to maintain and improve electric power generation, CEZ Group has prepared a project to renew existing brown-coal generating facilities and build out new ones.

Comprehensive Retrofit of Tušimice II Power Station
In April, the Building Office of Kadaň issued a building permit for the project Comprehensive Retrofit of Tušimice II Power Station. Also in April, ŠKODA PRAHA Invest s.r.o. was selected to be the general contractor for the project. During the course of 2006, subcontractors were selected and contracts entered into for all the principal process components. Revisions to the integrated permit valid for the duration of construction work entered into force in October. Work went forward in accordance with a valid contract to enable retrofitting of the first two generating units to begin in June 2007. Technical measures necessary for the shutdown of the first two units pending the comprehensive retrofit were completed early.

Build-out of a New 660 MW Brown Coal-Fired Facility in Ledvice
In May, a plan was approved to build a new 660 MW unit with supercritical parameters, the first of its kind in the Czech Republic. At the same time as its planned commissioning in 2012, units 2 and 3, each with 110 MW of capacity, are to be shut down. Along with the completed Environmental Impact Assessment (EIA) documentation, a notification of the planned build-out was filed with the Ministry of the Environment in July 2006. In September 2006, following selection of ŠKODA PRAHA Invest s.r.o. as general contractor for the project, work began on drawing up project documentation. On 15 February 2007, the Ministry of the Environment issued a consenting opinion on the plan “New 660 MW Generating Facility at Ledvice Power Station”. Commissioning of the new generating facility at Ledvice Power Station is planned for June 2012, assuming all subcontractor capacities are brought to bear in time.

Other Power Generation Projects
In January 2007, the Board of Directors of ČEZ, a. s. approved the plan “Comprehensive Retrofit of Prunéřov II Power Station”. In late 2006, preparations began for construction of a combined cycle power plant in Úžín in the Ústí nad Labem Region. Another project is an increase in installed capacity of the Gacko Power Station (Republika Srpska, Bosnia and Herzegovina), the objective of which is to develop the current Gacko I Power Station (300 MW), open a new field at the Gacko Mine, including expansion of existing extraction capacity, and build a new Gacko II Power Station. Project preparation will begin in 2007 with a detailed feasibility study of the project.

Investments in Mining
Severočeské doly a.s. invested a total of CZK 1.3 billion in its mining operations in 2006. The CAPEX program included projects made necessary by progress of extraction operations at the mines, refurbishments and upgrades of existing extraction equipment, processes, and renewal of ancillary mechanization. April saw completion of the most significant project – commissioning of a SchRs 1320 bucket excavator with a budgeted cost of nearly CZK 1 billion. The project “Intensification of Overburden Extraction on Cut No. 4, Bílina Mines, Northern Portion” was completed in November and the Southern Portion will be completed by the end of July 2007. The budgets for both projects run in the hundreds of millions of CZK. The projects involve building out new belt conveyor routes and repairing existing belt conveyors. Upgrades of the Central Coal Crushing Plant in Tušimice and Loading Hopper II were completed in September.

Investments in the Distribution Grid
The most important initiatives in this area were focused on high voltage, medium voltage, and low voltage grids – mainly refurbishment and renewal of underground and overhead medium and low voltage lines, build-outs of medium-/low-voltage distribution transformer stations, unification and projects required to meet customer requests for connection capacity. The companies of CEZ Group invested a total of CZK 7.7 billion in this area in 2006. Of this amount, CZK 5.7 billion was in the Czech Republic and CZK 2.0 billion was in Southeastern Europe.

Environmental Investments
The companies of CEZ Group invested a total of CZK 502.0 million in environmental protection. In particular, ČEZ, a. s. invested in an electric separator upgrade and flue gas desulfurization. Nástup Tušimice Mines completed an upgrade of a wastewater treatment plant and modification of a balancing reservoir at its mine water treatment plant.
Other projects in this category include purification and discharge of mine water at Bílina Mines and reducing dust levels by installing a dust collection system at the sorting facility of the Ledvice Coal Processing Plant.
Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. is one of the most modern power plants in Poland and it already meets all emission limits. For this reason, no environmental expenditures were made at this plant in 2006.
The Skawina Power Station spent PLN 19.3 million on environmental measures in 2006. In February 2007, work began on a flue gas desulfurization system for the plant, which is to be commissioned in December 2007.

Investments in Information Systems
CEZ Group invested over CZK 1.3 billion in information systems in 2006. One of the most important projects in this area is the roll-out of a system to support distribution grid build-out, operation, maintenance, and management, to be completed in 2007, and development of the customer system. Another major component of CEZ Group IT expenditures is the roll-out of new systems in our newly acquired foreign subsidiaries. These include both unified corporate systems to support business processes in Romania and Bulgaria and unified customer systems in each of the new acquisitions.

Other Investments
The bulk of expenditures in the “Other Investments” category went on purchase of a strategic parcel of land and other real estate in Ervěnice by Západočeská energetika, a.s. and commencement of construction work on the Positron Emission Tomography Center in Brno by Ústav jaderného výzkumu Řež a.s.

Research and Development

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 2006 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 Station, technical support in the areas of reactor physics and thermohydraulics, safety analyses, a computing methodology for the new Gd-2 fuel type being used at Dukovany Nuclear Power Station, optimizing the chemical regime in the primary cooling circuits of nuclear power plants, and a reactor surveillance program – applied research in nuclear power plant and equipment life cycles. 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, and obtain know-how and technology for safety analyses and campaign assessments. With support from PHARE programs, a project is underway to qualify non-destructive testing and operational inspections.
- Severočeské doly a.s. spent CZK 29.5 million on R&D – in particular, it researched and assessed conditions for extracting overburden and engaged in mine water research. R&D tasks were focused on increasing operational reliability in production, but also dealt with impacts on the environment and occupational safety and health. Most of these activities were not primary research, but rather tasks the outputs of which are being used at the mines for the first time in such a form and which are at the necessary technical level.
- ŠKODA PRAHA a.s. spent CZK 1.3 million on R&D. The company was engaged in the implementation phase of a 2005 grant project entitled "Increasing competitiveness of worker preparation for introduction of advanced software applications into company practice". The implementation phase followed directly after internal projects concerning an advanced business information system including, in particular, a project management system with support for application of the latest scientific advances in this area.
- I & C Energo a.s. spent CZK 2.6 million on R&D. The company drew up two projects for the Ministry of Industry and Trade. The first is entitled "Development of a system for supporting the design and management of cabling systems" and the second is "Development of advanced methods and tools for increasing the thermal efficiency of power plants and power heating plants."

Ústav jaderného výzkumu Řež a.s. is a CEZ Group company focused on R&D. It was given specific technical tasks, the results of which are put into practice in power plants operated by ČEZ, a. s., as well as researching and developing technologies that in future are to enable more effective utilization of nuclear energy, and other tasks ensuing from the research base of Ústav jaderného výzkumu Řež a.s. The institute maintains three patents filed in previous years and in 2006 patent applications were filed for two more inventions.
The most significant tasks assigned by the Ministry of Industry and Trade related to the SPHINX Nuclear Transmutation System with liquid nuclear fuel based on melted fluorides, the "New Nuclear Facility for Power Generation" project, "Advanced methods for analyzing reliability in the process of increasing efficiency and controlling industrial equipment complexes II" and "Ensuring long useful life and increasing efficiency of operation of nuclear power plants in the Czech Republic". Major assignments for the State Office of Nuclear Safety include "Influence of hot overloading on reactor pressure vessel integrity in accidents involving pressurized heat shock" and "Development and verification of method of best estimate and nuclear power plant thermal-hydraulic model for deterministically conducting safety analyses."
For the Ministry of Education, Youth and Physical Fitness the institute is executing "Securing participation and utilization of results obtained in the OECD-Halden Reactor Project, Targeted Therapeutics Center, Diagim". Based on a grant from the Czech Republic Grant Agency, the institute is executing the projects "Extraction method for isolation of fission products from nuclear waste using new environmental solvents to meet the needs of the 21st century", "Vertical and horizontal migration of transuranics and long-lived fission products in soils and sediments in the vicinity of radioactive waste storage facilities", and for the Ministry of Defense the projects "Advanced methods and tools for a command and control system for use in crisis situations and situational tools for preparing and training the necessary specialists" and "Knowledge support for command and control during crisis situations – remote-controlled mobile facilities".

Expenses for R&D and for protection of copyright and industrial property rights

R&D expenditures in 2006 totaled CZK 337.2 million (of which: CZK 138.9 million expended by ČEZ, a. s.).

Fees related to registering ČEZ, a. s. trademarks in 2006

	CZK '000
Fees to patent representatives	202
Fees to Industrial Property Office for registering trademarks, extending registrations, and trademark license fees in the Czech Republic	161
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	75
Total	437

Fees related to registration of trademarks paid by CEZ Group in 2006 totaled CZK 738 thousand.

Three CEZ Group members are involved in generation of electricity from renewable energy sources. In addition to ČEZ, a. s., they are ČEZ Obnovitelné zdroje, s.r.o. and Elektrownia Skawina S.A. In 2006, a total of 1,975 GWh was produced from renewable energy sources, up 19% from 2005.

CEZ Group power plants comply with emission limits in all parameters, such as SO_X, NO_X, CO and solids. Sulfur dioxide emissions alone have fallen by over 95 percent over the past 10 years.

CEZ Group unveiled its Action Plan for reducing CO_2 emissions, which was drafted in conjunction with the preceding public declaration of the Group's intent to leverage gains realized from selling emission allowances saved by investing them in measures to reduce emissions of greenhouse gases.

CEZ Group emphasizes and focuses on minimizing risk, reinforcing work safety, and complying with statutory requirements for protecting individuals and society.

Safety, Quality and Environmental Management

Safety and Quality Management System

Management of safety and quality is an integral part of CEZ Group management.
Our established management systems meet the requirements of Czech Republic legislation, which is progressively 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 Organization for Economic Cooperation and Development (OECD), the Western European Nuclear Regulators' Association, etc.

In 2006, a decision of the ČEZ, a. s. Board of Directors announced and communicated the Safety and Environmental Protection Policy and the Quality Policy. By taking this step, the Board of Directors declared acceptance of unconditional responsibility for ensuring:

- safety of the Company's generating facilities,
- protection of individuals within the Company and the public,
- protection of the environment,
- quality.

In order to meet this responsibility, CEZ Group is creating and developing the necessary conditions, sufficient human and financial resources, and effective management structures and control mechanisms.
An important element of the occupational health and safety management system is participation in the Safe Enterprise program, which meets the requirements of the OHSAS 18001 standard in terms of both content and structure.
An integrated quality management system at TEC Varna EAD was certified in January 2006.

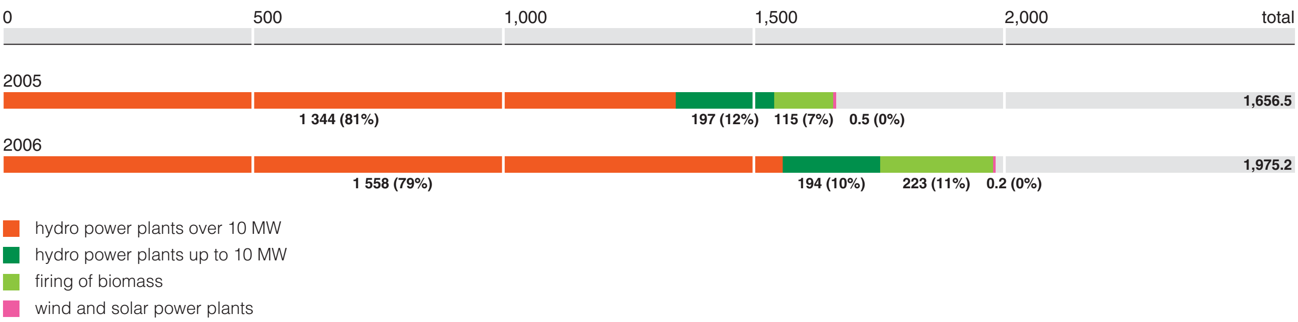
Environmental Protection

Issues relating to the environment and mitigating negative impacts of business activities at both local and global levels have become an integral part of CEZ Group management.
CEZ Group adheres to principles of sustainable development and takes them into account in all aspects of its business.
In practice, this means not only compliance with legislation, but also support for improving efficiency, renewing the existing plant portfolio in order to reduce emissions, optimizing management, support for R&D into modern and progressive technologies and rolling them out in practice, education and awareness initiatives, and a number of other areas.
In order to ensure environmental protection, ČEZ, a. s. has implemented an Environmental Management System (EMS) in accordance with the international ISO 14001:2004 standard, based on the principles of prevention and sustained improvements in the environmental protection area.

CEZ Group Electricity Production from Renewable Sources of Energy

Currently the main CEZ Group members involved in producing electricity from renewable sources of energy are ČEZ, a. s., Elektrownia Skawina S.A., and ČEZ Obnovitelné zdroje, s.r.o. Similar operations in the regional electricity distribution companies are being transferred to these companies.
A total of 1,975 GWh was produced from renewable energy sources in 2006, up CZK 318 GWh from 2005.

Production of Electricity from Renewable Energy Sources (GWh)



Production of Electricity from Renewable Energy Sources (MWh)

	2005	2006	Index 2006/2005 (%)
CEZ Group total	**1,657,460**	**1,975,266**	**119.2**
Czech Republic	1,657,460	1,910,805	115.3
ČEZ, a. s.	1,449,186	1,708,240	117.9
Other CEZ Group members in the Czech Republic	208,274	202,565	97.3
CEZ Group members abroad		64,461	x
Hydro power plants, total (excluding pumped storage)	**1,541,642**	**1,752,117**	**113.7**
Czech Republic	1,541,642	1,747,185	113.3
ČEZ, a. s.	1,333,384	1,544,620	115.8
Other CEZ Group members in the Czech Republic	208,258	202,565	97.3
CEZ Group members abroad		4,932	x
of which: plants with installed capacity up to 10 MW	**197,494**	**194,129**	**98.3**
Czech Republic	197,494	189,197	95.8
ČEZ, a. s.	58,153	61,172	105.2
Other CEZ Group members in the Czech Republic	139,341	128,025	91.9
CEZ Group members abroad		4,932	x
Wind power plants, total	**474**	**176**	**37.1**
Czech Republic	474	176	37.1
ČEZ, a. s.	458	176	38.4
Other CEZ Group members in the Czech Republic	16		
Solar power plants, total	**7**	**8**	**114.3**
ČEZ, a. s.	7	8	114.3
Firing of biomass, total	**115,337**	**222,965**	**193.3**
Czech Republic	115,337	163,436	141.7
ČEZ, a. s.	115,337	163,436	141.7
Other CEZ Group members in the Czech Republic			x
CEZ Group members abroad		59,529	x

Air Protection

In years past, CEZ Group companies have played a major role in reducing emissions of the principal pollutants released into the air from combustion facilities, thereby making a substantial contribution to the overall improvement of air quality in the Czech Republic. Within the stipulated deadlines they complied not only with the requirements of the Clean Air Act of 1991, but also with new legislation passed in 2002 to harmonize the Czech Republic's clean air requirements with the applicable European Union regulations.

Production of air emissions is continually monitored. The public is kept informed on pollution in the vicinity of combustion facilities operated in the Czech Republic through the ČEZ, a. s. website, where measurements of emissions, ground-level concentrations, and the proportion of air pollution attributable to coal power plants are available.

Continuous emission monitoring is also conducted in both of CEZ Group's power plants in Poland, ELCHO and Skawina. At the Varna Power Station, 2006 saw the completion and commissioning of an air quality monitoring station in the nearby town Ezerovo, which has not registered any violation of maximum permissible ground level concentrations.

Ground level dust concentrations are also continually monitored in municipalities affected by Severočeské doly a.s. operations. In order to reduce dust levels, Severočeské doly a.s. has installed additional industrial dust collectors and sprinkler units to reduce the amount of dust released during coal processing. Traffic lights were also installed to regulate automotive traffic, thereby reducing noise and car exhaust fumes.

Climate Protection and Emission Reduction Plan

CEZ Group power stations comply with emission limits in all material parameters such as SO_x, NO_x, CO and solids. The project to renew generating facilities in the Czech Republic will further improve the environmental profile of producing electricity from coal alongside firing of biomass in fluidized-bed boilers. The Group is using renewable energy sources to produce electricity more than ever before.

At Skawina Power Station, obsolete separators are being replaced by more efficient models. In 2007, Phase One of installing a Flue Gas Desulfurization (FGD) system is underway, with commissioning planned in December 2007. Phase Two will be completed in the second half of 2008. All told, 300 MW of generation capacity will be desulfurized. ELCHO Power Station is also planning to reduce its emissions.

At Varna Power Station, a long-term investment program is being framed to make the generating units more environmentally friendly, as well as a one-year program to manage environmental protection activities.

Development of Environmental Markets

Trading in Greenhouse Gas Emission Allowances

2006 was year two for the greenhouse gas emission allowances trading system and carbon dioxide emissions became a closely followed issue for CEZ Group. Carbon emissions are a major concern when making both investment and operational decisions. CEZ Group emissions in the Czech Republic, Poland, and Bulgaria, reported in accordance with applicable legislation, reached 42,294,775 tons of CO_2 in 2006. Allowances covering the emissions in the Czech Republic and Poland will be voided by 30 April 2007 in accordance with EU ETS (EU Emission Trading Scheme) requirements.

Thanks to the EU ETS, substantial savings in carbon dioxide emissions were achieved.

Thanks to Bulgaria's accession to the European Union, Varna Power Station will join the Emission Trading Scheme as of 1 January 2007. The proposed allocation of emission allowances for 2007 is currently being considered by the European Commission.

Responding to a call from the Czech Minister of the Environment, ČEZ, a. s. made a public pledge to utilize the gains realized on sales of emission allowances saved by investing them in measures to reduce greenhouse gas emissions. Allowances were saved, in particular, through arbitrage between the opportunity to generate and sell electricity (and produce CO_2), on the one hand, and that of selling allowances, on the other, but also by making changes in how the plant portfolio is used and investing in technical measures to improve production efficiency. Without the ability to trade in the allowances saved, the economic stimuli just in the Czech Republic would have led to production of CO_2 in excess of the limit assigned to ČEZ.

In 2005, ČEZ, a. s. realized gains of CZK 823 million on sales of emission allowances saved within the Czech Republic. The 2006 gain on allowances saved will be announced by mid-2007.

Gains from sales of allowances saved will be reinvested in accordance with the CEZ Group CO_2 Emission Reduction Plan, which was drawn up in conjunction with the public declaration. The Action Plan specified greenhouse gas reduction measures in which CEZ Group intends to invest and divides them into four pillars – support for generation from renewable energy sources, reduction of power generation-related emissions, support for energy conservation, and support for emission-reducing projects in other countries. Some measures are slated for implementation by 2012, the rest with an outlook to 2020.

On 26 March 2007, the European Commission took a decision that reduced the overall permissible annual number of emission allowances for the Czech Republic to 86.8 million tons for 2008–2012. This is still above the level of actual emissions in 2005 and, evidently, 2006 as well. Now, the drafters of the allocation plan have to prepare the allocation of this amount among individual facilities. The final values will most likely not be known until the second half of 2007. The status of the allocation plan in Poland is similar

CEZ Group is a member of the International Emissions Trading Association (IETA) and participates in working groups of the Union of the Electricity Industry – Eurelectric and the Center for European Political Studies.

Development of Emission Reduction Projects

In the Czech Republic, CEZ is working to promote the creation of a market in dedicated crops (biomass) for use in energy generation, since selected generating facilities can be leveraged to produce electricity from biomass without making any major investments in plant and equipment. For this to happen, discussion and cooperation will be necessary with both growers and the government. CEZ Group is seeking and developing projects for utilization of wind energy within the potential given by the Czech Republic's climate conditions. In the hydropower area, we are currently examining possibilities for improving the efficiency of existing CEZ Group hydro power plants.

Other CEZ Group activities in this area are Joint Implementation (JI) and Clean Development Mechanism (CDM) projects that enable us to invest funds in a conservation project abroad and get credit for the emissions saved there.

CEZ Group Air Emissions of Pollutants in 2006 and Comparison with 1993

Year	Units	Solids	Sulfur dioxide	Nitrogen oxides	Carbon monoxide	Carbon dioxide
1993	tons	55,764	724,052	124,633	17,497	35,568,898
2006	tons	7,347	107,471	83,111	4,513	42,294,775 ***)
Change	%	(86.8)	(85.2)	(33.3)	(74.2)	18.9
1993	kg/GJ *)	0.1793	2.3281	0.3956	0.0554	114.1
2006	kg/GJ *)	0.0194	0.2831	0.2189	0.0119	111.4 **)
Change	%	(89.2)	(87.8)	(44.7)	(78.5)	(2.4)

*) Unit emissions are expressed per GJ of heat generated in the boilers.

**) The decline in carbon dioxide emissions in 2006 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).

***) One-year values (ČEZ, a. s., Energetika Vítkovice, a.s., ELCHO, Skawina, Varna).

Integrated Prevention

Of the 12 permits to operate generating facilities that fall in the category of facilities with a nameplate thermal output of greater than 50 MW that ČEZ, a. s. must obtain by the end of October 2007 to comply with the requirements of Act No. 76/2002 Sb. on Integrated Prevention, 11 were obtained by the end of 2006. Administrative proceedings on issuance of an integrated permit for the last remaining facility – Mělník Power Station – are in the final stages.

In compliance with requirements concerning recording, assessing, and reporting emissions and transfers of selected pollutants in the integrated pollution register of the Ministry of the Environment, 2006 reporting requirements for all ČEZ, a. s. coal and nuclear plants and one hydro plant were fulfilled by 15 February 2006.

Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. holds an integrated permit encompassing all environment components – air emissions, water consumption, wastewater handling, waste, noise, and electromagnetic radiation. It obtained the permit in August 2003 under a decision of the Silesia Voivodeship (Województwo Śląskie). Elektrownia Skawina S.A. obtained an integrated permit in June 2006 under a decision of the Lesser Poland Voivodeship (Województwo Małopolskie).

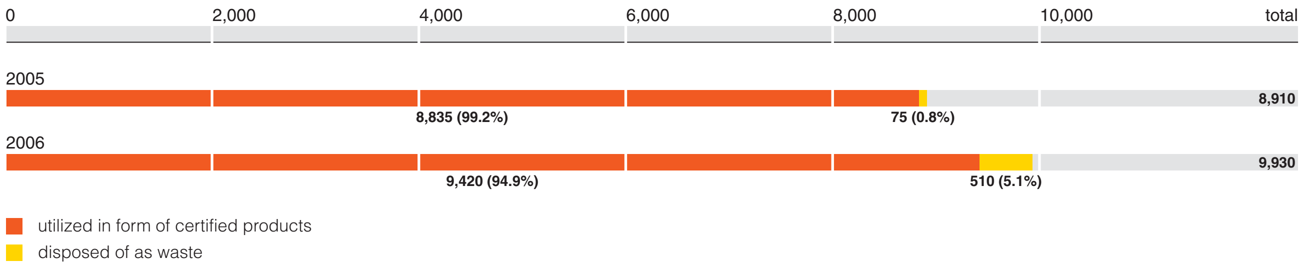
TEC Varna EAD in Bulgaria has held an integrated permit since 2005. Two compliance reviews were conducted in 2006, both with a positive result. Currently proceedings are underway for issuance of an integrated permit for an ash matter repository.

Another extensive area in compliance with applicable legislation is handling of polychlorinated biphenyls, where coordination of sampling of facilities for presence of these substances was dealt with.

Utilization of Generation By-products

Electricity generation by-products (ash, semidry 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.
ČEZ, a. s. alone produced a total of 9,084 thousand tons of electricity generation by-products in 2006. 99% of the amount so produced was utilized in the form of certified products. Of the amount utilized, approximately 73% was used in landscaping and reclamation and approximately 26% was sold to non-Group companies. The unutilized by-products were disposed of as waste in accordance with the Waste Act. At the CEZ Group level, the waste ratio increased compared to 2005 due to the acquisition of the Skawina and Varna Power Stations. At ELCHO Power Station, on the other hand, 100% of electricity generation by-products are certified and utilized.

Handling of Electricity Generation By-products in CEZ Group (thousands of tons)



Water Protection and Water Management

CEZ Group's water protection efforts comply with the Euro-amendment of the Water Act and related implementing decrees. Use of water and discharge of wastewater is governed by conditions stipulated in integrated permits issued by regional authorities and/or in decisions of water management authorities.
In accordance with decisions issued by these authorities, CEZ Group also operates its own water management works.
In 2006, Severočeské doly a.s. commissioned an upgraded mine water treatment plant at Nástup Tušimice Mines with increased capacity from 40 l/s to 80 l/s and manganese removal. The wastewater treatment plant there was upgraded as well. At Bílina Mines, work commenced on a project to centralize mine water discharges.
At Varna Power Station, based on the provisions of an integrated permit, monitoring of wastewater discharges was conducted in 2006 and pollutant concentrations were found to be within the permitted limits. A project to recover blowdown water was implemented and the underground water consumption reduction program targets were met. 2006 also saw the commissioning of an ion exchanger regeneration neutralizing station at the chemical water treatment plant.
Most extraction and utilization of underground water in CEZ Group is for potable water applications.

Waste Management

Disposition of non-active waste matter from coal and nuclear power plants is governed by Act No. 185/2001 Sb. on Waste.
A portion of the waste matter is handed over to entities authorized to further process the waste and another portion is disposed of at landfill facilities operated by ČEZ, a. s. The percentage of landfilled waste is being restricted by intensive sorting of waste.
In accordance with the above Act, waste management plans were drawn up in 2006, charting waste amounts since 2000 and proposing methods for gradually reducing waste generation over the next five years.
Radioactive waste is dealt with in accordance with Act No. 18/1997 Sb. on the Peaceful Utilization of Nuclear Energy and Ionizing Radiation, as amended.
Severočeské doly a.s. modified and cleaned the holding tank near the mine water treatment plant at Nástup Tušimice Mines. In the process, 48 thousand tons of sediments were extracted and utilized on the mine's spoilbanks.
Wherever the Group handles waste or operates fly ash disposal sites, whether in the Czech Republic or abroad, it proceeds in accordance with applicable law.

Cleanup and Reclamation

Implementation of cleanup after Severočeské doly a.s. mining activity is preceded by thorough preparations in cooperation with local authorities and the Ministry of the Environment to deal with issues relating to protection and restoration of agricultural land, forest land, the impact of mining activity on the environment during active mining, and landscaping measures taken after mining activity is terminated.

The measures taken are integrated into “Cleanup and Reclamation Master Plans” for both mine operations. Individual projects are then designed to implement these master plans.

The results provide a unified picture of the appearance of the newly created and integrated land into the surrounding landscape, including any need to secure additional financial provisions for this activity even in the period following termination of mining activity.

At the brown coal-fired power plants, technical and biological reclamation work continued on ash settling ponds with the goal of returning these lands to the surrounding ecosystems and renewing their original significance.

Approximately 6.6 million tons of certified electricity generation by-products was used in reclamation work in the vicinity of ČEZ, a. s. coal power plants in 2006.

Landscaping and technical reclamation work was also completed on land previously occupied by special-purpose construction site buildings at Temelín Nuclear Power Station. Biological reclamation of this land will continue until 2010.

Reclamation work at Skawina Power Station is ongoing on a fly ash disposal site which is no longer in use. Part of it was extracted for later use as a construction material. Monitoring continues of underground water under this legacy site.

A hazardous waste (asbestos) disposal site at Varna Power Station was covered over and reclaimed in 2006. In 2007, waste matter with asbestos content was handed over to a certified third party for liquidation.

Noise

Currently, approximately 1,650 CEZ Group power plant employees are exposed to noise as a risk factor. With regard for its negative effects on employees, preventive workplace health measurements are conducted at regular intervals. Through appropriate technical and organizational measures, the number of employees exposed to noise is being reduced.

In 2006, CZK 5.5 million was expended on noise-reduction measures at certain older ČEZ, a. s. power stations located near urban areas, with the aim of meeting public health limits for outdoor areas to benefit the public sector.

In the town of Ledvice, Severočeské doly a.s. extended the two existing noise barrier walls by 53 and 98 meters, respectively. In 2006 the company incurred CZK 1.6 million in noise monitoring expenses.

During the course of 2006, ELCHO Power Station took measures to reduce noise generated by high-pressure equipment in response to cases when noise limits in the vicinity were exceeded.

At Skawina Power Station, 2006 saw the roll-out and start-up of a continuous noise monitoring system which confirmed that the station does not exceed nighttime or daytime noise limits vis-a-vis the nearby Podbory and Osiedle Awaryjne residential neighborhoods.

Varna Power Station conducts periodic measurements of noise levels in the areas surrounding the station. The results are forwarded to the environmental inspectorate RIOSV Varna. The noise was within the permitted limits.

Protection of Birds

Protection of birds from electric shock has become an environmental issue of key importance. ČEZ Distribuce, a. s. complies with applicable legislation and cooperates in this area with both ornithologists and the Ministry of the Environment. Above and beyond what was required by applicable law, documentation was prepared dealing with bird protection in selected areas of NATURA 2000.

The ČEZ, a. s. share price grew by over 30% in 2006, from CZK 736 to CZK 960, bringing the Company’s market capitalization to CZK 565 billion.

In October 2006, the credit rating agency Standard & Poor’s increased the long-term rating of ČEZ, a. s. from its previous level, BBB+, to A-.

In late October 2006, the shares of the corporate parent, ČEZ, a. s., were launched on the Warsaw Stock Exchange, confirming the status of ČEZ, a. s. as an international company with multiple share listings.

CEZ Group continually endeavors to build long-term, transparent relations with shareholders and investors within the framework of our strategic objectives and in accordance with the business plan. The Company's corporate governance is based on the recommendations of the Corporate Governance Codex, which CEZ Group helped to draft in the Czech Republic.

Shares, Shareholders and Securities

Shareholder Structure

The ČEZ, a. s. registered capital recorded in the Commercial Register as of 31 December 2006 was CZK 59,221,084,300. Using a list of the company's shareholders as of 31 December 2006 produced by the Prague Securities Center, it was determined that no other entity besides the Ministry of Finance 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, 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 99 shareholders (total nominal value CZK 1,690 million) and Citibank a.s. manages the securities of 7 shareholders (total nominal value CZK 598 million).
The percentage of the basic capital of ČEZ, a. s. held by foreign entities (legal entities and private individuals) was 21.45%. 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 2005	at 31 December 2006
Legal entities, total	95.35	95.74
Czech Republic	67.61	67.61
Other legal entities	24.29	24.27
of which: domestic	4.53	2.93
foreign	19.76	21.34
Asset managers	3.45	3.86
Private individuals, total	4.65	4.26
of which: domestic	4.54	4.15
foreign	0.11	0.11

Shares

Security	ISIN	Issue date	Volume	Form	Face value	Market	Traded since
Share issue [1]	CZ0005112300	15 Feb 1999	CZK 59.2 billion	Booked to owner	CZK 100	PSE PSE First Tier RM-System GPW	22 Jun 1993 25 Jan 1994 23 Feb 1999 25 Oct 2006

[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.

ČEZ, a. s. Share Performance in 2006

Per-share Indicators

	Units	2000	2001	2002	2003	2004	2005	2006	Index 2006/2005 (%)
Consolidated net income per share – basic *)	CZK	12.2	15.4	14.3	16.2	22.3	36.3	47.0	129.4
Dividend per share (gross) **)	CZK	–	2	2.5	4.5	8.0	9.0	15.0	166.7
Dividend amount	CZK billions	–	1.2	1.5	2.7	4.7	5.3	8.9	167.6
Dividend as percentage of consolidated net income attributable to stakes of parent company's shareholders	%	–	16	16	31	49	40	41	102.5
High for year	CZK	125	113	99	146	341	748	1,010	135.0
Low for year	CZK	80	58	71	88	146	347	566	163.3
Year end	CZK	101	78	92	146	341	736	960	130.4
Number of registered shares (at December 31)	thousands	592,088	592,088	592,211	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	3,455	–
Number of shares outstanding (at December 31)	thousands	592,088	590,138	590,276	591,466	592,201	589,771	588,756	99.8
Market capitalization (at December 31)	CZK billions	60	46	55	86	202	434	565	130.2
Book value per share *)	CZK	219	232	243	274	291	300	331	110.5
Price-to-book value ratio (P/BV)	%	46	33	38	53	117	246	290	118.0
Price-to-earnings ratio (P/E)	%	8	5	6	9	15	20	20	98.6
ČEZ share trading volume on PSE	CZK billions	32	20	38	44	108	299	348	116.5
ČEZ share in overall PSE trading volume	%	12.2	15.2	19.4	17.2	22.5	28.7	41.9	146.0

*) Minority interests excluded.
**) Relating to previous year's net income.

The ČEZ, a. s. dividend policy approved in November 2004, calling for the payment of fixed amounts in the three following years, was revised in early 2006. The new dividend policy is based on actually achieved consolidated income, with a pay-out ratio of 40–50% of this income. This ratio is in line with other power utilities in Europe.

Credit Ratings

In October 2006, the credit rating agency Standard & Poor's changed its long-term rating of ČEZ, a. s. from BBB+ to A-; the stable outlook remained unchanged. The increased rating level reflects the strong financial profile of ČEZ, a. s.
Also in October 2006, Moody's reaffirmed its long-term rating of ČEZ, a. s. at A2 with stable outlook.

Share Trading on the Warsaw Stock Exchange

In September 2006, ČEZ, a. s. commenced the final phase of preparations for dual listing of its shares in Prague and Warsaw (i.e., Prague remains the primary listing and the same shares are secondarily listed in Warsaw). This was an administrative process involving compliance with all requirements for listing the shares of ČEZ, a. s., and was completed on 25 October 2006 when the Company was accepted for trading on the first tier of the Warsaw Stock Exchange. The shares were given a rousing reception by Polish investors: on the first day of trading, ČEZ, a. s. accounted for 13% of the GPW's trading volume. The dual listing also provided Poland's pension funds' access to ČEZ shares, as otherwise these funds are relatively restricted in their ability to invest outside of Poland. ČEZ, a. s. became the largest corporation with a share listing in Poland and practically the only investment-grade company in the electric power sector. Thanks to the enthusiastic investor response, the shares of ČEZ, a. s. were included in the prestigious WIG 20 index on 15 December 2006.

Share Trading in the Germany

According to information obtained by ČEZ, a. s., the Company's shares also began trading as an unsponsored listing in the Federal Republic of Germany on the XETRA market operated by Deutsche Börse Group and on the stock exchanges in Munich, Frankfurt am Main, Berlin, and Stuttgart.

Treasury Shares

Purchases and sales of ČEZ, a. s. treasury shares in 2006 served to cover the needs of the stock options incentive program, which was approved by the General Meeting on 19 June 2001 and revised by subsequent General Meeting resolutions.
At the beginning of 2006, there were 2,440 thousand treasury shares on the Company's asset account at the Prague Securities Center. During the year, 1,715 thousand shares were purchased for the ongoing stock option program for an average purchase price of CZK 742.47, including broker commissions and exchange fees. The lowest price paid was CZK 688.79 and the highest was CZK 836.64. The total amount used to purchase shares in 2006 was CZK 1,273 million, including broker commissions and exchange fees. At the end of 2006 the Company held 3,455 thousand treasury shares.
In 2006, the Company sold 700 thousand treasury shares to nine beneficiaries who exercised their options to these shares for an average price of CZK 192.26 per share (lowest price was CZK 101.92, highest was CZK 274.00). The total amount received from sales of shares to beneficiaries was CZK 134,584 thousand.

ČEZ, a. s. General Meeting

The 14th Annual General Meeting held on 23 May 2006 discussed and passed resolutions, in particular, on the following:

- report on the Company's business activities and the state of its assets in 2005 (noted),
- report of the Supervisory Board (noted),
- ČEZ, a. s. financial statements for 2005 and the CEZ Group consolidated financial statements for 2005 (approved),
- ČEZ, a. s. income distribution, including decision to pay dividends and board member bonuses (approved),
- financial amounts to be allocated to social fund and remuneration fund (approved),
- report that the Board of Directors, at its meeting of 15 May 2006, cancelled tender for sale of portion of enterprise Dvůr Králové Power Heating Plant (noted),
- amendment of Articles of Association (passed),
- funding for sponsorship donations (approved),
- CZK 20.1 million and CZK 13.5 million increases in sponsorship donations and non-monetary donations, respectively, for 2006 (approved),
- CZK 110 million donation budget for 2007; of this amount CZK 50 million designated for ČEZ Foundation and CZK 60 million to be distributed among municipalities in conjunction with plant portfolio renewal (approved),
- revision to stock options program for members of the ČEZ, a. s. Board of Directors and selected executives of ČEZ, a. s. and CEZ Group (approved),
- co-opted members of the Supervisory Board Jiří Bis and Zdeněk Trojan (confirmed in office),
- amendment of Supervisory Board member contracts (approved).

Shares of Other Public Companies in CEZ Group

In the course of the year, the shares of Severočeská energetika, a.s., Severočeské doly a.s. and Středočeská energetická a.s. were delisted from the stock exchange. In all cases, the reason for delisting was the squeeze-out of minority shareholders in favor of ČEZ, a. s.

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 minority shareholders of Východočeská energetika, a.s., Severomoravská energetika, a. s., Západočeská energetika, a.s. and ŠKODA PRAHA a.s. were squeezed out in favor of the majority shareholder, ČEZ, a. s.
Under Section 183n(1) of the Commercial Code, the shares of Severočeská energetika, a.s. and Severočeské doly a.s. were delisted from the official stock exchanges in 2006 by publication of General Meeting decisions on squeeze-outs in favor of the majority shareholder, ČEZ, a. s.
The squeeze-out of minority shareholders from Středočeská energetická a.s. took place on 8 January 2007. Consideration paid was CZK 2,750 per share. Payment of the consideration commenced on 1 February 2007.

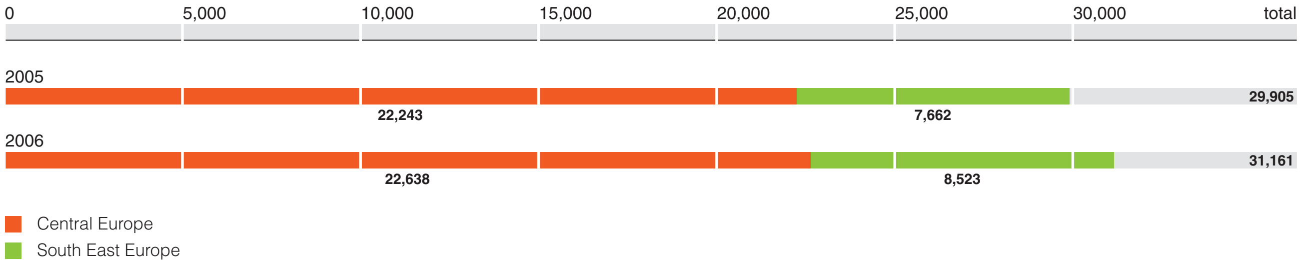
Company	Severočeská energetika, a.s.	Severočeské doly a.s.	Středočeská energetická a.s.
Extraordinary General Meeting	28 Aug 2006	27 Mar 2006	5 Aug 2005
Recorded in Commercial Register	1 Sep 2006	5 May 2006	23 Nov 2006
Announced in Commercial Bulletin	27 Sep 2006	17 May 2006	6 Dec 2006
ČEZ, a. s. stake before squeeze-out	96.14%	93.10%	97.91%
Price per share	CZK 3,575.00	CZK 1,789.20	CZK 2,750.00
Pay-out period	1 Dec 2006 – 31 Dec 2010	30 Jun 2006 – 30 Jun 2010	1 Feb 2007 – 1 Feb 2011
Passage of ownership title to shares	30 Oct 2006	19 Jun 2006	8 Jan 2007
Number of shares	125,693	626,413	67,138
ISIN	CZ0005078055	CZ0005102350	CZ0005078253
ISIN	CZ0005106781	CZ0005102467	
SIN			770950000784
Payment administrator	Česká spořitelna, a.s.	Česká spořitelna, a.s.	Česká spořitelna, a. s.

Human Resources

Work Force Size and Structure

The work force head count for the 55 fully consolidated companies of CEZ Group (ČEZ, a. s. and 54 subsidiaries) at 31 December 2006 was 31,161 employees. This represents a year-on-year increase of 1,256 employees, primarily due to the acquisitions in Poland and Bulgaria.

Work Force Head Counts at December 31



Corporate Culture

CEZ Group companies are evolving a performance-driven culture that supports the consolidation of the transformed process-driven companies and further develops approved principles. The corporate culture reflects the increasing demands being placed on individual and group accountability in the areas of safety and knowledge management.
Developing human potential, upholding individuality, and developing human resources as a whole are key principles of our corporate culture. In support of these principles, CEZ Group is upgrading its systems for training, evaluating, and remunerating employees.
The performance-focused corporate culture is based on seven principles (see page 3).

Training Program

Managerial and other specialized professional know-how is developed in accordance with the policy of preparing employees to improve the Company's effectiveness.
In 2006, CEZ Group representatives participated in a regular Technical Working Group – Training and Qualification meeting at the headquarters of the International Atomic Energy Agency, of which ČEZ, a. s. is a full-fledged member. At Temelín Nuclear Power Station, a WANO Peer Review follow-up mission took place and in 2007 we are preparing for a mission to Dukovany Nuclear Power Station. Staff training and preparation is an integral part of these missions.
In accordance with the strategy for developing human resources at ČEZ, a. s. and its process-driven subsidiaries, we are preparing a knowledge management program as a basic requirement for retaining and treating the Company's unique know-how. A performance management system will also be implemented.
A management skills training program is being implemented in Bulgaria.

Social Policy

CEZ Group employee benefits cover a wide range, including monetary and non-monetary items. At ČEZ, a. s. these include 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, life insurance, an employee meal plan, health care and, in extraordinary cases, one-off social aid grants.
The basic principles of CEZ Group's social policy in the Czech Republic are also applicable to foreign acquisitions, subject to the terms of long-term agreements signed between labor unions and the previous employer.

Labor Relations

A total of 29 independent labor union organizations operated in ČEZ, a. s. in 2006, and approximately 2,900 employees, or 45% of the total work force, were unionized. The labor organizations are organized into three unions: the ECHO Labor Union, the Czech Labor Union of Power Industry Employees (ČOSE), and the Labor Union of Nuclear Power Plant Employees.
As the previous Collective Agreement was due to expire, in May 2006 collective bargaining was commenced. The collective bargaining process took six months and despite differences of opinion on a number of issues, agreement was reached and a new ČEZ, a. s. Collective Agreement was signed for the period 2007–2010. Thanks to its high-quality treatment of labor relations, remuneration and benefits, the agreement represents a guarantee that labor peace in the Company will be preserved.
A total of 49 basic labor organizations are active in the process-driven subsidiaries of CEZ Group. Of these, 36 are part of six Associations of Basic Organizations, each in a different region. In addition, there are 13 independent basic organizations in the subsidiaries. The labor organizations belong to two labor unions - the ECHO Labor Union, the Czech Labor Union of Power Industry Employees (ČOSE).
Collective bargaining continued in the process-driven subsidiaries throughout the entire year 2006. Collective agreements and amendments thereto were signed in nine companies, all with validity until 2008. In all the companies, a single model Collective Agreement was signed and a unified system of wage forms and benefits was agreed.
At our Bulgarian subsidiary TEC Varna EAD there are three labor organizations in which 95.5% of employees are members. All three organizations are parties to the Collective Agreement which was signed in 2005 with validity until November 2007. A Social Cooperation Committee was set up, consisting of the chairmen of the labor organizations and company representatives. This committee deals with all problematic issues and interprets the Collective Agreement.
A Collective Agreement in the three Bulgarian electricity distribution companies (Elektrorazpredelenie Pleven AD, Elektrorazpredelenie Sofia Oblast AD, Elektrorazpredelenie Stolichno AD) was signed in February 2006. Areas unique to each company were dealt with by annexes.
At the Poland-based Elektrownia Skawina S.A. there are three labor organizations and 73.9% of employees are unionized. Labor unions and their activities in the company are governed by the Unions Act and an agreement concerning the operation of labor unions in Elektrownia Skawina S.A. signed by all the labor unions and company management in 2001. The Collective Agreement was signed in 1995 for an indefinite period and has been amended a number of times since then.
At Romania-based Electrica Oltenia S.A. there are eight basic labor organizations that are members of Oltenia Union. There are 99.9% of the employees unionized there. The current Collective Agreement is valid until 2008.

European Works Council

As CEZ Group has operations in several countries of Central and Southeastern Europe that are EU Member States, in 2006 labor union and ČEZ, a. s. representatives discussed an agreement on establishing a European Works Council.
In January 2007 the members of the negotiating committee met for the first time with the ČEZ, a. s. head office in Prague to commence formation negotiations and at the same time discussed their own draft agreement on establishing a European Works Council.
The agreed text of the agreement establishing a European Works Council was signed on 3 April 2007.
European Works Councils already operate in the Czech Republic in a number of companies. These are cases of foreign companies with European Works Councils that purchased equity stakes in Czech Republic companies. The companies in the Czech Republic, then, are only affiliated with an existing European Works Council.
ČEZ, a. s. will be the first employer in the Czech Republic to form its own European Works Council.

Donorship and Sponsorship Program

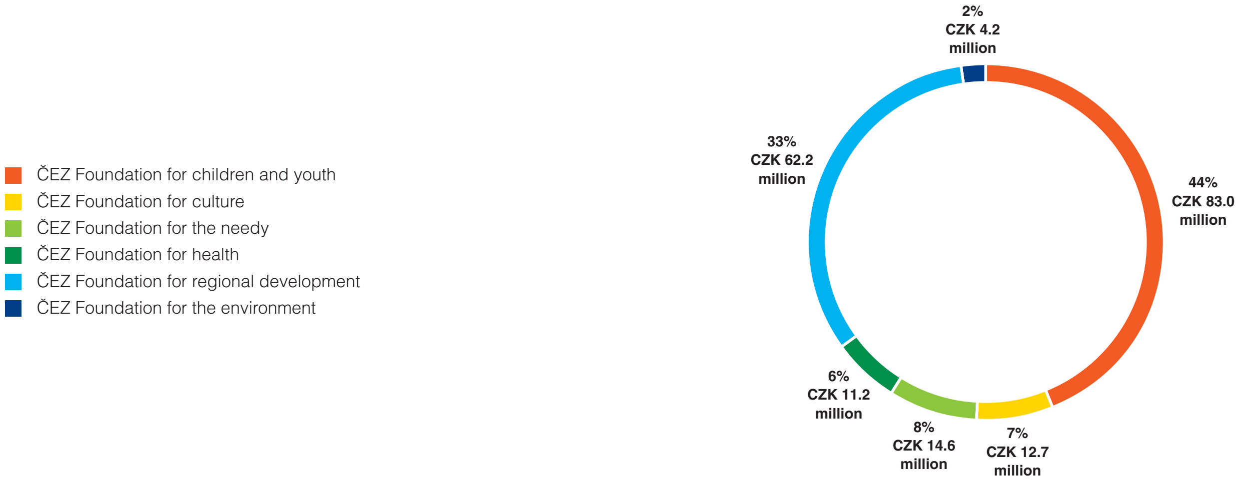
Donorship

CEZ Group is one of the largest donors in the Czech Republic. In 2006, the corporate parent, ČEZ, a. s., obtained the title TOP Corporate Philanthropist for the third time in the category absolute volume of distributed funds.

ČEZ Foundation

In the donorship area, CEZ Group's most important partner is ČEZ Foundation. Through it, CZK 187.9 million was distributed in the Czech Republic in 2006.

Distribution of Donations in 2006, by Cause (CZK millions)



The Foundation's largest projects include:

- "We help where we operate" supporting local communities where CEZ Group has operations received a total of CZK 62.2 million in funding from the ČEZ Foundation in 2006,
- construction of sports facilities and children's playgrounds – total donated in 2006: CZK 26.1 million. Since the beginning of the "Orange Playground" project, 25 children's playgrounds and 32 sports facilities have been built in the Czech Republic, with an aggregate value of CZK 104.1 million,
- the "Orange Bicycle" project, in which the performance of each volunteer cyclist is converted into a financial donation to help the handicapped, social care institutions, and orphanages – total donation in 2006: CZK 2 million,
- healthcare and cultural projects – total donation in 2006: CZK 23.9 million.

CEZ Group companies contributed CZK 139 million to ČEZ Foundation. This amount was distributed among the individual companies as follows: ČEZ, a. s., CZK 50 million; ČEZ Distribuce, a. s., CZK 64 million; ČEZ Distribuční služby, s.r.o., CZK 2 million; ČEZ Měření, s.r.o., CZK 1.5 million, ČEZ Prodej, s.r.o., CZK 20 million, and ČEZ Zákaznické služby, s.r.o., CZK 1.5 million.

Donorship Outside of ČEZ Foundation

CEZ Group companies in the Czech Republic also donated CZK 125.7 million outside of ČEZ Foundation (ČEZ, a. s., CZK 50.1 million; subsidiaries, CZK 75.6 million). Of this amount, CZK 48.2 million was donated by ČEZ, a. s. and Severočeské doly a.s. to the Ústí Region. The remaining CZK 77.5 million was distributed among: regional development (CZK 40.3 million), healthcare, social causes and charity (CZK 15.6 million), leisure time, sports (CZK 6.7 million), science and education (CZK 9.8 million), and culture & the arts (CZK 5.1 million).

The Bulgaria electricity distribution companies donated a total of BGN 73,680 (approximately CZK 1.1 million) in 2006, distributed as follows: healthcare, social causes and charity (CZK 0.6 million), science and education (CZK 0.5 million).

The Poland power companies donated a total of PLN 160,266 (approximately CZK 1.2 million) as follows: regional development (CZK 0.3 million), healthcare, social causes and charity (CZK 0.5 million), leisure time, sports (CZK 0.2 million), science and education (CZK 0.1 million), and culture & the arts (CZK 0.1 million).

Sponsorship Program

CEZ Group is a major sponsor of the following projects:

- culture & the arts: Karlovy Vary International Film Festival, Zlín International Youth Film Festival, České divadlo, Státní opera Praha (Prague State Opera), Petr Dvorský International Music Festival in Jaroměřice nad Rokytnou, Janáčkův Máj International Music Festival, Dvořákova Olomouc International Music Festival, AniFest International Animated Film Festival, Colours of Ostrava International Music Festival, Folk Vacation International Music Festival in Náměšť nad Oslavou, and Ekofilm International Festival of Films about the Environment and Our Natural and Cultural Heritage,
- sports: Zlatá tretra, ČEZ Koloseum, ČEZ Basketball Nymburk, ČEZ Arena Vítkovice, ČEZ Arena Plzeň, ČEZ Arena Pardubice, Chomutov Hockey Hall, Alba Chorzów, Zgoda Bielszowice,
- other areas: Velehrad 2006 – Good Will Days, South Bohemia Bicycle Trail Foundation,
- In addition to regional projects, ČEZ, a. s. also sponsors major nationwide projects such as the Czech Athletics Union and the Czech Olympic Team.

Corporate Governance Codex Fulfillment

Corporate Governance Codex Fulfillment

The Company's corporate governance is based on the recommendations of the Corporate Governance Codex, which CEZ Group helped to draft in the Czech Republic and whose provisions it fulfills in all material respects.
Important information on the Company's statutory bodies, a description of how they are set up, their current staffing, a description of how their members are remunerated and a list of committees set up by the Supervisory Board can be found on pages 14–25 of this Annual Report.
The Company complies with all provisions of the Commercial Code regarding protection of shareholder rights. In particular, it discloses all relevant information on the Company without delay, convenes and holds its General Meetings, and ensures that all shareholders receive equal treatment.
The Company has formulated a strict insider trading policy and drawn up a list of board members and employees that can in general be deemed insiders. The Company follows Czech National Bank and GPW directives on disclosure of all material information, enabling all shareholders and potential shareholders to know the Company's financial situation, performance, ownership, and governance so that they can make informed investment decisions. All material information is published in Czech, English and, as of October 2006, in Polish.
The Company maintains its compliance with all statutory obligations towards stakeholders, including employees, creditors, and suppliers. In addition, the Company keeps in view its wider obligations toward local government authorities in the communities where it operates, and therefore consults and discusses its investment plans at this level as well.
As the issuer of a security listed on the GPW, in preparation for its share listing on this market ČEZ, a. s. published a declaration concerning observance of GPW's corporate governance standards. None of the information presented in that declaration had changed as of the closing date of the 2006 Annual Report.
A more detailed summary of compliance with the Corporate Governance Codex can be found on the Company website, http://www.cez.cz, in the section for investors. The declaration concerning observance of the corporate governance standards promulgated by Giełda papierów wartościowych w Warszawie S.A. (GPW) can be found on the GPW website, http://www.gpw.com.pl, by following the Corporate Governance link.

CEZ Group Shareholder and Investor Relations

The companies of CEZ Group comply with Commercial Code provisions regarding protection of minority shareholder rights and uphold the principle of equal access for all shareholders. On dates planned and announced in advance, the Company's shareholders receive quarterly reports on the financial and commercial performance of CEZ Group.
Like corporate governance, the Company's shareholder and investor relations are based on the recommendations of the Corporate Governance Codex.
Above and beyond statutory requirements, the Company aims to engage all capital market players in an intensive, open dialog so that each of them can arrive at an independent assessment of CEZ Group's performance and our future strategy. In 2006, the principal topics of discussion, besides quarterly performance results, were movements in electricity prices in the markets of Central Europe, developments in the CO_2 emission allowances market, and CEZ Group's response to the sharp fall in the price of these allowances. Reporting on the financial performance of newly acquired foreign companies and the Company's M&A policy, including capital expenditure plans at the Gacko site in Republika Srpska, Bosnia and Herzegovina, were a major topic in their own right.
The Company's top executives met with investors at 12 roadshows, nine investor conferences, three group meetings with investors at the Company's head office, and many face-to-face meetings. During the meetings, presentations were given explaining the key topics set forth above, after which the executives fielded questions from the attendees. CEZ Group's intention is to maintain this dialog on a similar basis as we go forward.

The corporate culture of CEZ Group companies is shifting towards a performance-driven culture, supporting the consolidation of the new process-driven companies and further developing approved principles.

The employee head count of the 55 fully consolidated CEZ Group companies at 31 December 2006 was 31,161 persons. This represents an increase of 1,256 employees over the previous year, due primarily to acquisitions in Poland and Bulgaria.

Managerial and specialized professional know-how is developed in accordance with the policy for preparing employees to achieve operational excellence.

The quality and dedication of the entire CEZ Group team shows that creation of value, business plan fulfillment, and reinforcing the good name of CEZ Group companies are the work creed and a major motivating factor of every employee.

Litigation

As at the Annual Report closing date, no CEZ Group companies were involved in litigation that could have a material impact on their financial performance.

Czech Republic

1. An agreement was reached with the complainant Holcim (Slovensko) a.s. on the termination of all litigation, based on which all suits filed by both sides in the dispute were withdrawn.
2. Of the disputes dating to 1997 with certain former regional electricity distribution companies concerning payment of contractual penalties or interest on late payments, as at the Annual Report closing date only one, with Pražská energetika, a.s., had not yet been resolved. In early 2006 the Prague High Court upheld the appeal filed by Pražská energetika, a.s. against the decision of the Prague Municipal Court ordering it to pay ČEZ, a. s. an amount of CZK 49.2 million, and rejecting the suit filed by ČEZ, a. s. ČEZ, a. s. appealed this decision to the Supreme Court, which has not yet taken a decision in the matter.
3. The dispute in which the complainant Vítkovice, a.s. filed suit against ČEZ, a. s. for payment of an amount (CZK 36.8 million including interest) that ČEZ, a. s. set off against an amount owed it by the complainant was resolved on 15 June 2006 when the court's resolution approving a court-brokered settlement entered into legal force.
4. In ongoing litigation before Austrian courts based on suits filed by Austrian persons (demanding cease-and-desist from generating alleged ionizing radiation from Temelín Nuclear Power Station), deliberations in the period in question centered on whether Austrian courts have jurisdiction over the dispute. In this matter, the Supreme Court in Vienna asked the European Court of Justice in Luxembourg for an interpretation of the Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters (the "Brussels Convention"). In its "preliminary issue proceedings", the European Court of Justice decided that the relevant provisions of the Brussels Convention do not support the Austrian courts' jurisdiction over the matter. Despite this decision of the European Court of Justice, the Supreme Court in Vienna issued a decision that jurisdiction is given by internal Austrian law. Currently ČEZ, a. s. is considering filing a complaint to the European Commission, based on which it could commence proceedings against the European Union Member State in question for violation of Article 226 of the European Communities Treaty. In the meantime, the Linz Regional Court, as the court of first instance, has begun hearings in the first suit.
5. Lesy České republiky, s.p. has filed eight suits against the Company, all identical in substance. The complainant is seeking compensation of damages to forests allegedly caused by ČEZ, a. s. operations in the years 1997–2004. The total amount sought in all the suits is in excess of CZK 175 million, including interest.
6. Ing. René Holeček, spol. ALTERNATIVA CZ s.r.o., BD FINOS, a.s., Ing. Rudolf Padyšák and Milan Norman filed suit seeking payment of the difference from a takeover offer of Severomoravské energetiky, a. s. made in early 2005. The amount sought from ČEZ, a. s. could be as much as CZK 400 million, plus interest. Proceedings in the matter have not yet begun and the results are impossible to predict. However, ČEZ, a. s. considers the amount sought by the complainants to be baseless and exaggerated.
7. In a suit for review of consideration paid and seeking that the court declare a different consideration amount in the squeeze-out of minority shareholders from Severomoravská energetika, a. s., complainants Roman Minarik and KOR BUSINESS LTD are demanding payment of an additional amount of CZK 20,000 per share in addition to the consideration already paid. In the case of the complainants, given the number of shares acquired from them, for ČEZ, a. s. this would mean a payment of approximately CZK 620 million plus interest (at a rate of 11.75% p.a.). The outcome of the litigation is impossible to predict. However, ČEZ, a. s. considers the amount sought to be unrealistic.

8. A similar suit for review of consideration paid for shares and seeking for the court to set a different amount of consideration in the squeeze out of minority shareholders from Západočeská energetika, a.s. was filed by the complainants Roman Minarik, KOR BUSINESS LTD and Jakub Sedláček demanding payment of CZK 30,000 per share over and above the consideration already paid. If successful, this suit would mean, given the total number of shares acquired from the complainants, that ČEZ, a. s. would have to pay approximately CZK 420 million plus interest. Proceedings in the matter have not yet begun and the outcome is impossible to predict. ČEZ, a. s. considers the amount sought to be a baseless overestimate.
9. Similar suits against ČEZ, a. s. have been filed concerning the squeeze-out of minority shareholders from Východočeská energetika, a.s. In this case, the amount sought by the complainants has not yet been specified. Furthermore, according to statements by the complainants in the above suits, suits have been filed concerning the Severočeská energetika, a.s., Středočeská energetická a.s. and Severočeské doly a.s. squeeze-outs as well. However, the details of these suits are not known to ČEZ, a. s.
10. In all cases of the General Meetings of the former regional electricity distribution companies that decided on the squeeze-outs, shareholders have filed suit seeking that the General Meetings be declared null and void.
11. A suit against Východočeská energetika, a.s. filed by Milan Grozdík seeking compensation of CZK 1 billion in compensation for alleged damage to health caused by non-supply of electricity. The respondent considers the suit entirely baseless, and so far no decision has been made in the case.
12. A case was pending before the Děčín District Court in which WIKA, spol. s.r.o. was seeking issuance of an opinion on its plan to build a small-scale hydro power plant. However, Severočeská energetika, a.s. had demonstrably issued this opinion within the time period stipulated by law, and the Energy Regulatory Authority confirmed that the company proceeded correctly in the matter. Even though as of 1 November 2005 Severočeská energetika, a.s. no longer holds an electricity distribution license and therefore cannot lawfully issue any further opinion, the Děčín District Court issued an injunction prohibiting Severočeská energetika, a.s. from disposing of its assets. Later, under a decision of 15 September 2006, it removed this injunction, but planned contributions of assets to the process-driven companies had to be delayed as a result of it. On 30 January 2007 the Ústí nad Labem Regional Court rejected the appeal of WIKA, spol. s r.o. against the Děčín District Court decision, removing all obstacles to dispositions of assets.

Bulgaria

1. ČEZ, a. s. is involved in arbitration proceedings in Paris before the International Chamber of Commerce International Court of Arbitration against the Republic of Bulgaria, the Privatization Agency of the Republic of Bulgaria, and the Post-Privatization Control Agency of the Republic of Bulgaria. Claims are being brought by ČEZ, a. s. on grounds of a stated breach by the Republic of Bulgaria of certain provisions of the Privatization Agreement. These claims were not resolved by the parties amicably within the time period stipulated in the Privatization Agreement. The total amount sought is approximately USD 11.1 million.
2. The companies Elektrorazpredelenie Stolichno AD, Elektrorazpredelenie Sofia Oblast AD, Elektrorazpredelenie Pleven AD, and ČEZ ELEKTRO BULGARIA AD are involved in court disputes with the regulator (the State Energy and Water Regulatory Commission) concerning the validity of an electricity price decisions for the periods from 1 October 2005 and 1 October 2006 (ČEZ ELEKTRO BULGARIA AD is involved only in the dispute concerning the 2006 decision).
3. TEC Varna EAD filed a complaint against a decision of the State Energy and Water Regulation Commission concerning the electricity price allocated as of 1 December 2006.
4. Elektrorazpredelenie Sofia Oblast AD is suing the tax authority for refund of BGN 3.8 million (approximately CZK 54.5 million); the case is still pending.
5. Elektrorazpredelenie Pleven AD is suing the tax authority for refund of BGN 2.7 million (approximately CZK 39 million); the case is still pending.

Poland

The most significant litigation concerns bankruptcy proceedings against PEC Katowice, in which Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. registered a receivable of PLN 29 million (CZK 211.1 million). The receivable was not denied.

Romania

1. Litigation is pending with Zaharul Calafat, which is suing for RON 23.1 million (CZK 191 million) in damages due to interruption of electricity supply.
2. Litigation is pending with the company Preda Victoria z Piteşti which is seeking RON 10.3 million (CZK 85 million) for use of land under power lines.

Auditors' Report

To the Shareholders of ČEZ, a. s.:

I. We have audited the consolidated financial statements of ČEZ Group as at December 31, 2006, presented in the annual report of ČEZ, a. s. ("the Company") on pages 98–134, on which we have issued an auditors' report dated February 23, 2007, presented in the annual report on page 97. We have also audited the separate financial statements of the Company as at December 31, 2006, which are presented in the annual report of the Company on pages 136–168 on which we have issued an auditors' report dated February 23, 2007, presented in the annual report of the Company on page 135 (both referred further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of ČEZ, a. s., is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit 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 audit 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 have checked that the accounting information presented in the annual report on pages 1–95 is consistent with that contained in the audited financial statements as at December 31, 2006. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the above-mentioned financial statements.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of ČEZ, a. s., for the year ended December 31, 2006, presented in the annual report of the Company on pages 189–191. The management of ČEZ, a. s., is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with applicable 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 moderate assurance as to whether the report on related parties is free from material misstatement.
The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of ČEZ, a. s., for the year ended December 31, 2006 is materially misstated.

Ernst & Young

Ernst & Young Audit & Advisory, s.r.o., člen koncernu
License No. 401
Represented by partner

Josef Pivoňka
Auditor, License No. 1963

April 17, 2007
Prague, Czech Republic

Auditors' Report on the Consolidated Financial Statements of CEZ Group

ERNST & YOUNG

To the Shareholders of ČEZ, a. s.:

We have audited the accompanying financial statements of CEZ Group which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Board of Directors of ČEZ, a. s. is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing and implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CEZ Group as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

We have also audited the prior year consolidated financial statements as at December 31, 2005 of CEZ Group and issued an unqualified report thereon dated March 8, 2006.

Ernst & Young

Ernst & Young Audit & Advisory, s.r.o., člen koncernu
License No. 401
Represented by partner

Josef Pivoňka
Auditor, License No. 1963

February 23, 2007
Prague, Czech Republic

CEZ Group
Consolidated Balance Sheet in Accordance with IFRS as of December 31, 2006

(in CZK millions)

ASSETS	2006	2005
Property, plant and equipment		
Plant in service	464,776	439,416
Less accumulated provision for depreciation	219,073	199,756
Net plant in service (Note 3)	245,703	239,660
Nuclear fuel, at amortized cost	7,376	7,860
Construction work in progress	16,684	11,570
Total property, plant and equipment	269,763	259,090
Other non-current assets		
Investment in associates	430	929
Investments and other financial assets, net (Note 4)	13,277	13,811
Intangible assets, net (Note 5)	17,820	6,046
Deferred tax assets (Note 25)	699	524
Total other non-current assets	32,226	21,310
Total non-current assets	301,989	280,400
Current assets		
Cash and cash equivalents (Note 8)	30,932	16,791
Receivables, net (Note 9)	16,334	14,792
Income tax receivable	152	1,478
Materials and supplies, net	4,308	3,671
Fossil fuel stocks	1,195	756
Emission rights (Note 10)	2,224	134
Other financial assets, net (Note 11)	8,952	4,824
Other current assets (Note 12)	2,569	1,363
Total current assets	66,666	43,809
TOTAL ASSETS	368,655	324,209

EQUITY AND LIABILITIES	2006	2005
Equity attributable to equity holders of the parent		
Stated capital	57,278	58,237
Retained earnings and other reserves	137,659	118,436
Total equity attributable to equity holders of the parent (Note 13)	194,937	176,673
Minority interests	12,716	14,616
Total equity	207,653	191,289
Long-term liabilities		
Long-term debt, net of current portion (Note 14)	41,956	30,586
Accumulated provision for nuclear decommissioning and fuel storage (Note 16)	36,683	35,869
Other long-term liabilities (Note 17)	15,543	14,974
Total long-term liabilities	94,182	81,429
Deferred tax liability (Note 25)	20,017	18,555
Current liabilities		
Short-term loans (Note 18)	121	265
Current portion of long-term debt (Note 14)	6,365	7,888
Trade and other payables (Note 20)	22,905	16,243
Income taxes payable	6,222	630
Accrued liabilities (Note 21)	11,190	7,910
Total current liabilities	46,803	32,936
TOTAL EQUITY AND LIABILITIES	368,655	324,209

CEZ Group
Consolidated Statement of Income in Accordance with IFRS for the Year Ended December 31, 2006

(in CZK millions)

	2006	2005
Revenues		
Sales of electricity (Note 22)	148,295	115,949
Heat sales and other revenues	11,285	9,134
Total revenues	159,580	125,083
Operating expenses		
Fuel	(11,637)	(9,010)
Purchased power and related services	(53,474)	(37,474)
Repairs and maintenance	(5,487)	(4,229)
Depreciation and amortization	(24,280)	(20,723)
Salaries and wages (Note 23)	(15,084)	(13,426)
Materials and supplies	(4,981)	(4,020)
Emission rights, net (Note 10)	3,077	1,053
Other operating expenses (Note 24)	(7,650)	(7,851)
Total expenses	(119,516)	(95,680)
Income before other income (expenses) and income taxes	40,064	29,403
Other income (expenses)		
Interest on debt, net of capitalized interest (Note 2.7)	(2,236)	(1,800)
Interest on nuclear and other provisions (Note 2.23, 16 and 17)	(1,891)	(2,447)
Interest income	922	437
Foreign exchange rate gains (losses), net	1,204	(266)
Loss on sale of subsidiaries and associates	(228)	(170)
Negative goodwill write-off	–	1,704
Other income (expenses), net (Note 26)	(201)	343
Income from associates (Note 2.2)	74	102
Total other income (expenses)	(2,356)	(2,097)
Income before income taxes	37,708	27,306
Income taxes (Note 25)	(8,952)	(5,024)
Net income	28,756	22,282
Net income attributable to		
Equity holders of the parent	27,697	21,438
Minority interests	1,059	844
Net income per share attributable to equity holders of the parent (CZK per share) (Note 29)		
Basic	47.0	36.3
Diluted	46.8	36.2
Average number of shares outstanding (000s) (Notes 13 and 29)		
Basic	589,329	590,426
Diluted	592,211	592,211

CEZ Group
Consolidated Statement of Changes in Equity in Accordance with IFRS for the Year Ended December 31, 2006

(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, 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)
Share on equity movements of associates	–	–	–	(60)	(60)	–	(60)
Other movements	–	–	(5)	6	1	3	4
Gain and loss recorded directly to equity	–	(787)	207	(54)	(634)	(477)	(1,111)
Net income	–	–	–	21,438	21,438	844	22,282
Total gains and losses for the year	–	(787)	207	21,384	20,804	367	21,171
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
December 31, 2005	58,237	(789)	588	118,637	176,673	14,616	191,289
Change in fair value of available-for-sale financial assets recognized in equity	–	–	285	–	285	2	287
Available-for-sale financial assets removed from equity	–	–	36	–	36	1	37
Change in fair value of cash flow hedges recognized in equity	–	–	316	–	316	–	316
Cash flow hedges removed from equity	–	–	181	–	181	–	181
Translation differences	–	(512)	–	–	(512)	(2)	(514)
Share on equity movements of associates	–	–	–	21	21	–	21
Other movements	–	–	(20)	15	(5)	(1)	(6)
Gain and loss recorded directly to equity	–	(512)	798	36	322	–	322
Net income	–	–	–	27,697	27,697	1,059	28,756
Total gains and losses for the year	–	(512)	798	27,733	28,019	1,059	29,078
Acquisition of treasury shares	(1,273)	–	–	–	(1,273)	–	(1,273)
Sale of treasury shares	314	–	–	(179)	135	–	135
Dividends declared to shareholders of the parent	–	–	–	(8,852)	(8,852)	–	(8,852)
Share options	–	–	235	–	235	–	235
Transfer of exercised and forfeited share options within equity	–	–	(240)	240	–	–	–
Change in minority due to acquisitions	–	–	–	–	–	(2,959)	(2,959)
December 31, 2006	57,278	(1,301)	1,381	137,579	194,937	12,716	207,653

CEZ Group
Consolidated Statement of Cash Flows in Accordance with IFRS for the Year Ended December 31, 2006

(in CZK millions)

	2006	2005
OPERATING ACTIVITIES		
Income before income taxes	37,708	27,306
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	24,352	20,743
Amortization of nuclear fuel	3,156	3,056
(Gain) loss on fixed asset retirements, net	21	86
Foreign exchange rate losses (gains), net	(1,204)	266
Interest expense, interest income and dividend income, net	1,232	1,246
Provision for nuclear decommissioning and fuel storage	105	1,061
Valuation allowances, other provisions and other adjustments	2,239	(937)
Income from associates	(74)	(102)
Changes in assets and liabilities		
Receivables	(2,859)	(2,325)
Materials and supplies	(375)	(137)
Fossil fuel stocks	(16)	(32)
Other current assets	(2,680)	(1,023)
Trade and other payables	4,596	325
Accrued liabilities	(19)	1,174
Cash generated from operations	66,182	50,707
Income taxes paid	(2,237)	(5,946)
Interest paid, net of capitalized interest	(2,012)	(1,540)
Interest received	844	444
Dividends received	131	230
Net cash provided by operating activities	62,908	43,895
INVESTING ACTIVITIES		
Acquisition of subsidiaries and associates, net of cash acquired (Note 6)	(21,925)	(12,258)
Proceeds from disposal of a subsidiaries and associates, net of cash disposed of	3,278	2,273
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.8)	(23,745)	(15,671)
Loans made	(174)	–
Proceeds from sale of fixed assets	1,330	1,728
Change in decommissioning and other restricted funds	(2,287)	(42)
Repayment of loans	229	–
Total cash used in investing activities	(43,294)	(23,970)
FINANCING ACTIVITIES		
Proceeds from borrowings	43,506	539
Payments of borrowings	(38,081)	(4,356)
Proceeds from other long-term liabilities	385	265
Payments of other long-term liabilities	(456)	(300)
Dividends paid to Company's shareholders	(8,838)	(5,291)
Dividends paid to minority interests	(44)	(1,716)
(Acquisition) sale of treasury shares	(1,139)	(1,060)
Total cash used in financing activities	(4,667)	(11,919)
Net effect of currency translation in cash	(806)	(157)
Net increase in cash and cash equivalents	14,141	7,849
Cash and cash equivalents at beginning of period	16,791	8,942
Cash and cash equivalents at end of period	30,932	16,791
Supplementary cash flow information		
Total cash paid for interest	2,539	2,046

CEZ Group
Notes to Consolidated Financial Statements as of December 31, 2006

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 67.6% at December 31, 2006 by the Ministry of Finance of the Czech Republic. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The 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 7). ČEZ is an electricity generation company, which produced in 2006 approximately 73.6% of the electricity and a portion of the district heating in the Czech Republic. In the Czech Republic the Company operates ten fossil fuel plants, thirteen hydroelectric plants and two nuclear plants. The Company also operates through its subsidiaries two fossil fuel plants in Poland and one in Bulgaria. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria and Romania. The average number of employees of the Company and its consolidated subsidiaries was 30,231 and 27,960, for the year 2006 and 2005, respectively.

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), as adopted by the EU. They are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

Certain prior year financial statement items have been reclassified to conform to the current year presentation. In the income statement and the related notes expenses or losses are presented as negative balances and revenues or gains are presented as positive balances.

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 7.

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. Accounting policies of subsidiaries have been changed, where necessary, 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 2006 the Group adopted the following International Financial Reporting Standards and IFRIC Interpretations, which were relevant for the Group:

- IAS 19 Amendment – Employee Benefits
- IAS 21 Amendment – The Effect of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease
- IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adoption of the new or revised IFRS standards and interpretations did not have any effect on the opening balance of equity attributable to the Company's shareholders as at January 1, 2006 and 2005, respectively. They did however give rise to additional disclosures.

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, 2007 or later. Most relevant to the Group's activities are IFRS 7 Financial Instruments: Disclosures, IFRS 8 Operating Segments, IFRIC Interpretation 8 Scope of IFRS 2, IFRIC Interpretation 9 Reassessment of Embedded Derivatives and IFRIC Interpretation 11 Group and Treasury Share Transactions. The Group currently does not expect that the new 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.

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. Sales are recognized net of value added tax and discounts, if any.

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 3,156 million and CZK 3,056 million for the years ended December 31, 2006 and 2005, 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 182 million and CZK 254 million in 2006 and 2005, 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 527 million and CZK 506 million, which was equivalent to an interest capitalization rate of 5.9% and 6.3% in 2006 and 2005, respectively.

2.8. Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and impairment in value. 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 in the line item of Other operating expenses.

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 22,612 million and CZK 19,573 million for the years ended December 31, 2006 and 2005, which was equivalent to a composite depreciation rate of 5.0% and 4.6%, 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 2.23). At December 31, 2006 and 2005 capitalized costs at net book value amounted to CZK 580 million and CZK 106 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 life 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. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses.

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 2006 and 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. Emission rights acquired in a business combination are initially recognized at their fair value at the date of acquisition and subsequently treated similarly to purchased emission rights. If the granted allowances are not sufficient to cover actual emissions, the Group recognizes a provision, which is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling 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.

At each reporting date, the Group assesses whether there is any indication that emission rights may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of the cash generating units, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. Any identified impairment of emission rights is recognized directly in profit or loss in the line item of Emission rights, net.

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 is 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, loans and receivables, 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. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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, loans and receivables 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 income (expenses).

Held-to-maturity investments and loans and receivables are carried at amortized cost using the effective interest rate method.

2.14. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 8). Foreign currency deposits are translated at December 31, 2006 and 2005 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 mining reclamation and damages, 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, 2006 and 2005 the allowance for uncollectible receivables amounted to CZK 2,452 million and CZK 2,288 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, 2006 and 2005 the provision for obsolescence amounted to CZK 116 million and CZK 124 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 re-measuring 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. Commodity Derivative Instruments

According to IAS 39, certain commodity contracts fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Group provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IAS 39.

In particular, forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:
- a physical delivery takes place under such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- the contract cannot be considered as a written option as defined by the standard. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

The Group thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company, and do not therefore come under the scope of IAS 39.

Commodity contracts, which fall under the scope of IAS 39, are carried at fair value with changes in the fair value recognized in the income statement.

2.21. 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 24% and 26% for the year ended December 31, 2006 and 2005, 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.

2.22. 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.

2.23. 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 (see Note 16).

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 2.0%.

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.

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. Provisions for Decommissioning and Reclamation of Mines and Mining Damages

The Group has recognized provisions for obligations to decommission and reclaim mines at the end of their operating live (see Note 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.

2.25. Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expense when incurred.

2.26. Leases

The determination of whether an arrangements is, or contains a lease is based on the substance of the arrangement at inception data of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset. A reassessment is made after inception of the lease only if one of the following conditions applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- there is a change in determination of whether fulfillment is dependant on a specified asset; or
- there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment.

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.

2.27. 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.

2.28. 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 2006 and 2005 the expense recognized in respect of the share option plan amounted to CZK 235 million and CZK 296 million, respectively.

2.29. 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, 2006 and 2005 is as follows (in CZK millions)

	Buildings	Plant and Equipment	Land and Other	Total 2006	Total 2005
Cost – opening balance	161,932	273,926	3,558	439,416	402,864
Plant additions	5,751	8,534	291	14,576	14,065
Disposals	(812)	(3,109)	(37)	(3,958)	(3,921)
Acquisition of subsidiaries	5,266	9,702	238	15,206	24,327
Disposal of subsidiaries	–	–	–	–	(133)
Change in estimate of decommissioning provisions	–	(36)	–	(36)	3,498
Reclassification and other	44	(55)	13	2	(32)
Currency translation differences	(312)	(107)	(11)	(430)	(1,252)
Cost – closing balance	171,869	288,855	4,052	464,776	439,416
Accumulated deprec. and impairment – opening balance	(62,244)	(136,741)	(771)	(199,756)	(182,932)
Depreciation	(6,833)	(15,768)	(11)	(22,612)	(19,573)
Net book value of assets disposed	(391)	(156)	(4)	(551)	(530)
Disposals	812	3,109	10	3,931	3,901
Disposal of subsidiaries	–	–	–	–	122
Reclassification and other	(81)	71	(10)	(20)	6
Impairment losses recognized	(116)	(120)	(44)	(280)	(1,167)
Impairment losses reversed	74	82	3	159	386
Currency translation differences	32	23	1	56	31
Accumulated deprec. and impairment – closing balance	(68,747)	(149,500)	(826)	(219,073)	(199,756)
Net plant in service – closing balance	103,122	139,355	3,226	245,703	239,660

At December 31, 2006 and 2005 plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2006	2005
Cost	20,505	20,541
Accumulated depreciation	(4,312)	(3,820)
Total net book value	16,193	16,721

The carrying value of plant and equipment held under finance lease at December 31, 2006 and 2005 is CZK 106 million and CZK 270 million, respectively (see Note 19).

Group's plant in service pledged as security for liabilities at December 31, 2006 and 2005 is CZK 308 million and CZK 234 million, respectively.

4. Investments and Other Financial Assets, Net

Investments and other financial assets, net at December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Financial assets in progress, net	104	164
Debt securities held-to-maturity	705	916
Debt securities available-for-sale, net	4,039	4,400
Equity securities available-for-sale	933	2,288
Restricted funds for nuclear decommissioning	2,272	1,921
Other restricted funds	2,816	878
Long-term receivables, net	2,408	3,244
Total	13,277	13,811

The financial assets in progress represent amounts paid in respect of planned acquisitions.

At December 31, 2006 and 2005 impairment provisions for financial assets available-for-sale amounted to CZK 202 million and CZK 173 million, respectively, impairment provisions for financial assets in progress amounted to CZK 0 million and CZK 89 million, respectively and for long-term receivables amounted to CZK 13 million and CZK 13 million, respectively.

Debt securities at December 31, 2006 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	919	52	1,354	2,325
Due in 2–3 years	1,351	325	889	2,565
Due in 3–4 years	16	328	1,190	1,534
Due in 4–5 years	9	–	183	192
Due in more than 5 years	113	–	423	536
Total	2,408	705	4,039	7,152

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, 2006 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%	2,282	–	–	2,282
From 2.0% to 3.0%	–	343	1,988	2,331
From 3.0% to 4.0%	43	217	1,972	2,232
From 4.0% to 5.0%	–	145	32	177
Over 5.0%	83	–	47	130
Total	2,408	705	4,039	7,152

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

The following table analyses the debt securities at December 31, 2006 by currency (in CZK millions)

	CZK	USD	EUR	Total
Long-term receivables	2,403	–	5	2,408
Debt securities held-to-maturity	705	–	–	705
Debt securities available-for-sale	4,039	–	–	4,039
Total	7,147	–	5	7,152

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

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2006 and 2005 are as follows (in CZK millions)

	Software	Rights and Other	Goodwill	Total 2006	Total 2005
Cost – opening balance	6,398	1,725	2,040	10,163	6,432
Additions	744	368	–	1,112	1,565
Disposals	(1,505)	(66)	(2)	(1,573)	(294)
Acquisition of subsidiaries	7	2,988	9,135	12,130	2,675
Disposal of subsidiaries	–	–	(1)	(1)	(96)
Reclassification and other	–	(1)	–	(1)	–
Currency translation differences	1	(32)	(114)	(145)	(119)
Cost – closing balance	5,645	4,982	11,058	21,685	10,163
Accumulated amortization – opening balance	(4,520)	(285)	–	(4,805)	(3,909)
Amortization charge for the year	(1,149)	(519)	–	(1,668)	(1,150)
Net book value of assets disposed	(8)	(8)	–	(16)	(31)
Disposals	1,505	66	–	1,571	294
Disposal of subsidiaries	–	–	–	–	6
Impairment losses recognized	(7)	–	–	(7)	(19)
Impairment losses reversed	2	3	–	5	1
Currency translation differences	–	12	–	12	3
Accumulated amortization – closing balance	(4,177)	(731)	–	(4,908)	(4,805)
Net intangible assets – closing balance	1,468	4,251	11,058	16,777	5,358

At December 31, 2006 and 2005, intangible assets presented on the balance sheet include intangible assets in progress in the amount of CZK 1,043 million and CZK 688 million, respectively.

At December 31, 2006 and 2005 goodwill was allocated to the respective business and geographical segments based on the classification of the related subsidiaries (see Note 28). There have been no accumulated impairment losses of goodwill at December 31, 2006 and 2005, respectively.

Impairment testing of goodwill

At December 31, 2006 and 2005 goodwill was allocated to the following cash-generating units for the purpose of impairment testing (in CZK million)

	2006	2005
Bulgarian distribution companies	1,098	1,158
TEC Varna EAD	2,011	–
Polish power-plants	5,508	–
Czech distribution companies	2,302	863
Other	139	19
Total carrying amount of goodwill	11,058	2,040

The Group performed impairment tests and as result of these tests the Group did not recognize any impairment losses of goodwill in 2006 and 2005. The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Values in use are determined based on cash flow budgets, which are based on the medium-term budget for a period of 5 years, which has been approved by the management and which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on future market trends.

The medium-term budget is based on general economic data derived from macroeconomic and financial studies and makes assumptions primarily on the development of gross domestic product, inflation, wages and interest rates.

The recoverable amount of Bulgarian distribution companies and TEC Varna EAD has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10% for distribution companies and 8.2% for Varna power-plant. Cash flows beyond the five-year period are extrapolated using a steady 2.7% growth rate for both. This growth rate represents the predicted long-term average growth rate for the market in Bulgaria. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The recoverable amount of Polish power-plants has also been determined based on a value in use calculation. Those cash flow projections are also based on financial budgets approved by management covering a five-year period, and a discount rate of 7.7%. Cash flows beyond the five-year period are extrapolated using a steady 2.2% growth rate. This growth rate represents the predicted long-term average growth rate of cash flows under currently known capacities and circumstances. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Czech distribution companies. Those cash flow projections are also based on financial budgets approved by management covering a five-year period, and a discount rate of 7.5%. Cash flows beyond the five-year period are extrapolated using a steady 2.5% growth rate. This growth rate represents the predicted long-term average growth rate of cash flows under currently known circumstances. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The calculations of value in use for all cash-generating units are most sensitive to the following assumptions:

Gross margins – Gross margins are based on average volumes achieved in three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Raw materials price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Discount rate – Discount rates reflect management's estimate of the risk specific to each unit. The basis used to determine the value assigned is weighted average of cost of capital (WACC) of the related subsidiaries.

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

6. Acquisition of Subsidiaries

Acquisitions of subsidiaries from third parties in 2006

On May 29, 2006 the Company acquired 100% of the shares of CEZ Silesia B.V. ("Silesia") that owns 88.82% in the Polish power plant Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. ("Elcho") and 100% of the shares of CEZ Poland Distribution B.V. that owns 74.82% in the Polish power plant Elektrownia Skawina S.A. ("Skawina"). On October 2, 2006 the Company acquired 100% share in the Bulgarian power plant TEC Varna EAD ("Varna").

The fair values of the identifiable assets and liabilities of the subsidiaries acquired in 2006 at the dates of acquisitions are as follows (in CZK millions):

	Elcho	Skawina	Varna	Other	Total
Shares acquired in 2006	88.82%	74.82%	100%		
Property, plant and equipment, net	7,668	4,104	3,640	89	15,501
Other non-current assets	2,560	404	36	–	3,000
Cash and cash equivalents	514	89	2,880	2	3,485
Other current assets	1,269	1,995	654	–	3,918
Long-term liabilities	(6,120)	(566)	(17)	–	(6,703)
Deferred tax liability	(406)	(613)	(311)	–	(1,330)
Current liabilities	(2,442)	(1,765)	(150)	(89)	(4,446)
Total net assets	3,043	3,648	6,732	2	13,425
Minority interests	(341)	(919)	–	–	(1,260)
Share of net assets acquired	2,702	2,729	6,732	2	12,165
Goodwill	3,073	2,427	2,072	67	7,639
Total purchase consideration	5,775	5,156	8,804	69	19,804
Less					
Consideration paid for shares in previous periods	(12)	(10)	(6)	–	(28)
Cash and cash equivalents in subsidiaries acquired	(514)	(89)	(2,880)	(2)	(3,485)
Cash outflow on acquisition of subsidiaries	5,249	5,057	5,918	67	16,291

The total purchase consideration paid for acquisition of subsidiaries in 2006 consists of the following amounts (in CZK millions):

	Elcho	Skawina	Varna	Other	Total
Acquisition price of the shares	5,712	5,101	8,728	61	19,602
Costs directly attributable to the acquisition of shares	63	55	76	8	202
Total purchase consideration	5,775	5,156	8,804	69	19,804

The carrying values of the acquired assets and liabilities of the subsidiaries acquired in 2006 immediately before the acquisitions were as follows (in CZK millions):

	Elcho	Skawina	Varna	Other	Total
Property, plant and equipment, net	8,706	1,702	3,596	89	14,093
Other non-current assets	10	2	1	–	13
Cash and cash equivalents	514	89	2,880	2	3,485
Other current assets	489	454	654	–	1,597
Long-term liabilities	(6,120)	(566)	(17)	–	(6,703)
Deferred tax liability	(106)	(29)	(303)	–	(438)
Current liabilities	(1,728)	(494)	(150)	(89)	(2,461)
Total book value of net assets	1,765	1,158	6,661	2	9,586

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group's income statement for the year 2006 (in CZK millions):

	Elcho	Skawina	Varna	Other	Total
Revenues	1,326	1,549	663	–	3,538
Income before other expense (income) and income taxes	190	124	36	(3)	347
Net income	67	76	47	(2)	188

If the combinations had taken place at the beginning of the year, the profit for the CEZ Group would have been CZK 28,852 millions and revenues from continuing operation would have been CZK 163,792 millions. The goodwill recognized as a result of the business combinations comprises the fair value of expected synergies arising from the acquisitions.

Acquisitions of minority shares in 2006

During 2006 the Group purchased further minority shares in Severočeské doly a.s., Severočeská energetická, a.s. (SČE) and Středočeská energetická a.s. (STE). The following table summarizes the critical terms of the subsequent acquisitions of minority shares during 2006 (in CZK millions):

	Severočeské doly a.s.	Group SČE	Group STE	Total
Shares acquired in 2006 from third parties	6.9%	43.07%	0.19%	
Share of net assets acquired	1,067	3,180	14	4,261
Consideration paid for shares in previous periods	–	(1)	(1)	(2)
Goodwill	57	1,435	4	1,496
Total purchase price	1,124	4,614	17	5,755

The following table summarizes the cash outflows on acquisitions of subsidiaries and minority shares during 2006 (in CZK millions):

Cash outflows on acquisition of subsidiaries	16,291
Cash outflows on purchase of minority	5,755
Change in payables from acquisitions	(121)
Total cash outflows on acquisitions in 2006	21,925

7. Investments in Subsidiaries and Associates

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

Subsidiaries	Country of incorporation	% equity interest [1) 2006]	% voting interest 2006	% equity interest [1) 2005]	% voting interest 2005
ČEZ Bulgaria EAD	Bulgaria	100.00	100.00	100.00	100.00
CEZ Deutschland GmbH [5)]	Germany	100.00	100.00	100.00	100.00
CEZ FINANCE B.V.	Netherlands	100.00	100.00	100.00	100.00
CEZ Hungary Ltd. [2)]	Hungary	100.00	100.00	–	–
CEZ Chorzow B.V. [2) 3)]	Netherlands	100.00	100.00	–	–
CEZ Poland Distribution B.V. [2)]	Netherlands	100.00	100.00	–	–
CEZ Polska Sp. z o.o. [2)]	Poland	100.00	100.00	–	–
CEZ Romania S.R.L. [2)]	Romania	100.00	100.00	–	–
CEZ Silesia B.V. [2)]	Netherlands	100.00	100.00	–	–
ČEZ Trade Bulgaria EAD [2)]	Bulgaria	100.00	100.00	–	–
ČEZ Distribuce, a. s.	Czech Republic	99.52	100.00	88.10	100.00
ČEZ Distribuční služby, s.r.o.	Czech Republic	99.45	100.00	100.00	100.00
ČEZ ELEKTRO BULGARIA AD [2)]	Bulgaria	67.00	67.00	–	–
ČEZ LABORATORIES BULGARIA EOOD [2)]	Bulgaria	100.00	100.00	–	–
ČEZ Logistika, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZ Měření, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZ Prodej, s.r.o.	Czech Republic	99.64	100.00	89.70	100.00
ČEZ Správa majetku, s.r.o.	Czech Republic	99.29	100.00	100.00	100.00
ČEZ Srbija DOO [2)]	Serbia	100.00	100.00	–	–
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00	100.00	100.00	100.00
ČEZData, 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
Electrica Oltenia S.A.	Romania	51.01	51.01	51.01	51.01
Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. [2)]	Poland	88.82	75.20	–	–
Elektrorazpredelenie Pleven AD	Bulgaria	67.00	67.00	67.00	67.00
Elektrorazpredelenie Sofia Oblast AD	Bulgaria	67.00	67.00	67.00	67.00
Elektrorazpredelenie Stolichno AD	Bulgaria	67.00	67.00	67.00	67.00
Elektrownia Skawina S.A. [2)]	Poland	74.82	74.82	–	–
Energetické opravny, a.s.	Czech Republic	100.00	100.00	100.00	100.00
Energetika Vítkovice, a.s.	Czech Republic	100.00	100.00	100.00	100.00
ePRIM, a.s., in liquidation [6)]	Czech Republic	–	–	100.00	100.00
I & C Energo a.s.	Czech Republic	100.00	100.00	100.00	100.00
MSEM, a.s.	Czech Republic	100.00	100.00	100.00	100.00
New Kosovo Energy L.L.C. [2)]	Kosovo	100.00	100.00	–	–
PPC Úžín, a.s. [2)]	Czech Republic	100.00	100.00	–	–
SD - 1.strojírenská, a.s.	Czech Republic	100.00	100.00	93.10	100.00
SD - Autodoprava, a.s.	Czech Republic	100.00	100.00	93.10	100.00
SD - Kolejová doprava, a.s.	Czech Republic	100.00	100.00	93.10	100.00
Severočeská energetika, a.s.	Czech Republic	100.00	100.00	56.93	56.93
Severočeské doly a.s.	Czech Republic	100.00	100.00	93.10	93.10
Severomoravská energetika, a. s.	Czech Republic	100.00	100.00	100.00	100.00
STE - obchodní služby spol. s r.o. in liquidation	Czech Republic	97.91	100.00	97.72	100.00
Středočeská energetická a.s.	Czech Republic	97.91	97.91	97.72	97.72
ŠKODA PRAHA a.s.	Czech Republic	100.00	100.00	100.00	100.00
ŠKODA PRAHA Invest s.r.o. [2)]	Czech Republic	100.00	100.00	–	–
TEC Varna EAD [2)]	Bulgaria	100.00	100.00	–	–
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46	52.46	52.46	52.46
VČE - montáže, a.s.	Czech Republic	100.00	100.00	100.00	100.00
Východočeská energetika, a.s.	Czech Republic	100.00	100.00	100.00	100.00
ZAO "TransEnergo" [2)]	Russia	100.00	100.00	–	–
Západočeská energetika, a.s.	Czech Republic	100.00	100.00	100.00	100.00

Associates	Country of incorporation	% equity interest [1)] 2006	% voting interest 2006	% equity interest [1)] 2005	% voting interest 2005
Coal Energy, a.s.	Czech Republic	40.00	40.00	38.62	40.00
KNAUF POČERADY, spol. s r.o.	Czech Republic	40.00	50.00	40.00	50.00
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05	50.00	51.05	50.00
Plzeňská energetika a.s. [4)]	Czech Republic	–	–	50.00	50.00
KOTOUČ ŠTRAMBERK, spol. s r. o. [4)]	Czech Republic	–	–	25.00	25.00

[1)] The equity interest represents effective ownership interest of the Group.
[2)] Companies have been found in 2006 or have been included in consolidated group in 2006.
[3)] Shares of CEZ Chorzow B.V. are pledged in favour of BNB Paribas, S.A.
[4)] Shares of relating companies were sold in 2006.
[5)] Company rpg Energiehandel GmbH was renamed in February 2006 to CEZ Deutschland GmbH.
[6)] The company was liquidated in 2006.

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, 2006 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
Coal Energy, a.s.	1,800	1,637	163	10,500	14
KNAUF POČERADY, spol. s r.o.	525	86	439	515	32
LOMY MOŘINA spol. s r.o.	422	50	372	215	1
Total	2,747	1,773	974	11,230	47

8. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2006 and 2005 is as follows (in CZK millions)

	2006	2005
Cash on hand and current accounts with banks	6,621	8,703
Short-term bank notes	7,568	2,932
Term deposits	16,743	5,156
Total	30,932	16,791

At December 31, 2006 and 2005, cash and cash equivalents included foreign currency deposits of CZK 21,880 million and CZK 5,228 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2006 and 2005 was 3.7% and 11.2%, respectively. For the years 2006 and 2005 the weighted average interest rate was 3.4% and 3.4%, respectively.

9. Receivables, Net

The composition of receivables, net, at December 31, 2006 and 2005 is as follows (in CZK millions)

	2006	2005
Unbilled electricity supplied to retail customers	361	3,980
Received advances from retail customer	–	(3,634)
Unbilled supplies to retail customers, net	361	346
Trade receivables	17,213	15,831
Taxes and fees, excluding income taxes	461	309
Other receivables	751	594
Allowance for doubtful receivables	(2,452)	(2,288)
Total	16,334	14,792

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

10. Emission Rights

In 2005 an 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 held by the Group during 2006 and 2005 (in CZK millions):

	2006		2005	
	in thousands tons	in CZK millions	in thousands tons	in CZK millions
Granted emission rights				
Granted emission rights at January 1	35,092	–	–	–
Emission rights granted	37,522	–	37,522	–
Settlement of prior year actual emissions	(33,320)	–	–	–
Emission rights acquired in business combination	5,161	2,474	–	–
Emission rights sold	(6,663)	(257)	(2,430)	–
Granted emission rights at December 31	37,792	2,217	35,092	–
Emission rights held for trading				
Emission rights for trading at January 1	219	134	–	–
Emission rights purchased	3,680	1,916	859	550
Emission rights sold	(3,858)	(2,035)	(640)	(410)
Fair value adjustment	–	(8)	–	(6)
Emission rights held for trading at December 31	41	7	219	134

During 2006 and 2005 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 39,124 thousand tons (including 1,811 thousand tons emitted by Polish power plants before the day of acquisition) and 33,320 thousand tons of CO_2, respectively. In 2006 the Group recognized a provision for missing granted emission rights and partly for produced emissions of greenhouse gases in total amount of CZK 2,438 million. In 2005 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, 2006 and 2005 (in CZK millions):

	2006	2005
Gain on sales of granted emission rights	3,531	1,038
Net gain from emission trading	4	21
Settlement of provisions for contracts acquired in business combinations	1,140	–
Provisions for emissions rights	(1,590)	–
Fair value adjustment to trading allowances	(8)	(6)
Net gain related to emission rights	3,077	1,053

11. Other Financial Assets, net

Other financial assets, net at December 31, 2006 and 2005 were as follows (in CZK millions)

	2006	2005
Debt securities held for trading	12	1,171
Debt securities held-to-maturity	1,756	1,207
Debt securities available-for-sale	1,664	1,312
Equity securities held for trading	38	42
Equity securities available-for-sale	2,085	129
Derivatives	3,397	963
Total	8,952	4,824

Equity securities available-for-sale represent mainly investments into a mutual fund.

Short-term debt securities at December 31, 2006 have the following effective interest rate structure (in CZK million)

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
From 2.0% to 3.0%	1,566	568	–	2,134
From 3.0% to 4.0%	190	784	–	974
From 4.0% to 5.0%	–	73	–	73
Over 5.0%	–	239	12	251
Total	1,756	1,664	12	3,432

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

	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

All short-term debt securities are denominated in CZK.

12. Other Current Assets

The composition of other current assets at December 31, 2006 and 2005 is as follows (in CZK millions)

	2006	2005
Advances paid	1,835	746
Prepayments	734	617
Total	2,569	1,363

13. Equity Attributable to Equity Holders of the Parent

The Company's stated capital as of December 31, 2006 and 2005 is as follows

	Number of Shares Outstanding	Par Value per Share (CZK)	Total (CZK millions)
2006			
Registered shares	592,210,843	100	59,221
Treasury shares	(3,455,000)	100	(1,943)
Total	588,755,843		57,278
2005			
Registered shares	592,210,843	100	59,221
Treasury shares	(2,440,000)	100	(984)
Total	589,770,843		58,237

The Company owned 10,000 treasury shares as of December 31, 2004. During year 2005 the Company acquired 3,210,000 treasury shares and sold 780,000 treasury shares. During year 2006 the Company acquired 1,715,000 treasury shares and sold 700,000 treasury shares. The remaining 3,455,000 treasury shares are reflected in the balance sheet as of December 31, 2006 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 2.28).

Dividends paid per share were CZK 15.0 and CZK 9.0 in 2006 and 2005, respectively. Dividends from 2006 profit will be declared on the general meeting, which will be held before the end of June 2007.

14. Long-term Debt

Long-term debt at December 31, 2006 and 2005 is as follows (in CZK millions)

	2006	2005
7.125% Notes, due 2007 (USD 178 million)	3,765	4,406
7.25% Eurobonds, due 2006 (EUR 200 million)	–	5,934
4.625% Eurobonds, due 2011 (EUR 400 million)	10,942	11,532
4.125% Eurobonds, due 2013 (EUR 500 million)	13,593	–
9.22% Zero Coupon Debentures, due 2009 (CZK 4,500 million)	3,843	3,561
9.22% Debentures, due 2014 (CZK 2,500 million) [1)]	2,495	2,495
3.35% Debentures, due 2008 (CZK 3,000 million)	2,867	2,913
Long-term bank loans:		
2.00% to 2.99% p. a.	1,864	2,362
3.00% to 3.99% p. a.	266	659
4.00% to 4.99% p. a.	413	2,477
5.00% to 5.99% p. a.	3,666	949
6.00% to 6.99% p. a.	3,946	274
7.00% to 7.99% p. a.	618	832
8.00% p. a. and more	43	80
Total long-term debt	48,321	38,474
Less: Current portion	(6,365)	(7,888)
Long-term debt, net of current portion	41,956	30,586

1) From 2006 the interest rate changes to consumer price index in the Czech Republic plus 4.2%. The interest rate as at 31. 12. 2006 was 6.40%.

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)

	2006	2005
Current portion	6,365	7,888
Between 1 and 2 years	3,583	6,928
Between 2 and 3 years	4,576	3,680
Between 3 and 4 years	717	4,076
Between 4 and 5 years	11,703	469
Thereafter	21,377	15,433
Total long-term debt	48,321	38,474

The following table analyses the long-term debt at December 31, 2006 and 2005 by currency (in millions)

	2006		2005	
	Foreign currency	CZK	Foreign currency	CZK
EUR	925	25,233	633	18,440
USD	436	9,170	350	8,660
PLN	368	2,643	–	–
BGN	4	52	–	–
CZK	–	11,223	–	11,374
Total long-term debt		48,321		38,474

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, 2006 and 2005 a net unrealized loss of CZK 45 million and CZK 94 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, 2006 and 2005 without considering interest rate hedging (in CZK millions):

	2006	2005
Floating rate long-term debt		
with interest rate fixed for 1 month	553	955
with interest rate fixed from 1 to 3 months	2,069	3,907
with interest rate fixed from 3 months to 1 year	6,759	995
with interest rate fixed for more than 1 year	2,495	2,495
Total floating rate long-term debt	11,876	8,352
Fixed rate long-term debt	36,445	30,122
Total long-term debt	48,321	38,474

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. Exchange rate differences arising on the liability that qualifies as an effective hedging instrument were reported directly in equity in the amount of CZK 918 million and CZK 314 million as at December 31, 2006 and 2005, respectively.

The Group has entered into a number of loan agreements, which contain restrictive financial covenants relating to debt service coverage, ratio of debt to total capital and current ratio. In 2006 and 2005 the Group 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 unquoted equity instruments the Group considered the use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments 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, 2006 and 2005 are as follows (in CZK millions)

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Investments	13,277	13,277	13,811	13,811
Receivables	16,334	16,334	14,792	14,792
Cash and cash equivalents	30,932	30,932	16,791	16,791
LIABILITIES				
Long-term debt	(48,321)	(49,339)	(38,474)	(40,085)
Short-term loans	(121)	(121)	(265)	(265)
Accounts payable	(16,362)	(16,362)	(12,032)	(12,032)
DERIVATIVES				
Cash flow hedges				
Receivables	–	–	–	–
Payables	(701)	(701)	(787)	(787)
Total cash flow hedges	(701)	(701)	(787)	(787)
Fair value hedges				
Receivables	–	–	25	25
Payables	(979)	(979)	(2,045)	(2,045)
Total fair value hedges	(979)	(979)	(2,020)	(2,020)
Electricity trading contracts				
Receivables	2,695	2,695	771	771
Payables	(2,935)	(2,935)	(576)	(576)
Total electricity trading contracts	(240)	(240)	195	195
Other derivatives				
Receivables	702	702	167	167
Payables	(1,928)	(1,928)	(803)	(803)
Total other derivatives	(1,226)	(1,226)	(643)	(643)

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. The Czech parliament has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of 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 estimates 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 decision in 2002, at 50 CZK per MWh produced at nuclear power plants. In 2006 and 2005, respectively, the payments to the nuclear account amounted to CZK 1,304 million and CZK 1,236 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 2.23, 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, 2006 and 2005 (in CZK millions):

	Accumulatd provisions			
	Nuclear Decommissioning	Spent fuel storage Interim	Spent fuel storage Long-term	Total
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 2.23)	–	50	–	50
Effect of change in estimate added to fixed assets (Note 2.23)	(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
Movements during 2006				
Discount accretion	243	104	549	896
Effect of inflation	195	84	439	718
Provision charged to income statement	–	220	–	220
Effect of change in estimate credited to income statement (Note 2.23)	–	(46)	–	(46)
Effect of change in estimate added to fixed assets (Note 2.23)	(4)	564	(32)	528
Current cash expenditures	–	(198)	(1,304)	(1,502)
Balance at December 31, 2006	10,156	4,902	21,625	36,683

The current cash expenditures for the long-term storage of spent nuclear fuel represent payments to the state controlled nuclear account and the expenditures for interim storage represent mainly the purchase of interim fuel storage containers.

The actual decommissioning and spent fuel storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials, and equipment and/or the actual time required to complete all decommissioning, disposal and storage activities.

17. Other Long-term Liabilities

Other long-term liabilities at December 31, 2006 and 2005 are as follows (in CZK millions)

	2006	2005
Provision for decommissioning and reclamation of mines and mining damages	7,175	7,203
Other long-term provisions	140	736
Deferred connection fees	7,082	6,344
Other	1,146	691
Total	15,543	14,974

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ. 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 an estimated real rate of interest of 2.5%.

The following is a summary of the provisions for the years ended December 31, 2006 and 2005 (in CZK millions):

	Mine reclamation	Mining damages	Total
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
Movements during 2006			
Discount accretion	145	–	145
Effect of inflation	117	–	117
Provision charged to income statement	89	–	89
Effect of change in estimate credited to income statement	(125)	–	(125)
Current cash expenditures	(254)	–	(254)
Balance at December 31, 2006	6,055	1,120	7,175

18. Short-term Loans

Short-term loans at December 31, 2006 and 2005 are as follows (in CZK millions)

	2006	2005
Short-term bank loans	45	83
Bank overdrafts	76	182
Total	121	265

Interest on short-term loans is variable. The weighted average interest rate was 4.4% at December 31, 2006 and 2.7% at December 31, 2005. For the years 2006 and 2005 the weighted average interest rate was 2.8% and 2.8%, 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)

	2006	2005
Within one year	23	76
After one year but not more than five years	31	26
More than five years	9	5
Total minimum lease payments	63	107
Future finance charges on finance leases	(10)	(6)
Present value of finance lease liabilities	53	101

20. Trade and Other Payables

Trade and other payables at December 31, 2006 and 2005 are as follows (in CZK millions)

	2006	2005
Advances received from retail customers	17,460	12,118
Unbilled electricity supplied to retail customers	(15,379)	(11,857)
Received advances from retail customers, net	2,081	261
Trade payables	12,372	10,015
Derivatives	6,543	4,211
Other payables	1,909	1,756
Total	22,905	16,243

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

21. Accrued Liabilities

Accrued liabilities at December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Provision for CO_2 emissions	2,438	–
Provision for waste storage reclamation	452	449
Other provisions	1,771	1,475
Accrued interest	859	914
Taxes and fees, except income tax	1,209	1,070
Unbilled goods and services	2,814	2,223
Contingent liabilities from acquisitions	713	846
Social and bonus funds	327	326
Deferred income	607	607
Total	11,190	7,910

Provision for CO_2 emissions also includes a provision recorded as at the acquisition date of the Polish power plants, which amounted to CZK 864 millions. Other provisions represent provisions for environmental claims, restructuring and legal cases and are based on the best estimates of the costs needed to settle the related obligations.

22. Sales of Electricity

The composition of sales of electricity for the year ended December 31, 2006 and 2005 is as follows (in CZK millions)

	2006	2005
Sales to distribution companies	17,236	16,790
Sales to end customer through distribution grid	88,117	71,973
Sales to traders	9,987	7,577
Exports of electricity including trade outside the country of CEZ Group member	20,627	8,257
Other sales of electricity	3,648	5,650
Sales of ancillary and other services	6,029	6,278
Change in fair value of derivatives – sale of electricity	2,651	(576)
Total	148,295	115,949

The change in fair value of derivatives represents gains and losses from revaluation of electricity sales contracts classified as derivatives contracts (“trading”). The Group expects net settlement of these contracts 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 derivatives electricity purchase contracts are included in the item Purchased power and related services in the profit and loss statement. The losses on these contracts amounted to CZK 3,082 million and the gain amounted to CZK 771 million, in year 2006 and 2005, respectively.

Physical settlement of electricity contracts held for trading and contracts not satisfying the own-use criteria is recognized as revenues and operating expenses and included in sales of electricity and purchased power respectively. In 2006 such realized sales of electricity from trading contracts amounted to CZK 7,487 million and related purchases under trading contracts amounted to CZK -7,391 million. In 2005 the system used by the Group at that time was unable to provide complete information regarding the realized sales and purchases under the trading contracts. Management has estimated that in 2005 the electricity sales and purchases realized from the trading contracts were both approximately CZK 1 billion and that the net gain realized was insignificant.

23. Salaries and Wages

Salaries and wages for the year ended December 31, 2006 and 2005 were as follows (in CZK millions)

	2006		2005	
	Total	Key management personnel [1)]	Total	Key management personnel [1)]
Salaries	(10,136)	(141)	(8,788)	(112)
Remuneration of the board members	(103)	(34)	(106)	(26)
Share options	(235)	(235)	(296)	(296)
Social and health security	(3,706)	(50)	(3,306)	(39)
Other personal expenses	(904)	(27)	(930)	(15)
Total	(15,084)	(487)	(13,426)	(488)

1) Key management personnel represent members of Supervisory Board, Board of Directors and members of Executive Meeting. Members of Board of Directors are also members of Executive Meeting and Executive Committee.

At December 31, 2006 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 3,455 thousand. Share options granted to the members of Board of Directors and the Executive Committee vest over a three year period after the grant date, or the date of appointment, respectively, with one third of the options vesting at each annual anniversary. The options can be exercised during the term of office of the respective employee and in a further 12 months after the end of such period. The options granted to the members of the Board of Directors before May 2006 vested 3 months after appointment of the respective member to the Board. The options granted to the members of the Executive Committee before May 2006 had a two years vesting period, with approximately one half of the options vesting after one year and the remaining options vesting after two years from date of appointment of the respective Committee member. Options granted before May 2006 could be exercised during the term of office of the respective employee and in a further 3 months after the end of such period. The exercise price for the granted options is based on the average quoted market price of the shares on the Prague stock exchange during the one month period preceding the date of appointment of the respective Board or Committee member (six months average for options granted before May 2006). The share option plan for members of the Supervisory Board was canceled prospectively by the decision of the shareholders on annual meeting held in June 2005. In 2006 and 2005 the Company has recognized a compensation expense of CZK 235 million and CZK 296 million related to the granted options. The Company has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2006 and 2005 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options				
	Supervisory Board ’000s	Board of Directors ’000s	Executive Committee ’000s	Total ’000s	Weighted average exercise price (CZK per share)
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 2)	600	1,750	975	3,325	198.47
Options granted	–	900	225	1,125	646.91
Options exercised 1)	(150)	(410)	(140)	(700)	192.26
Options forfeited	–	–	(295)	(295)	285.07
Share options at December 31, 2006 2)	450	2,240	765	3,455	338.35

1) In 2006 and 2005 the weighted average share price at the date of the exercise for the options exercised was CZK 798.30 and CZK 430.71 respectively.
2) At December 31, 2006 and 2005 the number of exercisable options was 2,650 thousand pieces and 2,350 thousand pieces, respectively. The weighted average exercise price of the exercisable options was 254.17 CZK per share and 158.55 CZK per share at December 31, 2006 and 2005, 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:

	2006	2005
Weighted average assumptions		
Dividend yield	2.0%	3.0%
Expected volatility	30.6%	29.6%
Mid-term risk-free interest rate	2.7%	2.8%
Expected life (years)	2.9	2.1
Share price (CZK per share)	797.6	399.4
Weighted average grant-date fair value of options (CZK per 1 option)	230.2	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, 2006 and 2005 the exercise prices of outstanding options (’000s of pcs) were in the following ranges:

	2006	2005
CZK 100–500 per share	2,405	3,250
CZK 500–900 per share	1,050	75
Total	3,455	3,325

The options granted to the members of Board of Directors and Supervisory Board, which were outstanding on December 31, 2006 and 2005, respectively, had an average remaining contractual life of 2.5 years and 2.3 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, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Services	(8,217)	(7,418)
Travel expenses	(255)	(240)
Gain on sale of property, plant and equipment	181	77
Gain on sale of material	79	174
Capitalization of expenses to the cost of fixed assets and change in own inventory	2,694	1,650
Fines, penalties and penalty interest, net	236	49
Change in provisions and valuation allowances	308	(305)
Taxes and fees	(998)	(607)
Write-off of bad debts and cancelled investment	(844)	(410)
Gifts	(249)	(280)
Other, net	(585)	(541)
Total	(7,650)	(7,851)

25. Income Taxes

Companies resident in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 24% and 26% in 2006 and 2005, respectively. The Czech corporate income tax rate for 2007 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 a potentially effect on reported income.

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

	2006	2005
Current income tax charge	(9,205)	(4,009)
Adjustments in respect of current income tax of previous periods	21	186
Deferred income taxes	232	(1,201)
Total	(8,952)	(5,024)

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

	2006	2005
Income before income taxes	37,708	27,306
Statutory income tax rate in Czech Republic	24%	26%
"Expected" income tax expense	(9,050)	(7,099)
Add (deduct) tax effect of:		
Change in tax rates	377	1,731
Czech/IFRS accounting differences	6	(107)
Non-deductible provisions, net	(14)	(56)
Investment tax relief	1	7
Negative goodwill write-off	–	275
Other non taxable (non-deductible) items, net	(390)	(279)
Tax credits	4	54
Adjustments in respect of current income tax of previous periods	21	186
Effect of different tax rate in other countries	186	264
Unrecorded deferred tax receivables	(93)	–
Income taxes	(8,952)	(5,024)
Effective tax rate	24%	18%

Deferred Income Taxes, Net

Deferred income taxes, net, at December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Accumulated provision for nuclear decommissioning and spent fuel storage	7,511	7,391
Financial statement depreciation in excess of tax depreciation	370	41
Revaluation of financial instruments	238	–
Allowances	555	515
Other provisions	1,364	1,238
Unpaid interest to abroad	23	–
Tax loss carry forwards	232	146
Other temporary differences	70	92
Total deferred tax assets	10,363	9,423
Tax depreciation in excess of financial statement depreciation	28,312	25,908
Revaluation of financial instruments	630	62
Other provisions	641	1,413
Penalty receivables	6	11
Investment in associate	10	36
Other temporary differences	82	24
Total deferred tax liability	29,681	27,454
Total deferred tax liability, net	19,318	18,031

In 2006 and 2005 the Group charged deferred tax of CZK 232 million and CZK 53 million, respectively, directly to equity.

At December 31, 2006 and 2005 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 4,107 million and CZK 2,339 million, respectively.

26. Other Income (Expenses), Net

Other income (expenses), net, for the year ended December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Derivative gains (losses), net	(327)	169
Gains (losses) from sales of financial investments	(2)	7
Change in impairment of financial investments	108	(4)
Other, net	20	171
Total	(201)	343

27. Related Parties

The Group purchases products, goods and services from related parties in the ordinary course of business.

At December 31, 2006 and 2005, the receivables from related parties and payables to related parties are as follows (in CZK millions):

	Receivables		Payables	
	2006	2005	2006	2005
Associates and other affiliates				
AFRAS Energo s.r.o.	1	–	6	3
AZ Elektrostav, a.s.	7	21	20	1
Coal Energy, a.s.	394	432	2	–
ČEZ ENERGOSERVIS spol. s r.o.	4	2	45	–
Elektrovod Holding, a.s.	–	1	–	25
ELTRAF, a.s.	4	2	11	1
Energetická montážní společnost Česká Lípa, s.r.o.	60	7	31	1
Energetická montážní společnost Liberec, s.r.o.	20	2	13	–
Energetická montážní společnost Ústí nad Labem, s.r.o.	39	10	17	1
KNAUF POČERADY, spol. s r.o.	8	8	–	–
KOTOUČ ŠTRAMBERK, spol. s r. o. 1)	–	8	–	10
LOMY MOŘINA spol. s r.o.	–	1	14	11
OSC, a.s.	–	–	9	22
Plzeňská energetika a.s. 2)	–	34	–	38
PRODECO, a.s.	13	1	36	13
SEG s.r.o.	3	6	60	12
SHD - KOMES a.s.	14	–	71	43
SIGMA - ENERGO s.r.o.	–	–	16	11
Others	30	24	54	37
Total associates and other affiliates	597	559	405	229
Companies under the control of Company's majority owner				
ČEPS, a.s.	219	271	782	233
Česká pošta s.p.	–	1	12	28
České dráhy, a.s.	21	242	171	171
Ministry of Finance of the Czech Republic	2,854	5,671	–	–
Others	1	3	–	2
Total companies under the control of Company's majority owner	3,095	6,188	965	434
Total	3,692	6,747	1,370	663

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		Purchases from related parties	
	2006	2005	2006	2005
Associates and other affiliates				
AFRAS Energo s.r.o.	9	–	37	34
AZ Elektrostav, a.s.	88	71	149	173
Coal Energy, a.s.	4,627	6,392	25	1,041
ČEZ ENERGOSERVIS spol. s r.o.	18	5	255	10
Elektrovod Holding, a.s.	–	2	–	84
ELTRAF, a.s.	4	1	103	83
Energetická montážní společnost Česká Lípa, s.r.o.	118	9	98	127
Energetická montážní společnost Liberec, s.r.o.	36	5	25	43
Energetická montážní společnost Ústí nad Labem, s.r.o.	84	21	55	82
KNAUF POČERADY, spol. s r.o.	120	70	–	–
KOTOUČ ŠTRAMBERK, spol. s r. o. 1)	–	53	41	91
LOMY MOŘINA spol. s r.o.	13	12	151	130
OSC, a.s.	–	–	11	75
Plzeňská energetika a.s. 2)	1	11	125	450
PRODECO, a.s.	13	18	1,498	457
SEG s.r.o.	105	49	336	181
SHD - KOMES a.s.	10	4	612	570
SIGMA - ENERGO s.r.o.	6	2	74	59
Others	99	134	291	328
Total associates and other affiliates	5,351	6,859	3,886	4,018
Companies under the control of Company's majority owner				
ČEPS, a.s.	7,701	8,264	11,227	7,000
Česká pošta s.p.	106	69	173	216
České dráhy, a.s.	2,548	1,843	1,520	1,766
ČESKÝ TELECOM, a.s. 3)	–	57	–	30
CHEMOPETROL, a.s. 4)	–	219	–	36
SPOLANA a.s. 4)	–	249	–	24
Others	13	29	–	119
Total companies under the control of Company's majority owner	10,368	10,730	12,920	9,191
Total	15,719	17,589	16,806	13,209

1) Related party until June 2006.
2) Related party until March 2006.
3) Related party until June 2005.
4) Related party until May 2005.

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

28. Segment Information

The primary segment reporting format is determined to be business segment, secondary information is reported geographically.

The power production and trading segment includes production of electricity and heat and the commodity trading activities of the Group. The distribution and sale segment sells electricity to end customers through the power distribution grid. The mining segment produces coal and limestone used by the power production segment and sold to third parties.

The Group's geographical segments are based on the location of the Group's assets. The Central Europe segment includes Czech Republic, Poland, Germany and Hungary. The South East Europe segment the operations of the Group in Bulgaria, Romania, Russia and the countries of the former Yugoslavia.

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

The following table summarizes segment information by business segments for the years ended December 31, 2006 and 2005, respectively (in CZK millions):

Year 2006	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	64,286	88,457	3,476	3,361	159,580	–	159,580
Intersegment sales	37,849	4,535	5,456	11,029	58,869	(58,869)	–
Total revenues	**102,135**	**92,992**	**8,932**	**14,390**	**218,449**	**(58,869)**	**159,580**
Operating income	29,685	8,261	3,369	(1,251)	40,064	–	40,064
Identifiable assets	185,740	66,481	10,805	9,241	272,267	(2,504)	269,763
Goodwill	7,583	3,400	60	15	11,058	–	11,058
Investment in associate	65	–	189	176	430	–	430
Unallocated assets							87,404
Total assets							**368,655**
Identifiable liabilities	118,878	22,398	8,680	8,153	158,109	(17,124)	140,985
Unallocated liabilities							20,017
Total liabilities							**161,002**
Income from associate	60	–	1	13	74	–	74
Depreciation and amortization	(14,093)	(5,173)	(994)	(4,020)	(24,280)	–	(24,280)
Change in provisions and allowances	(169)	(213)	345	(124)	(161)	–	(161)
Capital expenditure	10,553	7,419	1,866	5,358	25,196	(2,651)	22,545

Year 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	2,480	5,260	6,592	37,204	(37,204)	–
Total revenues	**70,248**	**75,386**	**7,998**	**8,655**	**162,287**	**(37,204)**	**125,083**
Operating income	19,734	6,579	2,660	430	29,403	–	29,403
Identifiable assets	177,103	68,067	9,902	4,073	259,145	(55)	259,090
Goodwill	–	2,022	3	15	2,040	–	2,040
Investment in associate	460	–	287	182	929	–	929
Unallocated assets							62,150
Total assets							**324,209**
Identifiable liabilities	87,404	19,593	8,309	4,058	119,364	(4,999)	114,365
Unallocated liabilities							18,555
Total liabilities							**132,920**
Income from associate	73	–	14	15	102	–	102
Depreciation and amortization	(13,908)	(4,660)	(947)	(1,208)	(20,723)	–	(20,723)
Change in provisions and allowances	(694)	(503)	482	156	(559)	–	(559)
Negative goodwill write-off	–	1,675	–	29	1,704	–	1,704
Capital expenditure	8,198	5,243	1,239	2,215	16,895	(44)	16,851

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

The following tables summarize geographical segment information for the years ended December 31, 2006 and 2005, respectively (in CZK millions):

Year 2006	Central Europe	South East Europe	Combined	Elimination	Consolidated
Sales other than intersegment sales	136,312	23,268	159,580	–	159,580
Intersegment sales	153	4	157	(157)	–
Total revenues	136,465	23,272	159,737	(157)	159,580
Operating income	37,798	2,266	40,064	–	40,064
Identifiable assets	241,741	28,022	269,763	–	269,763
Goodwill	7,945	3,113	11,058	–	11,058
Investment in associate	430	–	430	–	430
Unallocated assets					87,404
Total assets					368,655
Identifiable liabilities	134,127	6,981	141,108	(123)	140,985
Unallocated liabilities					20,017
Total liabilities					161,002
Income from associate	74	–	74	–	74
Depreciation and amortization	(22,373)	(1,907)	(24,280)	–	(24,280)
Change in provisions and allowances	449	(610)	(161)	–	(161)
Capital expenditure	20,065	2,480	22,545	–	22,545

Year 2005	Central Europe	South East Europe	Combined	Elimination	Consolidated
Sales other than intersegment sales	110,648	14,435	125,083	–	125,083
Intersegment sales	106	3	109	(109)	–
Total revenues	110,754	14,438	125,192	(109)	125,083
Operating income	28,590	813	29,403	–	29,403
Identifiable assets	235,037	24,053	259,090	–	259,090
Goodwill	881	1,159	2,040	–	2,040
Investment in associate	929	–	929	–	929
Unallocated assets					62,150
Total assets					324,209
Identifiable liabilities	107,906	6,570	114,476	(111)	114,365
Unallocated liabilities					18,555
Total liabilities					132,920
Income from associate	102	–	102	–	102
Depreciation and amortization	(19,542)	(1,181)	(20,723)	–	(20,723)
Change in provisions and allowances	(389)	(170)	(559)	–	(559)
Gain from negative goodwill	29	1,675	1,704	–	1,704
Capital expenditure	16,059	792	16,851	–	16,851

29. Net Income per Share

	2006	2005
Numerator – basic and diluted (CZK millions)		
Net income attributable to equity holders of the parent	27,697	21,438
Denominator – basic (thousands shares)		
Weighted average shares outstanding	589,329	590,426
Dilutive effect of treasury shares [1]	2,882	1,785
Denominator – diluted (thousands shares)		
Adjusted weighted average shares	592,211	592,211
Net income per share (CZK per share)		
Basic	47.0	36.3
Diluted	46.8	36.2

[1] Average number of own shares in 2006 and 2005.

30. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2006 to total CZK 194.3 billion over the next five years, as follows: CZK 30.5 billion in 2007, CZK 35.7 billion in 2008, CZK 41.2 billion in 2009, CZK 42.6 billion in 2010 and CZK 44.3 billion in 2011. 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 a 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, 2006 significant purchase commitments were outstanding in connection with the construction program.

Environmental Matters

The Czech Republic has adopted a series of environmental acts and laws and regulations ("the Acts") including a timetable for the reduction of atmospheric emissions. 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 2006 and 2005, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 1 million and CZK 3 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 25 million in 2006 and CZK 43 million in 2005, respectively, for pollution damages and reversed CZK 1 million in 2006 and CZK 3 million in 2005, 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 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 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.

Auditors' Report
on the Financial Statements of ČEZ, a. s.

ERNST & YOUNG

To the Shareholders of ČEZ, a. s.:

We have audited the accompanying financial statements of ČEZ, a. s., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on ČEZ, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing and implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s., as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

We have also audited the prior year financial statements as at December 31, 2005 of ČEZ, a. s., and issued an unqualified report thereon dated March 8, 2006.

Ernst & Young

Ernst & Young Audit & Advisory, s.r.o., člen koncernu
License No. 401
Represented by partner

Josef Pivoňka
Auditor, License No. 1963

February 23, 2007
Prague, Czech Republic

ČEZ, a. s.
Balance Sheet in Accordance with IFRS as of December 31, 2006

(in CZK millions)

	Note	2006	2005
ASSETS		311,377	274,208
Fixed assets		277,886	258,658
Property, plant and equipment		168,845	175,555
Plant in service		291,616	291,100
Less accumulated provision for depreciation		141,121	130,368
Net plant in service	3.	150,495	160,732
Nuclear fuel, at amortized cost		7,343	7,823
Construction work in progress		11,007	7,000
Other non-current assets		109,041	83,103
Investments and other financial assets, net	4.	108,156	81,816
Intangible assets, net	5.	885	1,287
Current assets		33,491	15,550
Cash and cash equivalents	6.	15,014	983
Receivables, net	7.	9,446	8,008
Income tax receivable		–	1,399
Materials and supplies, net		2,607	2,732
Fossil fuel stock		865	730
Emission rights	8.	–	125
Other financial assets, net	9.	4,814	976
Other current assets	10.	745	597
EQUITY AND LIABILITIES		311,377	274,208
Equity	11.	190,822	174,276
Stated capital		57,278	58,237
Retained earnings and other reserves		133,544	116,039
Long-term liabilities		72,636	66,329
Long-term debt, net of current portion	12.	36,051	30,480
Accumulated provission for nuclear decommissioning and fuel storage	14.	36,503	35,697
Other long-term liabilities		82	152
Deferred tax liability	20.2	13,389	13,021
Current liabilities		34,530	20,582
Current portion of long-term debt		5,820	7,770
Trade and other payables	15.	21,050	9,899
Income tax payable		4,291	–
Accrued liabilities	16.	3,369	2,913

ČEZ, a. s.
Statement of Income in Accordance with IFRS for the Year Ended December 31, 2006

(in CZK millions)

	Note	2006	2005
Revenues	17.	95,970	67,644
Sales of electricity		93,254	65,199
Heat sales and other revenues		2,716	2,445
Operating expenses		(66,292)	(48,035)
Fuel		(15,010)	(13,873)
Purchased power and related services		(25,711)	(7,204)
Repair and maintenance		(4,033)	(3,397)
Depreciation and amortization		(13,345)	(13,770)
Salaries and wages	18.	(4,928)	(4,794)
Materials and supplies		(1,910)	(1,692)
Emission rights, net	8.	3,091	1,033
Other operating expenses	19.	(4,446)	(4,338)
Income before other income (expenses) and income taxes		29,678	19,609
Other income (expenses)		2,793	849
Interest on debt, net of capitalized interest		(1,736)	(1,732)
Interest on nuclear and other provisions	14.	(1,606)	(2,050)
Interest income		421	193
Foreign exchange rate gains (losses), net		1,265	(385)
Gain (loss) on sale of subsidiaries		78	107
Other income (expenses), net	21.	4,371	4,716
Income before income taxes		32,471	20,458
Income taxes	20.	(6,668)	(2,823)
Net income		25,803	17,635

ČEZ, a. s.
Statement of Changes in Equity in Accordance with IFRS for the Year Ended December 31, 2006

(in CZK millions)

	Stated Capital	Fair Value and Other Reserves	Retained Earnings	Total Equity
December 31, 2004	59,218	80	103,179	162,477
Change in fair value of CF hedges recognized in equity	–	361	–	361
CF hedges removed from equity	–	(124)	–	(124)
Gain and loss recorded directly to equity	–	237	–	237
Net income	–	–	17,635	17,635
Total gains and losses for the period	–	237	17,635	17,872
Dividends declared	–	–	(5,309)	(5,309)
Acquisition of treasury shares	(1,312)	–	–	(1,312)
Sale of treasury shares	331	–	(79)	252
Share options	–	296	–	296
December 31, 2005	58,237	613	115,426	174,276
Change in fair value of CF hedges recognized in equity, net	–	315	–	315
CF hedges removed from equity	–	181	–	181
Change in fair value of AFS recognized in equity	–	3	–	3
Gain and loss recorded directly to equity	–	499	–	499
Net income	–	–	25,803	25,803
Total gains and losses for the period	–	499	25,803	26,302
Dividends declared	–	–	(8,853)	(8,853)
Acquisition of treasury shares	(1,273)	–	–	(1,273)
Sale of treasury shares	314	–	(179)	135
Transfer of exercised and forfeited share options within equity	–	(240)	240	–
Share options	–	235	–	235
December 31, 2006	57,278	1,107	132,437	190,822

ČEZ, a. s.
Statement of Cash Flows in Accordance with IFRS for the Year Ended December 31, 2006

(in CZK millions)

	2006	2005
OPERATING ACTIVITIES		
Income before income taxes	32,471	20,458
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation, amortization and asset write-offs	13,363	13,782
Amortization of nuclear fuel	3,151	3,048
(Gain) loss on fixed assets retirements, net	(118)	(117)
Foreign exchange rate losses (gains), net	(1,265)	385
Interest expense, interest income and dividends income, net	(3,749)	(2,566)
Provision for nuclear decommissioning and fuel storage	97	1,050
Valuation allowances, other provisions and other adjustments	482	(193)
Changes in assets and liabilities		
Receivables	(2,867)	(2,369)
Materials and supplies	133	(201)
Fossil fuel stocks	(135)	(25)
Other current assets	(3,798)	(1,068)
Trade and other payables	2,727	628
Accrued liabilities	530	177
Cash generated from operations	41,022	32,989
Income taxes paid	(769)	(3,653)
Interest paid, net of capitalized interest	(1,536)	(1,426)
Interest received	359	187
Dividends received	5,055	4,105
Net cash provided by operating activities	44,131	32,202
INVESTING ACTIVITIES		
Acquisition of subsidiaries and associates	(25,737)	(17,450)
Proceeds from disposal of subsidiaries and associates	2,927	1,657
Additions to property, plant and equipment and other non-current assets	(10,182)	(7,701)
Loans made	(511)	(1,250)
Proceeds from sales of fixed assets	103	891
Repayments of loans	82	150
Change in decommissioning and other restricted funds	(324)	(350)
Total cash used in investing activities	(33,642)	(24,053)
FINANCING ACTIVITIES		
Proceeds from borrowings	42,930	–
Payments of borrowings	(37,094)	(1,883)
Payments of other long-term liabilities	(97)	–
Change in payables/receivables from group cashpooling	8,286	–
Dividends paid	(8,839)	(5,291)
(Acquisition) sale of treasury shares	(1,139)	(1,060)
Total cash provided by (used in) financing activities	4,047	(8,234)
Net effect of currency translation in cash	(505)	(73)
Net increase (decrease) in cash and cash equivalents	14,031	(158)
Cash and cash equivalents at beginning of period	983	1,141
Cash and cash equivalents at end of period	15,014	983
Supplementary cash flow information		
Total cash paid for interest	2,064	1,932

ČEZ, a. s.
Notes to the Financial Statements as of December 31, 2006

1. Description of the Company

ČEZ, a. s. (the Company), business registration number 45274649, is a joint stock company incorporated on May 6, 1992 under the laws of the Czech Republic in the Commercial Register maintained by the Municipal Court in Prague (Section B, Insert 1581). The Company's registered office is located at Duhová 2/1444, Prague 4, Czech Republic. The Company is involved primarily in the production and sale of electricity and the related support services and in the production, distribution and sale of heat.

As at December 31, 2006, the organizational structure of the Company comprised seven divisions as follows: Chief Executive Officer's Division, Finance Division, Administration Division, HR Division, Distribution Division, Sale and Trading Division, and Production Division. The Production Division supervises 13 organizational units, namely ten fossil fuel plants (Mělník, Tisová, Poříčí, Dětmarovice, Chvaletice, Ledvice, Tušimice, Počerady, Hodonín, Prunéřov), one organizational unit operating impoundment, run-off-river and pumped storage hydro plants, and two nuclear power plants (Dukovany and Temelín).

The Ministry of Finance of the Czech Republic was the only shareholder who held a 20% or greater interest in the Company's share capital as at December 31, 2006; its interest amounted to 67.6% of the Company's share capital.

Members of the statutory and supervisory bodies at December 31, 2006 were as follows

Board of Directors		Supervisory Board	
Chair	Martin Roman	Chair	Martin Kocourek
Vice-chair	Jiří Borovec	Vice-chair	Tomáš Hüner
Vice-chair	Daniel Beneš	Vice-chair	Zdeněk Židlický
Member	Zdeněk Pasák	Member	Aleš Cincibus
Member	Tomáš Pleskač	Member	Jan Demjanovič
		Member	Jiří Jedlička
		Member	Petr Kousal
		Member	Jan Ševr
		Member	Drahoslav Šimek
		Member	Zdeněk Trojan
		Member	Karel Zeman

2. Summary of Significant Accounting Policies

2.1. Basis of Presentation of the Financial Statements

Pursuant to an Accounting Law amendment, the accompanying separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. Data pertaining to 2005 or as at December 31, 2005 are presented in the format required for 2006.

Certain prior year financial statement items have been reclassified to conform to the current year presentation. In the income statement and the related notes expenses or losses are presented as negative balances and revenues or gains are presented as positive balances. The financial statements are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period. The consolidated financial statements were authorized for issue on February 23, 2007.

2.2. Presentation Currency

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

2.3. Revenue Recognition

The Company 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. Sales are recognized net of value added tax and discounts, if any.

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.

Dividends earned on investments are recognized when the right of payment has been established.

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. 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 3,151 million and CZK 3,048 million for the years ended December 31, 2006 and 2005, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 14). Such charges amounted to CZK 182 million and CZK 253 million in 2006 and 2005, respectively.

2.6. Interest

The Company 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 527 million and CZK 506 million, which was equivalent to an interest capitalization rate of 5.9% and 6.3% in 2006 and 2005, respectively.

2.7. 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 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.

Internally developed property, plant and equipment are recorded at their accumulated cost and include a portion of construction overheads. The costs of completed technical 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 derecognized from balance sheet. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company 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 in the line item of Other operating expenses.

Depreciation is calculated according to a depreciation plan, based on the acquisition cost and the estimated useful life of related asset. The estimated useful 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

Depreciation of plant in service was CZK 13,184 million and CZK 13,280 million for the years ended December 31, 2006 and 2005, which was equivalent to a composite depreciation rate of 4.70% and 4.84%, respectively.

2.8. 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 heat generated (in GJ) and on a consumption coefficient (CZK per GJ) reflecting the cost of fuel elements located in the reactor, their scheduled life in the reactor and scheduled heat generation.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.21). As at December 31, 2006 and 2005 capitalized costs at net book value amounted to CZK 580 million and CZK 106 million, respectively.

2.9. Intangible Assets

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 life of intangible assets ranges from 3 to 15 years. The costs of completed technical improvements are capitalized.

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. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses.

2.10. 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 2006 and 2005 the Company was granted emission rights free of charge.

The Company is 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, the Company is required to remit a number of certificates representing the number of tones of CO_2 actually emitted. Should the Company not fulfill this requirement and remit necessary number of emission rights, it would have to pay a penalty 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 Company recognizes a provision, which is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date.

The Company 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.

At each reporting date, the Company assesses whether there is any indication that emission rights may be impaired. Where an indicator of impairment exists, the Company reviews the recoverable amounts of the cash generating units, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. Any identified impairment of emission rights is recognized directly in profit or loss in the line item of Emission rights, net.

2.11. Investments

Investments are classified into the following categories: held-to-maturity, loans and receivables, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments and loans and receivables 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 received plus directly attributable 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 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.

Changes in the fair value of available-for-sale financial assets are recognized directly in equity. 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 income (expenses).

Held-to-maturity investments and loans and receivables are carried at amortized cost using the effective interest rate method.

Investments in subsidiaries and associates are carried at cost which includes directly attributable transaction costs. Impaired investments are provided for or written off.

2.12. 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 6). Foreign currency deposits are translated using the exchange rates published as at the balance sheet date.

2.13. Cash Restricted in Use

Restricted balances of cash, which are shown under non-current financial assets as restricted funds (see Note 4.1), relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Company. As at December 31, 2006 and 2005, restricted cash totaled CZK 3,118 million and CZK 2,794 million, respectively.

2.14. Receivables, Payables and Accruals

Receivables are carried at their nominal value. Ceded receivables are valued at cost. Doubtful receivables are adjusted for uncollectible amounts through a provision account. Additions to the provision account are charged to income. At December 31, 2006 and 2005 the allowance for uncollectible receivables amounted to CZK 320 million and CZK 346 million, respectively.

Trade and other payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.15. Material and Supplies

Purchased inventories are valued at actual cost, using the weighted average method. Costs of purchased inventories comprise expenditure which has been incurred in respect of the acquisition of material and supplies, transportation costs included. When put in use, inventories are charged to income or capitalized as part of property, plant and equipment. Work-in-progress is valued at actual cost. Costs of inventories produced internally include direct material and labor costs. Obsolete inventories are reduced to their realizable value by a provision account to the income statement.

2.16. Fossil Fuel Stock

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

2.17. Derivative Financial Instruments

The Company 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 Company 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 Company 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 re-measuring 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.

2.18. Commodity Derivative Instruments

According to IAS 39, certain commodity contracts fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Company provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IAS 39.

Forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- a physical delivery takes place under such contracts,
- the volumes purchased or sold under the contracts correspond to the Company's operating requirements,
- the contract cannot be considered as written option as defined by the standard. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

The Company thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company, and do not therefore come under the scope of IAS 39.

Commodity contracts, which fall under the scope of IAS 39, are carried at fair value with changes in the fair value recognized in the income statement.

2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. entertainment expenses, differences between book and tax depreciation, etc.). Income tax due is provided at a rate of 24% and 26% for the year ended December 31, 2006 and 2005, 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 calculated as the product of the tax rate applicable for the subsequent year and of the sum of differences between asset net book values for tax and accounting purposes and of other temporary differences between book and tax accounting. 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.

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.

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.

2.20. 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.

2.21. Nuclear Provisions

The Company 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 2%; the effect of interest rate is estimated 2.5%. 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 Company 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 Company's current estimates.

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.

2.22. 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.

2.23. 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 2006 and 2005 the expense recognized in respect of the share option plan amounted to CZK 235 million and CZK 296 million, respectively.

2.24. Translation of Foreign Currencies

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns using the exchange rate prevailing at the date of the transaction, as published by the Czech National Bank. In the accompanying financial statements, assets and liabilities are translated at the rate of exchange ruling at December 31. 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.

Exchange rates used as at December 31, 2006 and 2005 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2006	2005
1 EUR	27.495	29.005
1 USD	20.876	24.588
1 PLN	7.177	7.514
100 SKK	79.858	76.565
1 BGN	14.059	14.828
1 RON	8.127	7.874

2.25. Adoption of New IFRS Standards in 2006

In 2006 the Company adopted the following International Financial Reporting Standards and IFRIC Interpretations, which were relevant for the Company:

- IAS 19 Amendment – Employee Benefits
- IAS 21 Amendment – The Effect of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease
- IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adoption of the new or revised IFRS standards and interpretations did not have any effect on the opening balance of equity attributable to the Company's shareholders as at January 1, 2006 and 2005, respectively. They did however give rise to additional disclosures.

2.26. New IFRS Standards and Interpretations not yet effective

The Company is currently assessing the potential impacts of the new and revised standards that will be effective from January 1, 2007 or later. Most relevant to the Company's activities are IFRS 7 Financial Instruments: Disclosures, IFRS 8 Operating Segments, IFRIC Interpretation 8 Scope of IFRS 2, IFRIC Interpretation 9 Reassessment of Embedded Derivatives and IFRIC Interpretation 11 Group and Treasury Share Transactions. The Company currently does not expect that the new 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.

3. Net Plant in Service

Net Plant in Service at December 31, 2006 and 2005 were as follows (in CZK millions)

	Buildings	Plant and Equipment	Land and Other	Total 2006	Total 2005
Cost – opening balance	78,823	211,603	674	291,100	280,092
Additions	1,278	2,577	3	3,858	12,210
Disposals	(130)	(997)	(1)	(1,128)	(1,202)
Non-monetary contribution and other	(76)	(2,138)	–	(2,214)	–
Cost – closing balance	79,895	211,045	676	291,616	291,100
Accumulated depreciation and impairment – opening balance	(32,087)	(98,281)	–	(130,368)	(118,224)
Depreciation	(2,373)	(10,811)	–	(13,184)	(13,280)
Net book value of assets disposed	(7)	(87)	–	(94)	(23)
Non-monetary contribution and other	(43)	1,430	–	1,387	(2)
Disposals	130	997	–	1,127	1,199
Impairment losses recognized	(12)	(19)	–	(31)	(39)
Impairment losses reversed	16	26	–	42	1
Accumulated depreciation and impairment – closing balance	(34,376)	(106,745)	–	(141,121)	(130,368)
Property, plant and equipment, net	45,519	104,300	676	150,495	160,732

At December 31, 2006 and 2005, machinery and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2006	2005
Cost	20,505	20,541
Accumulated depreciation	(4,312)	(3,820)
Net book value	16,193	16,721

No property, plant and equipment were pledged as security at December 31, 2006.

4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Ownership interests, net	101,862	74,606
Restricted funds for nuclear decommissioning	2,272	1,921
Other restricted funds	846	873
Loans granted, net	1,019	1,122
Other long-term receivables, including prepayments	2,053	2,917
Financial assets in progress, net	104	377
Total	108,156	81,816

Debt securities at December 31, 2006 and 2005 are contracted to mature in the following periods after the balance sheet date (in CZK millions)

	2006		2005	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Due in 1–2 years	52	760	–	857
Due in 2–3 years	4	1,285	22	770
Due in 3–4 years	2	5	–	1,271
Due in 4–5 years	952	–	–	1
Due in more than 5 years	9	3	1,100	18
Total	1,019	2,053	1,122	2,917

Debt securities at December 31, 2006 and 2005 have following effective interest rate structure (in CZK millions)

	2006		2005	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Less than 2.0%	–	2,053	–	2,917
From 2.0% to 3.0%	–	–	–	–
From 3.0% to 4.0%	1,018	–	1,122	–
From 4.0% to 5.0%	1	–	–	–
Over 5.0%	–	–	–	–
Total	1,019	2,053	1,122	2,917

4.1. Restricted Bank Accounts

At December 31, 2006 and 2005, restricted balances of cash totaled CZK 3,118 million and CZK 2,794 million, respectively, and represented accumulated provision for the decommissioning, reclamation and maintenance of waste storages after they are put out of services, escrow accounts securing the Company's liquidity (pursuant to contracts entered into with the respective banks) from significant financial market volatility affecting market prices of designated hedging transactions, and accumulated provision for nuclear decommissioning in compliance with the Nuclear Law.

At December 31, 2006 and 2005, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 460 million and CZK 452 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 2,272 million and CZK 1,921 million, respectively.

4.2. Long-term Receivables from Disposal of Non-current Assets

At December 31, 2006 and 2005, long-term receivables from the disposal of non-current assets were CZK 2,012 million and CZK 2,854 million, respectively, and represent the balance of a receivable from the Ministry of Finance of the Czech Republic arising from the sale of the shares of ČEPS, a.s., in 2004. The Ministry of Finance of the Czech Republic paid CZK 2,817 million and CZK 1,416 in 2006 and 2005, respectively. In addition, an amount due in 2007, i.e. CZK 842 million was reclassified from long-term to short-term receivables in year 2006. In year 2005 the short-term part amounted to 2,817.

The total balance of the receivable arising from the sale of the shares of ČEPS, a.s., including the current portion, was CZK 5,671 million in 2005, while at December 31, 2006 the total receivable balance was CZK 2,854 million.

4.3. Other Long-term Receivables and Long-term Advances

At December 31, 2006 and 2005, other long-term receivables including long term advances totaled CZK 41 million and CZK 63 million, respectively.

4.4. Investments in Subsidiaries and Associates

The Company purchased additional shares of ŠKODA PRAHA a.s. in 2005, thus increasing its ownership interest from 68.9% to 97.6%. In late 2005, a minority squeeze out was successfully completed and the Company became the sole owner of ŠKODA PRAHA a.s.

In 2005, the Company purchased additional shares of Severomoravská energetika, a. s., thus increasing its ownership interest from 89.4% to 99.1%. In late 2005, a minority squeeze out was successfully completed and the Company became the sole owner of Severomoravská energetika, a. s. In addition, the Company completed squeeze outs in Východočeská energetika, a.s., and Západočeská energetika, a.s.

In January 2005, the Company acquired majority interests in three Bulgarian distribution companies, Elektrorazpredelenie Pleven AD, Elektrorazpredelenie Sofia Oblast AD and Elektrorazpredelenie Stolichno AD (the Company holds a 67% interest in each of the three companies), and in autumn 2005 the Company acquired a 51.01% interest in Electrica Oltenia S.A., which is a Romanian distribution company. In addition, the Company made cash contributions into the registered capital of ČEZnet, a.s. (CZK 1,000 million), ČEZ Správa majetku, s.r.o. (CZK 400 million), ČEZ Distribuční služby, s.r.o. (CZK 10 million) and ČEZ Měření, s.r.o. (CZK 159 million) in 2005. In addition, the Company acquired an ownership interest in ČEZ Měření, s.r.o., which was followed by a cash contribution made into the registered capital if this company. In late 2005, the Company made cash contribution into the registered capital of CEZ FINANCE B.V. (CZK 53 million).

Also in 2005, the Company acquired the shares of Severočeské doly a.s. from the National Property Fund and from the municipality of Březno, thus increasing its ownership interest from 37.2% to 93.1%.

In order to support its expanding activities, the Company established two fully owned foreign subsidiaries in 2005, namely ČEZ Bulgaria EAD, and CEZ Romania S.R.L. In addition, the Company acquired 100% interests in ČEZ Trade Bulgaria EAD and CEZ Hungary Ltd.

In 2006, the Company purchased 100% interests in Dutch companies CEZ Silesia B.V. and CEZ Poland Distribution B.V. CEZ Silesia B.V. is a sole owner of CEZ Chorzow B.V., which holds 88.82% of shares of a Polish power plant Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. CEZ Poland Distribution B.V. holds 74.8% of shares of a Polish power plant Elektrownia Skawina S.A. In the third quarter of 2006, the Company acquired the 100% interest in TEC Varna EAD, Bulgaria, and increased its registered capital through a cash contribution.

In late 2005, the Company contributed part of a business into the registered capital of ČEZ Prodej, s.r.o. and this fact was incorporated in the Commercial Register in 2006. In addition, the Company contributed an IT business into ČEZData, s.r.o. at the beginning of 2006, which was followed by the contribution of telecommunication assets into the registered capital of ČEZnet, a.s. The Company also increased the registered capital of ČEZ Trade Bulgaria EAD (by a cash contribution of CZK 3 million) and CEZ Hungary Ltd. (by a cash contribution of CZK 29 million).

By a squeeze out of minority shareholders exercised in 2006 the Company increased its ownership interest in Severočeské doly a.s. from 93.1% to 100%. Combining the acquisition of shares with minority squeeze out, the Company succeeded in increasing its interest in Severočeská energetika, a.s. from 56.93% to 100%.

The Company established several subsidiaries in 2006 in order to support the existing as well as future acquisitions in different regions. In this regard, ČEZ Srbija DOO (100%) was established in Serbia, New Kosovo Energy L.L.C. (100%) was established in Kosovo, and ČEZ LABORATORIES BULGARIA EOOD (100%) and ČEZ ELEKTRO BULGARIA AD (67%) in Bulgaria.

In 2006 the Company acquired a 100% interest in KRAPPA TRADE a.s., Czech Republic (in November 2006 renamed to PPC Úžín, a.s.), and a 100% interest in ZAO "TransEnergo", Russia.

At the year end 2006, the Company established subsidiaries CEZ Polska Sp. z o.o. (100%), Poland, ČEZ Ukraine CJSC (100%), Ukraine and Nove elektrane Republike Srpske d.o.o. (51%), Bosnia and Herzegovina.

The Company sold its 25% interest in KOTOUČ ŠTRAMBERK, spol. s r. o. in 2006.

The following table summarizes investments in subsidiaries and associates at December 31, 2006 and 2005. The financial information about these companies was obtained mainly from the companies' individual unaudited financial statements compiled for the year ended December 31, 2006 and audited financial statements compiled for the year ended December 31, 2005.

At December 31, 2006

Company	Interest in CZK millions	% interest	Number of shares	Nominal Value in CZK	Dividends in CZK millions	Equity in CZK millions	Profit/Loss in CZK millions
Severočeské doly a.s.	14,112	100.00	9,080,631	1,000	999	15,826	2,639
Severomoravská energetika, a. s.	12,818	100.00	3,407,265	1,000	1,362	9,866	726
Západočeská energetika, a.s.	9,944	100.00	1,605,615	1,000	2,351	4,595	(474)
Severočeská energetika, a.s.	9,905	100.00	3,257,667	1,000		7,096	3
TEC Varna EAD	8,804	100.00	850,550	10 [2]		6,508	97
Východočeská energetika, a.s.	7,803	100.00	2,549,544	1,000	204	7,683	(198)
CEZ Silesia B.V.	5,774	100.00				1,165	(57)
CEZ Poland Distribution B.V.	5,156	100.00				1,195	18
ČEZnet, a.s.	2,288	100.00	1,895	1,000,000		2,568	413
ČEZData, s.r.o.	2,103	100.00				1,756	(217)
ŠKODA PRAHA a.s.	987	100.00	1,257,524	1,000		588	(251)
ČEZ Měření, s.r.o.	217	100.00			90	410	179
ČEZ Logistika, s.r.o.	200	100.00				531	327
PPC Úžín, a.s.	170	100.00	1,100	100,000		109	(1)
Energetické opravny, a.s.	75	100.00	5,500	10,000		87	8
I & C Energo a.s.	55	100.00	15,000	10,000		303	31
CEZ FINANCE B.V.	54	100.00			9	64	9
CEZ Deutschland GmbH [1]	47	100.00				49	–
CEZ Hungary Ltd.	35	100.00				24	(9)
ČEZ Zákaznické služby, s.r.o.	20	100.00				277	150
ČEZ Polska Sp. z o.o.	9	100.00				9	–
ČEZ Srbija DOO	8	100.00				4	(4)
ČEZ Trade Bulgaria EAD	8	100.00	500,000	1 [2]		5	(2)
New Kosovo Energy L.L.C.	6	100.00				2	(3)
ČEZ ENERGOSERVIS spol. s r.o.	5	100.00				44	6
ZAO "TransEnergo"	5	100.00	110	100 [3]		(2)	(2)
CEZ Romania S.R.L.	4	100.00				5	1
ČEZ Bulgaria EAD	3	100.00	200,000	1 [2]		3	(1)
ČEZ Ukraine CJSC	3	100.00	635	1,000 [5]		3	–
CEZTel, a.s.	1	100.00	1,000	1,000		12	–
ČEZ LABORATORIES BULGARIA EOOD	1	100.00				1	–
Středočeská energetická a.s.	6,301	97.91	3,143,231	1,000		7,869	(45)
Elektrorazpredelenie Stolichno AD	5,827	67.00	129,176	10 [2]		4,155	835
Elektrorazpredelenie Pleven AD	1,760	67.00	80,802	10 [2]		1,275	71
Elektrorazpredelenie Sofia Oblast AD	1,101	67.00	143,983	10 [2]		2,026	70
ČEZ ELEKTRO BULGARIA AD	1	67.00	3,350	10 [2]		1	–
OSC, a.s.	12	66.67	92,664	100	11	81	15
ČEZ Obnovitelné zdroje, s.r.o.	464	60.80				1,414	(12)
Ústav jaderného výzkumu Řež a.s.	185	52.46	274,962	1,000		852	39
LOMY MOŘINA spol. s r.o.	169	51.05				372	1
Electrica Oltenia S.A.	5,068	51.01	36,481,412	10 [4]		13,771	767
Nove elektrone Republike Srpske d.o.o.	50	51.00				11	–
SIGMA - ENERGO s.r.o.	1	51.00				31	2
KNAUF POČERADY, spol. s r.o.	200	40.00			19	439	32
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	42	32.00	4,200	10,000		172	–
Coal Energy, a.s.	10	20.00	1	10,000,000	19	163	25
ČEZ Správa majetku, s.r.o.	550	18.30				3,115	119
ČEZ Prodej, s.r.o.	212	11.95				6,482	935
ČEZ Distribuční služby, s.r.o.	10	0.18				4,431	174
Total	102,583				5,064		
Allowances to ownership interest	(721)						
Total, net	101,862						

[1] The company rpg Energiehandel GmbH was renamed to CEZ Deutschland GmbH in February 2006.
[2] Nominal value of shares presented in BGN.
[3] Nominal value of shares presented in RUB.
[4] Nominal value of shares presented in RON.
[5] Nominal value of shares presented in UAH.

At December 31, 2005

Company	Interest in CZK millions	% interest	Number of shares	Nominal Value in CZK	Dividends in CZK millions	Equity in CZK millions	Profit/Loss in CZK millions
Severomoravská energetika, a. s.	12,818	100.00	3,407,265	1,000	844	10,491	1,315
Západočeská energetika, a.s.	9,944	100.00	1,605,615	1,000	398	7,399	781
Východočeská energetika, a.s.	7,803	100.00	2,549,544	1,000	630	8,093	1,316
ČEZnet, a.s.	1,988	100.00	1,770	1,000,000		2,032	217
ŠKODA PRAHA a.s.	987	100.00	1,257,524	1,000		794	49
ČEZData, s.r.o.	950	100.00				963	18
ČEZ Správa majetku, s.r.o.	550	100.00				550	(19)
ČEZ Měření, s.r.o.	217	100.00				321	102
ČEZ Logistika, s.r.o.	200	100.00				204	5
Energetické opravny, a.s.	75	100.00	5,500	10,000		80	7
I & C Energo a.s.	55	100.00	15,000	10,000		277	58
CEZ FINANCE B.V.	54	100.00				67	9
rpg Energiehandel GmbH	47	100.00				51	2
ČEZ Zákaznické služby, s.r.o.	20	100.00				127	114
ČEZ Distribuční služby, s.r.o.	10	100.00				9	–
CEZ Hungary Ltd.	6	100.00				5	(1)
ČEZ ENERGOSERVIS spol. s r.o.	5	100.00				38	6
ČEZ Trade Bulgaria EAD	5	100.00	300,000	1 [1]		4	–
CEZ Romania S.R.L.	4	100.00				4	–
ČEZ Bulgaria EAD	3	100.00	200,000	1 [1]		4	1
CEZTel, a.s.	1	100.00	1,000	1,000		11	(1)
Středočeská energetická a.s.	6,283	97.72	3,137,016	1,000	784	7,889	1,110
Severočeské doly a.s.	12,988	93.10	8,454,218	1,000	813	14,218	2,010
Elektrorazpredelenie Stolichno AD	5,827	67.00	129,176	10 [1]		3,441	549
Elektrorazpredelenie Pleven AD	1,760	67.00	80,802	10 [1]		1,245	(12)
Elektrorazpredelenie Sofia Oblast AD	1,102	67.00	143,983	10 [1]		2,005	156
OSC, a.s.	12	66.67	92,664	100	9	82	17
ČEZ Obnovitelné zdroje, s.r.o.	464	60.80				954	2
Severočeská energetika, a.s.	5,290	56.93	1,854,434	1,000	464	7,571	872
Ústav jaderného výzkumu Řež a.s.	185	52.46	274,962	1,000		813	33
LOMY MOŘINA spol. s r.o.	169	51.05				371	1
Electrica Oltenia S.A.	5,068	51.01	36,481,415	10 [2]		12,600	515
SIGMA - ENERGO s.r.o.	1	51.00				30	2
KNAUF POČERADY, spol. s r.o.	200	40.00			47	466	48
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	42	32.00	4,200	10,000		171	1
KOTOUČ ŠTRAMBERK, spol. s r. o.	30	25.00			94	391	19
Coal Energy, a.s.	10	20.00	1	10,000,000	21	174	108
Total	75,173				4,104		
Allowances to ownership interest	(567)						
Total, net	74,606						

[1] Nominal value of shares presented in BGN.
[2] Nominal value of shares presented in RON.

In 2003 and 2004, the Company established a provision against the shares of Severočeská energetika, a.s. in connection with their scheduled sale; the provision covered the difference between the carrying value of the shares and their market value calculated as the product of the number of shares multiplied by their price at the Prague Stock Exchange. As at December 31, 2004, the provision amounted to CZK 376 million. Following the reversal of the decision of the Office for the Protection of Competition regarding the Company's obligation to sell Severočeská energetika, a.s., the provision was reversed to income in March 2005.

In previous years, the Company maintained a provision against the shares of ŠKODA PRAHA a.s., covering the difference between the market price of the shares at the Prague Stock Exchange and their carrying value. As at December 31, 2006 and 2005, the provision totaled CZK 566 million and CZK 566 million, respectively.

In 2006, the Company created provision against the share in CEZData, s.r.o. in the total amount of CZK 155 million. This provision relates to the difference between book value of the share and expert valuation of the assets.

Long-term financial assets in progress as at December 31, 2006 and 2005 were as follows:
In late 2005, the Company made a non-cash contribution to the registered capital of ČEZ Prodej, s.r.o. and this fact was incorporated in the Commercial Register at the beginning of 2006.

The Company took part in a tender for the privatization of Slovenské elektrárne, a.s. in 2004. Costs incurred in connection with the project were charged to financial assets in progress. As another bidder won the government stake in Slovenské elektrárne, a.s., the investment in progress of CZK 89 million was charged to income in 2006 while the provision recognized in 2004 and 2005 was reversed to income.

The present balance of long-term financial assets in progress includes expenses incurred so far in certain future acquisitions.

4.5. Other Financial Assets

In 2005, the Company granted a long-term loan of CZK 1,100 million to its subsidiary, ČEZData, s.r.o. The loan was increased to CZK 1,300 million in 2006. Current portion of the loan, in the amount of CZK 350 mil., is presented as part of short-term receivables. In 2006, the Company granted long-term loans of CZK 50 million and of CZK 1 million to ČEZ Správa majetku, s.r.o. and ZAO "TransEnergo", respectively.

In addition, other financial assets include long-term loans granted to a company established by separating part of the Company's business in the course of privatization and to a city council in the area of one of the Company's power plants. Long-term financial assets presented in the accompanying balance sheet as at December 31, 2006 and 2005 total CZK 18 million and CZK 22 million, respectively. These amounts are net of provision of CZK 13 million, which was established against a loan outstanding.

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2006 and 2005 are as follows (in CZK millions)

	Software	Rights and Other	Total 2006	Total 2005
Cost at January 1	2,948	479	3,427	2,871
Additions	74	318	392	610
Disposals	(39)	–	(39)	(54)
Non-monetary contribution	(2,133)	–	(2,133)	–
Cost at December 31	850	797	1,647	3,427
Accumulated amortization at January 1	(2,215)	(74)	(2,289)	(1,850)
Amortization	(92)	(69)	(161)	(491)
Net book value of assets disposed	(4)	–	(4)	(2)
Non-monetary contribution	1,532	–	1,532	–
Disposals	39	–	39	54
Accumulated amortization at December 31	(740)	(143)	(883)	(2,289)
Intangible assets, net	110	654	764	1,138

At December 31, 2006 and 2005, intangible assets presented in the balance sheet included intangible assets in progress in the amount of CZK 121 million and CZK 149 million, respectively.

6. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2006 and 2005 were as follows (in CZK millions)

	2006	2005
Cash on hand and current accounts with banks	2,879	573
Deposit notes	2,699	250
Term deposits	9,436	160
Total	15,014	983

At December 31, 2006 and 2005, cash and cash equivalents included foreign currency deposits of CZK 12,862 million and CZK 576 million, respectively.

Average interest rates on term deposits and bank notes at December 31, 2006 and 2005 were 3.90% and 2.04%, respectively. The weighted average interest rate for 2006 and 2005 was 3.04% and 2.08%, respectively.

7. Receivables, net

The composition of receivables, net, at December 31, 2006 and 2005 is as follows (in CZK millions)

	2006	2005
Trade receivables	8,861	7,898
Short-term loans granted	532	–
Other receivables	373	456
Allowance for doubtful receivables	(320)	(346)
Total	9,446	8,008

Provisions of CZK 80 million and CZK 58 million were charged to income in 2006 and 2005, respectively, against receivables that are considered doubtful because a legal grace period has lapsed from their due dates, the debtor is in bankruptcy proceedings or for another reason. Provisions were established based on the aging of receivables and their recoverability. Provisions of CZK 106 and CZK 165 million were credited to income in 2006 and 2005, respectively, as there are no grounds to maintain them because, e.g., the related receivable was redeemed or written off. Receivables are stated net of provision in the accompanying balance sheet.

At December 31, 2006 and 2005, overdue receivables totaled to CZK 379 million and CZK 376 million.

The information about receivables from related parties is included in Note 22.

8. Emission Rights

The following table summarizes the movements and balances of emission rights in measurement units (thousands of tons) in 2006 and 2005 and as at December 31, 2006 and 2005, respectively, and their valuation presented in the accompanying financial statements:

	2006		2005	
	in thousands tons	in CZK millions	in thousands tons	in CZK millions
Granted emission rights				
Granted emission rights at January 1	34,467	–	–	–
Emission rights granted	36,867	–	36,867	–
Settlement of prior year actual emissions	(32,750)	–	–	–
Emission rights sold	(6,633)	–	(2,400)	–
Granted emission rights at December 31	**31,951**	**–**	**34,467**	**–**
Emission rights held for trading				
Emission rights for trading at January 1	205	125	–	–
Emission rights purchased	3,654	1,904	845	541
Emission rights sold	(3,858)	(2,035)	(640)	(410)
Fair value adjustment	–	6	–	(6)
Emission rights held for trading at December 31	**1**	**–** [1]	**205**	**125**

[1] 687 thousands tons in the total amount of CZK 122 thousands.

In 2006 and 2005, total emissions of greenhouse gases made by the Company amounted to an equivalent 34,294 thousand tons of CO_2 and 32,750 thousand tons of CO_2, respectively. Because the actual emissions during 2005 were lower than the quantity of granted emission rights at the balance sheet date, the Company did not recognize any provision for missing emission rights. The amount of emissions CO_2 per year 2006 was higher by 2,343 tones CO_2 than the amount of emissions granted per year 2006. Because of that in 2006 the provision amounted to 415 millions CZK, which represents 2,343 thousand tons of CO_2 valuated at 6.45 EUR per tone.

The following table shows the impact of transactions with emission rights on income for the year ended December 31, 2006 and 2005 (in CZK millions):

	2006	2005
Gain on sales of granted emission rights	3,481	1,018
Net gain from emission trading	19	21
Fair value adjustment to trading allowances	6	(6)
Provisions for missing emissions rights	(415)	–
Net gain related to emission rights	**3,091**	**1,033**

9. Other Financial Assets, net

Other financial assets, net at December 31, 2006 and 2005 were as follows (in CZK millions)

	2006	2005
Derivatives	3,388	956
Securities available for sale	1,405	–
Securities held for trading	21	20
Total	**4,814**	**976**

10. Other Current Assets

Other current assets at December 31, 2006 and 2005 were as follows (in CZK millions)

	2006	2005
Prepayments	498	482
Advances granted	247	115
Total	745	597

11. Equity

As at December 31, 2006, the share capital of the Company registered in the Commercial Register totaled CZK 59,221,084,300 and consisted of 592,210,843 shares with a nominal value of CZK 100 per share. All shares are bearer shares that are fully paid and listed.

The Company's share capital as at December 31, 2006 and 2005 is as follows

	Number of Shares Outstanding	Par Value per Share (CZK)	Total (CZK millions)
2006			
Registered shares	592,210,843	100	59,221
Treasury shares	(3,455,000)	100	(1,943)
Total	588,755,843		57,278
2005			
Registered shares	592,210,843	100	59,221
Treasury shares	(2,440,000)	100	(984)
Total	589,770,843		58,237

The Company owned 2,440,000 treasury shares as at December 31, 2005, which was reflected in the balance sheet as a deduction from the share capital. Treasury shares held by the Company are used to cover the Company's obligations associated with the share option plan. During 2006, the Company acquired 1,715,000 treasury shares for a total of CZK 1,273 million and sold 700,000 treasury shares for a total of CZK 135 million. The remaining 3,455,000 treasury shares are reflected in the balance sheet at cost. Profit or loss on the sale of treasury shares were included in retained earnings.

In accordance with Czech regulations, joint stock companies are required to establish a non-distributable reserve fund for contingencies against possible future losses. 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 at December 31, 2006 and 2005, the balance was CZK 13,167 million and CZK 11,327 million, respectively. The reserve fund includes also amounts equal to the purchase price of treasury shares held by the Company. At December 31, 2006 and 2005 such balances amounted to CZK 1,943 million and CZK 984 million, respectively, and were recorded against distributable retained earnings.

Dividends paid per share were CZK 15.0 and CZK 9.0 in 2006 and 2005, respectively. Dividends from 2006 profit will be declared on the general meeting which will be held before the end of June 2007.

12. Long-term Debt

Long-term debt at December 31, 2006 and 2005 was as follows (in CZK millions)

	2006	2005
7.125% Notes, due 2007 (USD 178 million) 1)	3,765	4,406
7.25% Eurobonds, due 2006 (EUR 200 million) 1)	–	5,934
4.625% Eurobonds, due 2011 (EUR 400 million) 1)	10,942	11,532
4.125% Eurobonds, due 2013 (EUR 500 million)	13,593	–
9.22% Zero Coupon Debentures, due 2009 (CZK 4,500 million) 2)	3,843	3,561
9.22% Debentures, due 2014 (CZK 2,500 million) 3)	2,495	2,495
3.35% Debentures, due 2008 (CZK 3,000 million)	2,997	2,993
Total long term bonds and debentures	37,635	30,921
Less: Current portion	(3,765)	(5,934)
Long-term bonds, net of current portion	33,870	24,987
Long-term bank loans:		
2.00% to 2.99% p. a.	1,853	2,226
3.00% to 3.99% p. a.	200	588
4.00% to 4.99% p. a.	–	2,477
5.00% to 5.99% p. a.	1,338	932
6.00% to 6.99% p. a.	227	274
7.00% to 7.99% p. a.	618	832
Total long term loans	4,236	7,329
Less: current portion	(2,055)	(1,836)
Long-term loans, net of current portion	2,181	5,493
Long term debts total	41,871	38,250
Less: current portion	(5,820)	(7,770)
Long-term debt, net of current portion	36,051	30,480

1) Eurobonds and U.S. Notes have been issued through the subsidiary, CEZ FINANCE B.V. The Company was granted a loan by CEZ FINANCE B.V., corresponding to the nominal value of the bonds.
2) Nominal value of zero coupon debentures is CZK 4,500 million.
3) Scheduled transfer to floating interest rate (Czech Republic CPI + 4.20%) from 2006. The rate was 6.40% at December 31, 2005.

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 hedging instruments see Note 13.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.17.

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

	2006	2005
Current portion	5,820	7,770
Between 1 and 2 years	3,356	6,743
Between 2 and 3 years	4,202	3,759
Between 3 and 4 years	359	4,076
Between 4 and 5 years	11,301	469
Thereafter	16,833	15,433
Total long-term debt	41,871	38,250

The following table analyses long-term debt by currency (in millions)

	2006		2005	
	Foreign currency	CZK	Foreign currency	CZK
EUR	925	25,233	633	18,422
USD	258	5,451	350	8,661
CZK	–	11,187	–	11,167
Total long-term debt		41,871		38,250

In the normal course of business, the financial position of the Company 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 Company 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 Company to significant risk, the Company uses sensitivity analyses to determine the impacts that market risk exposures may have on the fair values of the Company's financial instruments. To perform sensitivity analyses, the Company 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 Company 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 13). As at December 31, 2006 and 2005, a net unrealized loss of CZK 45 million and CZK 94 million, respectively, was recognized in equity in respect of the cash flow hedges.

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2006 and 2005 without considering interest rate hedging (in CZK millions):

	2006	2005
Floating rate long-term debt		
with interest rate fixed for 1 month	325	765
with interest rate fixed from 1 to 3 months	2,053	3,890
with interest rate fixed from 3 months to 1 year	577	995
with interest rate fixed for more than 1 year	2,495	2,495
Total floating rate long-term debt	5,450	8,145
Fixed rate long-term debt	36,421	30,105
Total long-term debt	41,871	38,250

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 the 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. Exchange rate differences arising on the liability that qualifies as an effective hedging instrument were reported directly in equity in the amount of CZK 918 million and CZK 314 million as at December 31, 2006 and 2005, respectively.

The Company has entered into a number of loan agreements, which contain restrictive financial covenants relating to debt service coverage, ratio of debt to total capital and current ratio. In 2006 and 2005 the Company has complied with all required covenants.

13. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

13.1. Cash and cash equivalents
The carrying amounts of cash and other current financial assets approximate fair value due to the relatively short-term maturity of these financial instruments.

13.2. Securities held for trading
The fair values of equity and debt securities that are held for trading are estimated based on quoted market prices.

13.3. 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 the Company considered use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments are carried at cost, the carrying amount approximates the fair value of such investments.

13.4. Receivables and payables
The carrying amounts of receivables and payables approximate fair value due to the short-term maturity of these financial instruments.

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

13.6. 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.

13.7. 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, 2006 and 2005 are as follows (in CZK millions)

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Long-term financial assets	108,156	108,156	81,816	81,816
of which: Equity securities and interests	101,862	101,862	74,606	74,606
Debt securities	1,019	1,019	1,122	1,122
Other long-term financial assets	5,275	5,275	6,088	6,088
Receivables	9,446	9,446	8,008	8,008
Cash and cash equivalents	15,014	15,014	983	983
Short-term equity securities held for trading	9	9	13	13
Short-term debt securities held for trading	12	12	7	7
LIABILITIES				
Long-term debt including the current portion	(41,871)	(42,889)	(38,250)	(40,040)
Current liabilities	(15,378)	(15,378)	(5,688)	(5,688)
DERIVATES				
Cash flow hedges				
Receivables	–	–	–	–
Payables	(701)	(701)	(787)	(787)
Total cash flow hedges	(701)	(701)	(787)	(787)
Fair value hedges				
Receivables	–	–	25	25
Payables	(979)	(979)	(2,045)	(2,045)
Total fair value hedges	(979)	(979)	(2,020)	(2,020)
Electricity trading contracts				
Receivables	2,687	2,687	771	771
Payables	(2,716)	(2,716)	(576)	(576)
Total electricity trading contracts	(29)	(29)	195	195
Other derivatives				
Receivables	701	701	160	160
Payables	(806)	(649)	(803)	(803)
Total other derivatives	(105)	52	(643)	(643)

14. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. 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 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 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).

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 2006 and 2005, respectively, the payments to the nuclear account amounted to CZK 1,304 million and CZK 1,236 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 Company has established provisions as described in Note 2.21, 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, 2006 and 2005 (in CZK millions):

	Accumulatd provisions			
	Nuclear Decommissioning	Spent fuel storage Interim	Spent fuel storage Long-term	Total
Balance at December 31, 2004	8,938	3,437	16,905	29,280
Movements during 2005				
Discount accretion	224	86	423	733
Effect of inflation	402	155	760	1,317
Provision charged to income statement	–	671	–	671
Effect of change in estimate charged to income statement	–	50	–	50
Effect of change in estimate added to fixed assets	(8)	–	5,121	5,113
Current cash expenditures	–	(231)	(1,236)	(1,467)
Balance at December 31, 2005	9,556	4,168	21,973	35,697
Movements during 2006				
Effect of real interest rate	239	104	549	892
Effect of inflation	191	84	439	714
Provision charged to income statement	–	220	–	220
Effect of change in estimate charged to income statement	–	(46)	–	(46)
Effect of change in estimate added to (deducted from) fixed assets	(4)	564	(32)	528
Current cash expenditures	–	(198)	(1,304)	(1,502)
Balance at December 31, 2006	9,982	4,896	21,625	36,503

15. Trade and Other Payables

Trade and other payables at December 31, 2006 and 2005 were as follows (in CZK millions)

	2006	2005
Trade payables	7,092	5,219
Derivatives	5,202	4,211
Payables from Group cashpooling	8,286	–
Other payables	470	469
Total	21,050	9,899

16. Accrued Liabilities

Accrued liabilities at December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Provisions	1,132	1,057
Accrued interest	793	905
Taxes and fees, except income tax	540	375
Unbilled goods and services	749	412
Social and bonus funds	155	164
Total	3,369	2,913

In addition to the nuclear provisions, the Company establishes other provisions. In 2006 and 2005, the Company, in compliance with the Law on Wastes, established a provision for future expenditures related to the decommissioning, reclamation and maintenance of waste storages after they are put out of services. The balance of the provision at December 31, 2006 and 2005 was CZK 452 million and CZK 449 million.

The Company established a provision for risks arising from business disputes in 2005 and 2004. The level of provision was determined on the basis of a legal analysis of controversial contracts and its balance was CZK 368 million in 2005. As the risks arising from business contracts subsided, the provision was credited to income in full in 2006.

The Company is by law liable for damages caused by pollution and establishes a provision for environmental claims, which is based on the current estimates of its future liabilities. At December 31, 2006 and 2005, the provision totaled CZK 264 million and CZK 240 million, respectively.

In 2006, Company recognized provision in total amount of CZK 415 million for insufficient amount of granted allowances to cover actual emission (see Note 8).

17. Revenues

Revenues for the year ended December 31, 2006 and 2005 were as follows (in CZK millions)

	2006	2005
Sales of electricity	93,254	65,199
of which: Unregulated sales – domestic [1]	62,386	51,375
Unregulated sales – foreign	20,685	8,137
Sales of ancillary and other services	7,339	6,263
Change in fair value of derivatives	2,844	(576)
Sales of heat	1,504	1,488
Other	1,212	957
Total	95,970	67,644

[1] Domestic sales of electricity also include domestic sales of electricity intended for export, including regulation electricity and deviations from the Electricity Market Operator.

Domestic sales of electricity and ancillary services are concentrated primarily with the regional distribution companies, ČEZ Prodej, s.r.o., and ČEPS, a.s.

The change in fair value of derivatives represents gains and losses from revaluation of electricity sales contracts classified as derivatives contracts ("trading"). The Company expects net settlement of these contracts 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 derivatives electricity purchase contracts are included in the item Purchased power and related services in the profit and loss statement. The losses on these contracts amounted to CZK 3,068 million and the gain amounted to CZK 771 million, in year 2006 and 2005, respectively.

Physical settlement of electricity contracts held for trading and contracts not satisfying the own-use criteria is recognized as revenues and operating expenses and included in sales of electricity and purchased power respectively. In 2006 such realized sales of electricity from trading contracts amounted to CZK 7,211 million and related purchases under trading contracts amounted to CZK 7,149 million. In 2005 the system used by the Company at that time was unable to provide complete information regarding the realized sales and purchases under the trading contracts. Management has estimated that in 2005 the electricity sales and purchases realized from the trading contracts were both approximately CZK 1 billion and that the net gain realized was insignificant.

18. Salaries and Wages

Salaries and wages for the year ended December 31, 2006 and 2005 were as follows (in CZK millions)

2006	Total	Supervisory Board	Board of Directors	Management
Average recalculated number of employees	6,415	12 [1]	5 [1]	57 [2]
Salaries and wages [3]	(3,232)	–	–	(224)
Remuneration of board members, including royalties	(34)	(18)	(16)	–
Share options	(235)	–	(201)	(34)
Social security and health insurance [4]	(1,167)	–	–	(81)
Other personnel expenses	(260)	(12)	(6)	(40)
Total personnel expenses	(4,928)	(30)	(223)	(379)

2005	Total	Supervisory Board	Board of Directors	Management
Average recalculated number of employees	6,618	12 [1]	5 [1]	52 [2]
Salaries and wages [3]	(2,939)	–	–	(194)
Remuneration of board members, including royalties	(26)	(15)	(11)	–
Share options	(296)	(148)	(58)	(90)
Social and health security [4]	(1,044)	–	–	(68)
Other personnel expenses	(489)	(10)	(1)	(8)
Total personnel expenses	(4,794)	(173)	(70)	(360)

1) Eight external members of Supervisory Board members and Directors not included in total headcount.
2) Directors with executive powers are included under both the "Board of Directors" caption and the "Management" caption.
3) Salaries and wages include a contingent item for the supplementary payment of bonuses.
4) Social security and health insurance costs include a contingent item.

Management includes the CEO and managers of divisions, departments, organizational units and sections.

Other personnel expenses include the costs of life capital insurance totaling CZK 20 million and CZK 13 million, which was provided to members of statutory and supervisory bodies and management in 2006 and 2005, respectively. In addition to the above personnel costs, Directors and other managers were entitled to use company cars for both business and private purposes.

If the Company terminates a contract with a Director before his/her term of office expires, the Director is entitled to a severance pay tantamount to all monthly remuneration he/she would receive until the end of the originally agreed term of office. This provision does not apply if a Director resigns.

At December 31, 2006, 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 3,455 thousand. Share options granted to the members of Board of Directors and the Executive Committee vest over a three year period after the grant date, or the date of appointment, respectively, with one third of the options vesting at each annual anniversary. The options can be exercised during the term of office of the respective employee and in a further 12 months after the end of such period. The options granted to the members of the Board of Directors before May 2006 vested 3 months after appointment of the respective member to the Board. The options granted to the members of the Executive Committee before May 2006 had a two years vesting period, with approximately one half of the options vesting after one year and the remaining options vesting after two years from date of appointment of the respective Committee member. Options granted before May 2006 could be exercised during the term of office of the respective employee and in a further 3 months after the end of such period. The exercise price for the granted options is based on the average quoted market price of the shares on the Prague stock exchange during the one month period preceding the date of appointment of the respective Board or Committee member (six months average for options granted before May 2006). The share option plan for members of the Supervisory Board was canceled prospectively by the decision of the shareholders on annual meeting held in June 2005. In 2006 and 2005 the Company has recognized a compensation expense of CZK 235 million and CZK 296 million related to the granted options. The Company has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2006 and 2005 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options				
	Supervisory Board '000s	Board of Directors '000s	Other '000s	Total '000s	Weighted average exercise price (CZK per share)
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 [2)]	**600**	**1,750**	**975**	**3,325**	**198.47**
Options granted	–	900	225	1,125	646.91
Options exercised [1)]	(150)	(410)	(140)	(700)	192.26
Options forfeited	–	–	(295)	(295)	285.07
Share options at December 31, 2006 [2)]	**450**	**2,240**	**765**	**3,455**	**338.35**

[1)] In 2006 and 2005 the weighted average share price at the date of the exercise for the options exercised was CZK 798.30 and CZK 430.71 respectively.
[2)] At December 31, 2006 and 2005 the number of exercisable options was 2,650 thousand pieces and 2,350 thousand pieces, respectively. The weighted average exercise price of the exercisable options was 254.17 CZK per share and 158.55 CZK per share at December 31, 2006 and 2005, 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:

	2006	2005
Weighted average assumptions		
Dividend yield	2.0%	3.0%
Expected volatility	30.6%	29.6%
Mid-term risk-free interest rate	2.7%	2.8%
Expected life (years)	2.9	2.1
Share price (CZK per share)	797.6	399.4
Weighted average grant-date fair value of options (CZK per 1 option)	**230.2**	**174.7**

On December 31, 2006 and 2005 the exercise prices of outstanding options were in the following ranges:

	2006	2005
CZK 100–500 per share	2,405	3,250
CZK 500–900 per share	1,050	75
Total	**3,455**	**3,325**

The options granted to the members of Board of Directors and Supervisory Board, which were outstanding on December 31, 2006 and 2005, respectively, had an average remaining contractual life of 2.5 years and 2.3 years, respectively. The options granted to members of the Executive Committee can be exercised in a period ending 12 months (3 months for options granted before May 2006) after the end of the membership in the Executive Committee, which is not set for a definite period of time.

19. Other Operating Expenses

Other operating expenses for the year ended December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Services	(4,607)	(3,282)
Change in provisions and valuation allowances	414	(436)
Taxes and fees	(206)	(288)
Write-off of bad debts and cancelled investment	(39)	(132)
Travel expense	(83)	(75)
Gifts	(114)	(50)
Gain on sale of property, plant and equipment	40	11
Gain (loss) on sale of material	(11)	56
Fines, penalties and penalty interest, net	(1)	57
Other, net	161	(199)
Total	**(4,446)**	**(4,338)**

20. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 24% and 26% in 2006 and 2005, respectively. The Czech corporate income tax rate for 2007 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.

20.1. Income Tax Provision

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

	2006	2005
Current income tax charge	(6,475)	(1,926)
Adjustments in respect of current income tax of previous periods	17	187
Deferred income taxes	(210)	(1,084)
Total	(6,668)	(2,823)

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

	2006	2005
Income before income taxes	32,471	20,458
Statutory income tax rate in Czech Republic	24%	26%
"Expected" income tax expense	(7,793)	(5,319)
Add (deduct) tax effect of		
Change in tax rates	–	1,353
Czech/IFRS accounting differences	8	(217)
Non-deductible provisions, net	(37)	254
Other non-deductible (non taxable) items, net	(89)	(150)
Tax credits	–	2
Additional tax assessments related to prior years	17	187
Non-taxable revenue from dividends	1,226	1,067
Income taxes	(6,668)	(2,823)
Effective tax rate	21%	14%

20.2. Deferred Taxes

Deferred income tax liability, net, at December 31, 2006 and 2005 was calculated as follows (in CZK millions):

	2006	2005
Accumulated provision for nuclear decommissioning and spent fuel storage	7,489	7,369
Allowances	52	88
Other temporary differences	85	67
Total deferred tax assets	7,626	7,524
Tax depreciation in excess of financial statement depreciation	20,294	19,424
Other provisions	454	1,043
Penalty receivables	3	3
Deferred tax recognized in equity	211	53
Other temporary differences	53	22
Total deferred tax liability	21,015	20,545
Total deferred tax liability, net	13,389	13,021

21. Other Income (Expenses), Net

Other finance income (expenses), net, for the year ended December 31, 2006 and 2005 consist of the following (in CZK millions)

	2006	2005
Dividends received	5,064	4,104
Change in impairment of financial investments	(66)	525
Derivative gains (losses), net	(440)	162
Other, net	(187)	(75)
Total	4,371	4,716

22. Related Parties

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

At December 31, 2006 and 2005, the receivables from related parties and payables to related parties are as follows (in CZK millions):

Subsidiaries and associates

Company	Receivables		Payables	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
Direct control				
ČEZ Bulgaria EAD	60	–	–	–
CEZ Deutschland GmbH [1)]	83	117	–	–
CEZ FINANCE B.V.	9	–	14,707	21,876
CEZ Romania S.R.L.	46	–	–	–
Coal Energy, a.s.	394	430	2	–
ČEZ ENERGOSERVIS spol. s r.o.	2	1	45	44
ČEZ Měření, s.r.o.	4	2	304	–
ČEZ Obnovitelné zdroje, s.r.o.	31	–	60	–
ČEZ Prodej, s.r.o.	1,199	1,085	2,794	25
ČEZ Správa majetku, s.r.o.	105	1	127	30
ČEZ Zákaznické služby, s.r.o.	4	1	257	–
ČEZData, s.r.o.	1,376	1,106	698	7
ČEZnet, a.s.	5	1	38	41
Elektrorazpredelenie Pleven AD	–	35	–	–
Elektrorazpredelenie Sofia Oblast AD	–	35	–	5
Elektrorazpredelenie Stolichno AD	–	35	–	–
Energetické opravny, a.s.	4	7	60	82
I & C Energo a.s.	2	3	146	212
Severočeské doly a.s.	10	9	478	485
Severomoravská energetika, a. s.	–	210	–	1
Středočeská energetická a.s.	52	12	–	–
ŠKODA PRAHA a.s.	–	–	78	209
Ústav jaderného výzkumu Řež a.s.	–	–	189	161
Východočeská energetika, a.s.	2	3	66	1
Západočeská energetika, a.s.	2	1	198	1
Other	16	24	40	63
Total – direct control	3,406	3,118	20,287	23,243
Indirect control				
ČEZ Distribuce, a. s.	67	44	3,494	7
Energetika Vítkovice, a.s.	50	–	–	–
ŠKODA PRAHA Invest s.r.o.	–	–	101	–
Other	3	–	26	18
Total – indirect control	120	44	3,621	25
Total	3,526	3,162	23,908	23,268

1) The company rpg Energiehandel GmbH was renamed to CEZ Deutschland GmbH in February 2006.

Other related parties

Company	Receivables		Payables	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
ČEPS, a.s.	167	235	50	131
České dráhy, a.s.	2	1	170	131
Ministerstvo financí ČR	2,854	5,671	–	–
Total	3,023	5,907	220	262

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

Subsidiaries and associates

Company	Sales to related parties 2006	2005	Purchase from related parties 2006	2005
Direct control				
ČEZ Bulgaria EAD	112	–	–	–
CEZ Deutschland GmbH [1]	844	1,577	–	–
CEZ Romania S.R.L.	47	–	–	–
Coal Energy, a.s.	4,623	6,356	24	1,041
ČEZ ENERGOSERVIS spol. s r.o.	8	7	248	223
ČEZ Měření, s.r.o.	128	11	–	–
ČEZ Obnovitelné zdroje, s.r.o.	9	1	65	–
ČEZ Prodej, s.r.o.	44,692	4,737	3,405	168
ČEZ Správa majetku, s.r.o.	114	4	342	41
ČEZ Zákaznické služby, s.r.o.	27	11	2	2
ČEZData, s.r.o.	356	8	1,522	32
ČEZnet, a.s.	22	6	385	363
Elektrorazpredelenie Pleven AD	–	35	–	–
Elektrorazpredelenie Sofia Oblast AD	–	35	–	5
Elektrorazpredelenie Stolichno AD	–	35	–	–
Energetické opravny, a.s.	19	17	501	409
I & C Energo a.s.	26	24	795	841
KNAUF POČERADY, spol. s r.o.	120	70	–	–
KOTOUČ ŠTRAMBERK, spol. s r. o. [2]	–	42	41	91
LOMY MOŘINA spol. s r.o.	–	10	151	130
OSC, a.s.	–	–	–	73
Severočeská energetika, a.s.	19	3,690	107	305
Severočeské doly a.s.	1,046	46	6,380	6,154
Severomoravská energetika, a. s.	–	7,630	–	201
SIGMA - ENERGO s.r.o.	6	2	73	56
Středočeská energetická a.s.	16	4,688	14	308
ŠKODA PRAHA a.s.	3	5	219	853
Ústav jaderného výzkumu Řež a.s.	1	1	370	435
Východočeská energetika, a.s.	220	3,955	5	580
Západočeská energetika, a.s.	2,366	2,590	4	56
Other	32	28	8	15
Total – direct control	54,856	35,621	14,661	12,382
Indirect control				
AFRAS Energo s.r.o. [3]	–	–	36	34
ČEZ Distribuce, a. s.	538	84	50	55
Energetika Vítkovice, a.s.	–	–	74	–
SD - 1.strojírenská, a.s.	–	–	44	–
SD - Kolejová doprava, a.s.	–	–	28	26
ŠKODA PRAHA Invest s.r.o.	–	–	823	–
Ústav aplikované mechaniky Brno, s.r.o.	–	–	13	16
Other	3	–	5	30
Total – indirect control	541	84	1,073	161
Total	55,397	35,705	15,734	12,543

[1] Company rpg Energiehandel GmbH was renamed to CEZ Deutschland GmbH in February 2006.
[2] KOTOUČ ŠTRAMBERK, spol. s r. o. was sold in June 2006, therefore 2006 values are as at 31 May 2006.
[3] Company GITY MaR, s.r.o., was renamed to AFRAS Energo s.r.o. in May 2006.

Other related parties

Company	Sales to related parties 2006	2005	Purchase from related parties 2006	2005
ČEPS, a.s.	7,549	8,040	1,743	876
České dráhy, a.s.	15	1,394	1,504	1,703
ČESKÝ TELECOM, a.s. 1)	–	71	–	–
Eurotel Praha, spol. s r.o. 1)	–	34	–	3
PARAMO, a.s. 2)	–	–	–	20
SPOLANA a.s. 2)	–	–	–	22
Other	2	2	2	6
Total	7,566	9,541	3,249	2,630

1) From January to June 2005.
2) From January to May 2005.

23. Segment Information

The Company is involved in the generation and sale of electricity and trading in electricity and operates mainly the European Union markets. The Company has not identified any other separate industry or geographical segments.

24. Earnings per share

	2006	2005
Numerator – basic and diluted (CZK millions)		
Net profit	25,803	17,635
Denominator – basic (thousands shares)		
Weighted average shares outstanding	589,329	590,426
Dilutive effect of treasury shares 1)	2,882	1,785
Denominator – diluted (thousands shares)		
Adjusted weighted average shares	592,211	592,211
Net income per share (CZK per share)		
Basic	43.8	29.9
Diluted	43.6	29.8

1) Average number of own shares in 2006 and 2005.

25. Commitment and Contingencies

25.1. Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2006 to total CZK 123.4 billion over the next five years, as follows: CZK 15.1 billion in 2007, CZK 20.4 billion in 2008, CZK 27.4 billion in 2009, CZK 29.4 billion in 2010 and CZK 31.1 billion in 2011. 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 Company will be a 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, 2006 significant purchase commitments were outstanding in connection with the construction program.

25.2. Environmental Matters

The Czech Republic adopted a series of environmental acts and laws and regulations ("the Acts") including a timetable for the reduction of atmospheric emissions. As at December 31, 1998, all plants operated by the Company were upgraded to meet the environmental requirements of the Acts.

The Company is also liable under the Acts for past environmental damage. In 2006 and 2005, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 1 million and CZK 3 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 25 million and CZK 43 million in 2006 and 2005, respectively, for pollution damages and reversed CZK 1 million and CZK 3 million in 2006 and 2005, 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.

25.3. Insurance Matters

The Nuclear Act 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). The Company has obtained all insurance policies with minimal limits as required by the law. The Company concluded mentioned insurance policies with the Czech nuclear pool, a group of insurance companies.

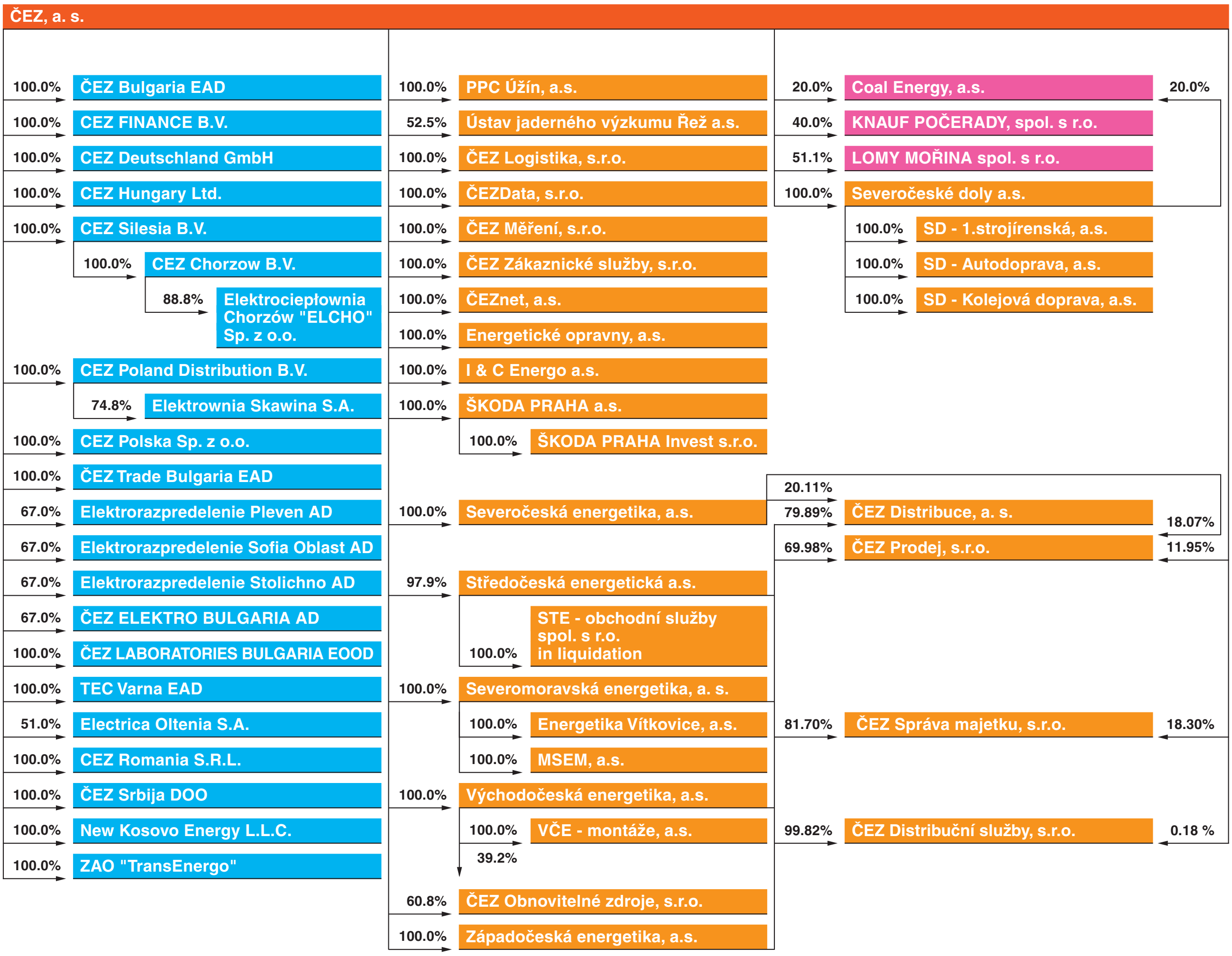
The Company has renewed insurance policies covering the assets of its fossil, hydro and nuclear power plants general third party liability insurance in connection with main operations of the Company and the Company has insurance policies covering Directors' and Supervisory Board members' liability.

26. Events After the Balance Sheet Date

In January 2007 the Board of directors and the Supervisory boards have authorized a plan to merge ČEZ, a. s., with its subsidiaries Středočeská energetická a.s., Severomoravská energetika, a. s., Severočeská energetika, a.s., Východočeská energetika, a.s., and Západočeská energetika, a.s. The merger should be carried out during the year 2007.

Contents

CEZ Consolidated Group as at 31 December 2006



- corporate parent
- Czech subsidiary
- foreign subsidiary
- associate

% indicates controlling entity's stake in company's stated capital.

Division of consolidated group companies into business segments

Power Production & Trading

- ČEZ, a. s.
- CEZ Deutschland GmbH
- CEZ FINANCE B.V.
- CEZ Hungary Ltd.
- CEZ Chorzow B.V.
- CEZ Poland Distribution B.V.
- CEZ Polska Sp. z o.o.
- CEZ Silesia B.V.
- ČEZ Obnovitelné zdroje, s.r.o.
- ČEZ Srbija DOO
- Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.
- Elektrownia Skawina S.A.
- Energetika Vítkovice, a.s.
- New Kosovo Energy L.L.C.
- PPC Úžín, a.s.
- TEC Varna EAD
- ZAO "TransEnergo"
- Coal Energy, a.s. *)

*) Associate consolidated by the equity method.

Distribution & Sale

- ČEZ Bulgaria EAD
- CEZ Romania S.R.L.
- ČEZ Trade Bulgaria EAD
- ČEZ Distribuce, a. s.
- ČEZ Distribuční služby, s.r.o.
- ČEZ ELEKTRO BULGARIA AD
- ČEZ LABORATORIES BULGARIA EOOD
- ČEZ Měření, s.r.o.
- ČEZ Prodej, s.r.o.
- ČEZ Zákaznické služby, s.r.o.
- Electrica Oltenia S.A.
- Elektrorazpredelenie Pleven AD
- Elektrorazpredelenie Sofia Oblast AD
- Elektrorazpredelenie Stolichno AD
- Severočeská energetika, a.s.
- Severomoravská energetika, a. s.
- Středočeská energetická a.s.
- Východočeská energetika, a.s.
- Západočeská energetika, a.s.

Mining

- Severočeské doly a.s.
- LOMY MOŘINA spol. s r.o. *)

Other

- ČEZ Logistika, s.r.o.
- ČEZ Správa majetku, s.r.o.
- ČEZData, s.r.o.
- ČEZnet, a.s.
- Energetické opravny, a.s.
- I & C Energo a.s.
- MSEM, a.s.
- SD - 1.strojírenská, a.s.
- SD - Autodoprava, a.s.
- SD - Kolejová doprava, a.s.
- STE - obchodní služby spol. s r.o. in liquidation
- ŠKODA PRAHA a.s.
- ŠKODA PRAHA Invest s.r.o.
- Ústav jaderného výzkumu Řež a.s.
- VČE - montáže, a.s.
- KNAUF POČERADY, spol. s r.o. *)

Division of CEZ Group companies into geographical segments

The CEZ Consolidated Group is divided into two geographical segments: Central Europe and South East Europe.

Central Europe

- ČEZ, a. s.
- CEZ Deutschland GmbH
- CEZ FINANCE B.V.
- CEZ Hungary Ltd.
- CEZ Chorzow B.V.
- CEZ Poland Distribution B.V.
- CEZ Polska Sp. z o.o.
- CEZ Silesia B.V.
- 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.
- ČEZData, s.r.o.
- ČEZnet, a.s.
- Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.
- Elektrownia Skawina S.A.
- Energetické opravny, a.s.
- Energetika Vítkovice, a. s.
- I & C Energo a.s.
- MSEM, a.s.
- PPC Úžín, a.s.
- SD - 1.strojírenská, a.s.
- SD - Autodoprava, a.s.
- SD - Kolejová doprava, a.s.
- Severočeská energetika, a.s.
- Severočeské doly a.s.
- Severomoravská energetika, a. s.
- STE - obchodní služby spol. s r.o. in liquidation
- Středočeská energetická a.s.
- ŠKODA PRAHA a.s.
- ŠKODA PRAHA Invest s.r.o.
- Ústav jaderného výzkumu Řež a.s.
- VČE - montáže, a.s.
- Východočeská energetika, a.s.
- Západočeská energetika, a.s.
- Coal Energy, a.s. *)
- KNAUF POČERADY, spol. s r.o. *)
- LOMY MOŘINA spol. s r.o. *)

*) Associate consolidated by the equity method.

South East Europe

- ČEZ Bulgaria EAD
- CEZ Romania S.R.L.
- ČEZ Trade Bulgaria EAD
- ČEZ ELEKTRO BULGARIA AD
- ČEZ LABORATORIES BULGARIA EOOD
- ČEZ Srbija DOO
- Electrica Oltenia S.A.
- Elektrorazpredelenie Pleven AD
- Elektrorazpredelenie Sofia Oblast AD
- Elektrorazpredelenie Stolichno AD
- New Kosovo Energy L.L.C.
- TEC Varna EAD
- ZAO "TransEnergo"

Directory of Companies in the Consolidation Group and Other Foreign Representations

- **ČEZ, a. s.**
  Martin Roman
  Chairman of the Board of Directors
  and Chief Executive Officer
  Duhová 2/1444
  140 53 Prague 4
  tel.: +420 211 041 111
  fax: +420 211 042 001
  segment – Power Production & Trading

- **CEZ Hungary Ltd.**
  CEZ Magyarország Kft.
  Gábor Hornai
  General Manager
  Károlyi Mihály u. 12,
  Ybl Palota Irodaház, IV. em.
  1053 Budapest
  Hungary
  tel.: +36 1 2669 324
  fax: +36 1 2669 331
  segment – Power Production & Trading

- **CEZ Romania S.R.L.**
  Jan Veškrna
  Regional Manager
  Ion Ionescu de la Brad 2a Sector 1
  013 813 Bucharest
  Romania
  tel.: +40 212 692 566
  fax: +40 212 692 566
  segment – Distribution & Sale

- **ČEZ Bulgaria EAD**
  Luboš Pavlas
  Country Manager
  140, G.S. Rakovski
  1000 Sofia
  Bulgaria
  tel.: +359 2 987 1862
  fax: +359 2 987 1863
  segment – Distribution & Sale

- **CEZ Chorzow B.V.**
  Wenna 340
  3012 NJ Rotterdam
  Netherlands
  tel.: +31 104 047 644
  fax: +31 104 126 115
  segment – Power Production & Trading

- **CEZ Silesia B.V.**
  Wenna 340
  3012 NJ, Rotterdam
  Netherlands
  tel.: +31 104 047 644
  fax: +31 104 126 115
  segment – Power Production & Trading

- **CEZ Deutschland GmbH**
  Hans H. Hannich
  General Manager
  Karl-Theodor-Strasse 69
  808 03 Munich
  Germany
  tel.: +49 891 8943 850
  fax: +49 891 8943 848
  segment – Power Production & Trading

- **CEZ Poland Distribution B.V.**
  Wenna 340
  3012 NJ, Rotterdam
  Netherlands
  tel.: +31 104 047 644
  fax: +31 104 126 115
  segment – Power Production & Trading

- **ČEZ Trade Bulgaria EAD**
  Zdeněk Danielovský
  Chairman of the Board of Directors
  and Executive Director
  140, G.S. Rakovski
  1000 Sofia
  Bulgaria
  tel.: +35 929 549 380
  fax: +35 929 549 382
  segment – Distribution & Sale

- **CEZ FINANCE B.V.**
  Herengracht 548
  Amsterdam
  Netherlands
  segment – Power Production & Trading

- **CEZ Polska Sp. z o.o.**
  Vladimír Černý
  Director
  Nowy Świat 64
  00-357 Warsaw
  Poland
  tel.: +48 226 924 375
  fax: +48 226 924 395
  segment – Power Production & Trading

- **Coal Energy, a.s.**
  Petr Paukner
  Chairman of the Board of Directors
  and General Manager
  Václavské náměstí 846/1
  110 00 Prague 1
  tel.: +420 224 473 056
  fax: +420 222 223 672
  segment – Power Production & Trading

■ ČEZ Distribuce, a. s.
Jiří Kudrnáč
Chairman of the Board of Directors
and General Manager
Teplická 874/8
405 02 Děčín IV
tel.: customer line +420 840 840 840
fax: +420 411 122 997
segment – Distribution & Sale

■ ČEZ Měření, s.r.o.
Přemysl Vániš
General Manager and Statutory
Representative
Riegrovo náměstí 1493
500 02 Hradec Králové
tel.: customer line + 420 840 840 840
fax: +420 492 112 964
segment – Distribution & Sale

■ ČEZ Zákaznické služby, s.r.o.
Igor Šmucr
General Manager and Statutory
Representative
Guldenerova 2557/19
303 28 Plzeň
tel.: +420 371 103 311
fax: +420 371 102 002
segment – Distribution & 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 & Sale

■ ČEZ Obnovitelné zdroje, s.r.o.
Josef Sedlák
General Manager and Statutory
Representative
Křižíkova 788
500 03 Hradec Králové
tel.: +420 492 112 821
fax: +420 492 112 708
segment – Power Production & Trading

■ ČEZData, s.r.o.
Ondřej Jaroš
General Manager and Statutory
Representative
Guldenerova 2557/19
303 38 Plzeň
tel.: +420 371 103 400
fax: +420 371 102 992
segment – Other

■ ČEZ ELEKTRO BULGARIA AD
Rostislav Díža
Chairman
140, G.S. Rakovski
1000 Sofia
Bulgaria
tel.: +35 929 871 854
fax: +35 929 871 852
segment – Distribution & Sale

■ ČEZ Prodej, s.r.o.
Bohumil Mazač
General Manager and Statutory
Representative
Vinohradská 325/8
120 21 Prague 2
tel.: customer line +420 840 840 840
fax: +420 211 043 333
segment – Distribution & Sale

■ ČEZnet, a.s.
Kamil Čermák
Chairman of the Board of Directors
and General Manager
Fügnerovo nám. 1866/5
120 00 Prague 2
tel.: +420 211 046 312
fax: +420 211 046 310
segment – Other

■ ČEZ LABORATORIES BULGARIA EOOD
Dimitar Kacev

1 Dobrinova Skala str.
Lyuilin Municipality
1000 Sofia
Bulgaria
tel.: +35 928 319 173
fax: +35 928 319 173
segment – Distribution & Sale

■ ČEZ Správa majetku, s.r.o.
Ivan Lapin
General Manager and Statutory
Representative
Teplická 874/8
405 49 Děčín IV
tel.: customer line +420 840 840 840
fax: +420 411 122 979
segment – Other

■ Electrica Oltenia S.A.
Gabriel Negrila
General Manager
Str. Brestei, nr. 2
200581 Craiova, Judetul Dolj
Romania
tel.: +40 251 405 000
fax: +40 251 405 004
segment – Distribution & Sale

■ ČEZ Logistika, s.r.o.
Jiří Jílek
General Manager and Statutory
Representative
28. října 568/147
709 02 Ostrava
tel.: +420 591 113 839
fax: +420 591 114 680
segment – Other

■ ČEZ Srbija DOO
Aleksandar Obradović
Regional Manager
and General Manager
Bulevar Mihajla Pupina 6
110 70 Belgrade
Serbia
tel.: +381 112 200 701
fax: +381 112 200 704
segment – Power Production & Trading

■ Elektrociepłownia Chorzów
"ELCHO" Sp. z o.o.
Mirosław Sołtysiak
Chairman of the Board of Directors
and General Manager
(Prezes Zarządu)
ul. M. Skłodowskiej-Curie 30
41-503 Chorzów
Poland
tel.: +48 327 714 001
fax: +48 327 714 020
segment – Power Production & Trading

- **Elektrorazpredelenie Pleven AD**
Atanas Dandarov
General Manager
Dojran Street 73
5800 Pleven
Bulgaria
tel.: +359 64 893 312
fax: +359 64 800 525
segment – Distribution & Sale

- **Elektrorazpredelenie Sofia Oblast AD**
George Karagutov
Chairman of the Board of Directors
and General Manager
2, Evropa Blvd.
1360 Sofia
Bulgaria
tel.: +359 29 339 703
fax: +359 29 339 708
segment – Distribution & Sale

- **Elektrorazpredelenie Stolichno AD**
Jan Rozska
Chairman of the Board of Directors
and General Manager
Tsar Simeon St. No 330
1309 Sofia
Bulgaria
tel.: +359 29 200 285
fax: +359 29 862 805
segment – Distribution & Sale

- **Elektrownia Skawina S.A.**
Ryszard Młodzianowski
Chairman of the Board of Directors
and General Manager
ul. Piłsudskiego 10
32-050 Skawina
Poland
tel.: +48 122 778 235
fax: +48 122 778 719
segment – Power Production & Trading

- **Energetické opravny, a.s.**
Vladimír Marušík
Chairman of the Board of Directors
and General Manager
Prunéřov č. 375
432 01 Kadaň
tel.: +420 474 305 082
fax: +420 474 305 031
segment – Other

- **Energetika Vítkovice, a.s.**
Vlastimír Kontrik
Chairman of the Board of Directors
and Acting Manager
Výstavní 1144/103
706 02 Ostrava – Vítkovice
tel.: +420 597 015 401
fax: +420 597 015 409
segment – Power Production & Trading

- **I & C Energo a.s.**
Miroslav Horák
Chairman of the Board of Directors
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
tel.: +420 415 735 011
fax: +420 415 735 010
segment – Other

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

- **MSEM, a.s.**
Jiří Neumann
Chairman of the Board of Directors
and Manager
Collo louky 126
738 02 Frýdek-Místek
tel.: +420 558 414 111
fax: +420 558 437 172
segment – Other

- **New Kosovo Energy L.L.C.**
Ekrem Belegu
General Manager
Andrej Gropa Nr. 1
10000 Prishtina
Kosovo
tel.: +381 38 248 609
fax: +381 38 248 610
segment – Power Production & Trading

- **PPC Úžín, a.s.**
Pavel Čtrnáctý
Chairman of the Board of Directors
Seifertova 570/55
130 00 Prague 3
segment – Power Production & Trading

- **SD - 1.strojírenská, a.s.**
Josef Zetek
Chairman of the Board of Directors
and Manager
Důlní 437
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 of Directors
and Manager
Důlní 429
418 01 Bílina
tel.: +420 417 805 811
fax: +420 417 805 870
segment – Other

- **SD - Kolejová doprava, a.s.**
František Maroušek
Chairman of the Board of Directors
and Manager
Tušimice 7
432 01 Kadaň
tel.: +420 474 602 161
fax: +420 474 602 916
segment – Other

- **Severočeská energetika, a.s.**
Josef Holub
Chairman of the Board of Directors
and General Manager
Teplická 874/8
405 49 Děčín IV
tel.: customer line +420 840 840 840
fax: +420 411 122 977
segment – Distribution & Sale

- **Severočeské doly a.s.**
Jan Demjanovič
Chairman of the Board of Directors
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.**
Alexander Pacek
Chairman of the Board of Directors
and General Manager
28. října 3123/152
709 02 Ostrava, Moravská Ostrava
tel.: customer line +420 840 840 840
fax: +420 596 612 388
segment – Distribution & Sale

▪ STE - obchodní služby spol. s r. o. in liquidation
Jiří Hala
Liquidator
Vinohradská 325/8
120 21 Prague 2
segment – Other

▪ Středočeská energetická a.s.
Otto Karl
Chairman of the Board of Directors and General Manager
Vinohradská 325/8
120 21 Prague 2
tel.: customer line +420 840 840 840
fax: +420 222 022 555
segment – Distribution & Sale

▪ ŠKODA PRAHA a.s.
Radek Benčík
Chairman of the Board of Directors and General Manager
Milady Horákové 109/116
160 41 Prague 6
tel.: +420 224 396 111
fax: +420 224 396 447
segment – Other

▪ ŠKODA PRAHA Invest s.r.o.
Daniel Jiřička
Director and Statutory Representative
Milady Horákové 109/116
160 41 Prague 6
tel.: +420 224 396 111
fax: +420 224 396 403
segment – Other

▪ TEC Varna EAD
Jan Vavera
Chairman of the Board of Directors
9168 Ezerovo
Bulgaria
tel.: +359 526 656 556
fax: +359 526 656 371
segment – Power Production & Trading

▪ Ústav jaderného výzkumu Řež a.s.
František Pazdera
Chairman of the Board of Directors and General Manager
Husinec-Řež, čp. 130
250 68 Řež
tel.: +420 266 172 000
fax: +420 220 940 840
segment – Other

▪ VČE - montáže, a.s.
Jiří Abel
Chairman of the Board of Directors and General Manager
Arnošta z Pardubic 2082
530 02 Pardubice – Zelené Předměstí
tel.: +420 466 871 111
fax: +420 466 872 718
segment – Other

▪ Východočeská energetika, a.s.
Josef Sadil
Chairman of the Board of Directors and General Manager
Sladkovského 215
501 03 Hradec Králové
tel.: customer line +420 840 840 840
fax: +420 492 112 220
segment – Distribution & Sale

▪ ZAO "TransEnergo"
Sergey Chizhov

Dvornikova 7
Moscow
Russian Federation
tel. +74 957 370 224
fax: +74 957 370 025
segment – Power Production & Trading

▪ Západočeská energetika, a.s.
Viktor Miškovský
Chairman of the Board of Directors and General Manager
Guldenerova 2577/19
303 28 Plzeň
tel.: customer line +420 840 840 840
fax: +420 371 102 008
segment – Distribution & Sale

Other CEZ Group Foreign Representations

ČEZ, a. s.
Witold Pawlowski
Head of Organizational Unit
Nowy Świat 64
00-357 Warsaw
Poland
Tel.: +48 226 924 375
Fax: +48 226 924 395
trade representation

ČEZ, a. s.
Karol Balog
Head of Organizational Unit
Gorkého 3
811 01 Bratislava
Slovak Republic
tel.: +421 254 432 656
fax: +421 254 432 651
trade representation

ČEZ Ukraine CJSC
Blahoslav Fajmon
Statutory Representative
Bul. Velika Vasilkivska 5
01001 Kyiv
Ukraine
tel.: +380 444 991 393
e-mail: office@cez.ua
CEZ Group representation

Nove elektrane Republike Srpske, društvo sa ograničenom odgovornošču za proizvodnju i prodaju električne energije, Gacko (zkratka "NERS" d.o.o., Gacko)
Aleksandar Obradović
Statutory Representative
Industrijska zona bb
89240 Gacko
Bosnia and Herzegovina
tel.: +381 112 200 701
fax: +381 112 200 704
joint venture with local partner

▪ corporate parent
▪ Czech subsidiary
▪ foreign subsidiary
▪ subsubsidiary

Basic ČEZ, a. s. Organization Chart as at 1 April 2007

General Meeting

Supervisory Board

Board of Directors
Martin Roman Chairman, Daniel Beneš, Jiří Borovec Vice Chairmen, Zdeněk Pasák, Tomáš Pleskač Members

Head Office

- **1000000 Chief Executive Officer's Division** – Martin Roman
  - **1100000 Mergers & Acquisitions Section**
    - 1100001 Mergers & Acquisitions
  - 1000004 CEO's Office
  - 1000300 Strategic Communication
  - 1010000 Communication
  - 1020000 Internal Audit
- **2000000 Finance Division** – Petr Vobořil
  - **2100000 Accounting Section**
    - 2100002 Management and Development of Economic Information System
    - 2100100 Accounting Departments
    - 2100200 Methodology and Top-level Accounting
    - 2110000 Accounting Services
  - **2200000 ICT Strategy Section**
    - 2200001 Services Level Management
    - 2200002 Strategic Projects Management
    - 2200100 ICT Strategy
  - **2300000 Financing Section**
    - 2300100 Financial and Payment Operations
    - 2300200 Corporate Financing
    - 2300300 Corporate Financial Administration
  - **2400000 Planning and Controlling Section**
    - 2400100 Reporting and Methodology
    - 2410000 Controlling
  - 2000200 Risk Management
  - 2000300 Taxes
  - 2000400 Legal
- **6000000 Administration Division** – Daniel Beneš
  - 6000001 Law Support Procurement
  - 6000100 Safety
  - 6000200 Foreign Procurement Co-ordination
  - 6010000 Integrated Procurement
  - 6040000 Fuel Cycles
  - 6050000 Equity Interests
  - 6060000 Investment Procurement
  - 6070000 Procurement for Production and Maintenance
- **7000000 Personnel Division** – Zdeněk Pasák
  - 7000100 Management System and Documentation
  - 7000900 Internal Communications
  - 7040000 Human Resources of CEZ Group
  - 7050000 Development of Human Resources
  - 7060000 Human Resources Personnel Service of CEZ Group
  - 7070000 Human Resources Remuneration

Distribution

3000000
Distribution Division
Tomáš Pleskač

Country Manager Bulgaria

Country Manager Poland

Country Manager Romania

Country Manager Ukraine

Country Manager Serbia

Country Manager Bosnia and Herzegovia

Country Manager Slovakia

3010000 Distribution Management Support

3030000 Foreign Equity Interests

3040000 Integration Office

3060000 Market Rules

Sale

4000000
Sales Division
Alan Svoboda

4500000 Trading Section

4500004 Trade Monitoring

4500005 Trading Support

4500006 Schedulling

4510000 Trade Execution

4600000 Business Development Section

4600002 Environmental Agenda

4600300 Portfolio Optimizing

4600400 Strategy

4010000 Sales Management Support

4030000 CEZ Poland

4040000 CEZ Slovakia

4050000 European Agenda

Production

5000000
Production Division
Jiří Borovec

Deputy CPO for Contacts Abroad

5100000 Asset Management Section

5100001 Engineering Design

5110000 Plant Maintenance System

5120000 Nuclear Generation Asset Management

5130000 Conventional Generation Asset Management

5200000 Technology Section

5200200 Dukovany NPP I&C System

5210000 Technical Development and Project Administration

5220000 Capital Investment Projects Preparation and Execution

5300000 Power Plants Section

5DE0000 Dětmarovice Power Plant

5HO0000 Hodonín Power Plant

5CH0000 Chvaletice Power Plant

5LE0000 Ledvice Power Plant

5ME0000 Mělník Power Plant

5PC0000 Počerady Power Plant

5PO0000 Poříčí Power Plants

5PR0000 Prunéřov Power Plants

5TI0000 Tisová Power Plant

5TU0000 Tušimice Power Plants

5VD0000 Hydro Power Plants

5DU0000 Dukovany Nuclear Power Plant

5TE0000 Temelín Nuclear Power Plant

5400000 Power Subsidiaries Section

5010000 Generation

5020000 Safety

5030000 Economy and Control

5040000 Construction and Refurbishment of Plants Domestic

5050000 Nuclear Generation Development Analyses

5060000 Construction and Refurbishment of Plants Abroad

Directory of ČEZ, a. s. Power Plants and Information Centers

ČEZ, a. s.
Head Office
Duhová 2/1444
140 53 Prague 4
tel.: +420 211 041 111
fax: +420 211 042 001

ČEZ, a. s.
Dukovany Nuclear Power Station
675 50 Dukovany
tel.: +420 561 101 111
fax: +420 561 104 980

Information Center
Dukovany Nuclear Power Station
675 50 Dukovany
tel.: +420 561 105 519
fax: +420 561 104 970
e-mail: infocentrum.edu@cez.cz
internet: www.cez.cz

ČEZ, a. s.
Temelín Nuclear Power Station
373 05 Temelín
tel.: +420 381 101 111
fax: +420 381 102 298

Information Center
Temelín Nuclear Power Station
373 05 Temelín
tel.: +420 381 102 639
fax: +420 381 104 900
e-mail: infocentrum.ete@cez.cz
internet: www.cez.cz

ČEZ, a. s.
Hydro Power Plants
Prof. Vl. Lista 329
252 07 Štěchovice
tel.: +420 211 026 111
fax: +420 211 026 577

Information Center
Štěchovice run-of-river and pumped-storage hydro power station
Prof. Vl. Lista 329
252 07 Štěchovice
to schedule a tour:
tel.: +420 602 107 453 – Renáta Pátová
+420 603 769 197 – Jan Frouz
+420 608 308 759 – Václav Petrák
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:
tel.: +420 561 105 519
fax: +420 561 104 970
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
787 01 Šumperk
to schedule a tour:
tel.: +420 583 235 091
fax: +420 583 235 094

Information Center
Lipno hydro power station
382 78 Lipno nad Vltavou
tel.: +420 380 746 621
+420 381 108 111
fax: +420 380 746 622
tour guides:
+420 607 673 651 – Vladimír Valík
+420 607 666 928 – Pavel Míšek
+420 731 562 835 – Jan Irsigler
e-mail: infocentrum.eli@cez.cz

Vydra Information Center
Permanent exhibition offering tours of Vydra and Čeňkova Pila small-scale hydro power stations
address:
Vodní elektrárna Vydra
Čeňkova Pila
341 92 Kašperské Hory
opening hours:
May, June, October
Wed. and Sat. 9–15.00
July–September
All week except Mondays, 9–15.00
(tours every two hours)
contact: Jiří Kysilka
tel.: +420 376 599 237

ČEZ, a. s.
Mělník Power Station
č. p. 255
277 03 Horní Počaply
tel.: +420 311 101 111
fax: +420 311 102 102

ČEZ, a. s.
Tisová Power Station
P.O. Box 98
356 69 Sokolov 1
tel.: +420 351 101 111
fax: +420 351 101 129

ČEZ, a. s.
Poříčí Power Stations
Kladská 466
541 37 Trutnov
tel.: +420 492 102 111
fax: +420 492 102 199

ČEZ, a. s.
Dětmarovice Power Station
č. p. 1202
735 71 Dětmarovice
tel.: +420 591 102 111
fax: +420 591 102 671

ČEZ, a. s.
Chvaletice Power Station
č. p. 227
533 12 Chvaletice
tel.: +420 462 101 111
fax: +420 462 103 600

ČEZ, a. s.
Ledvice Power Station
č. p. 141
418 48 Bílina
tel.: +420 411 101 111
fax: +420 411 101 501

ČEZ, a. s.
Tušimice Power Stations
č. p. 9
432 01 Kadaň
tel.: +420 471 111 111
fax: +420 471 113 880

ČEZ, a. s.
Počerady Power Station
439 44 Počerady
tel.: +420 411 111 111
fax: +420 411 112 298

ČEZ, a. s.
Hodonín Power Station
U Elektrárny 1/3030
695 23 Hodonín
tel.: +420 511 100 111
fax: +420 511 100 411

ČEZ, a. s.
Prunéřov Power Stations
č. p. 375
432 01 Kadaň
tel.: +420 471 101 111
fax: +420 471 102 697

ČEZ Foundation
Seifertova 570/55
130 00 Prague 3
tel.: +420 211 046 720
fax: +420 211 046 725
e-mail: nadacecez@cez.cz

Information for Shareholders and Investors

Events Calendar

CEZ Group preliminary consolidated financial performance results	22 February 2007
Financial statements Press conference Conference call Brief report	
ČEZ, a. s. audited financial statements for 2006 CEZ Group audited consolidated financial statements for 2006	28 February 2007
Year-end financial statements of subsidiaries that are part of the CEZ Consolidated Group	15 March 2007
Related Parties Report	16 March 2007
Year-end financial statements of associates that are part of the CEZ Consolidated Group	30 March 2007
ČEZ, a. s. Annual General Meeting of Shareholders	23 April 2007
CEZ Group 2006 Annual Report – electronic, only Czech version in print	30 April 2007
ČEZ, a. s. non-audited financial figures for 1st quarter 2007 Financial statements CEZ Group non-audited consolidated financial figures for 1st quarter 2007 Financial statements Press conference Conference call Brief report	17 May 2007
CEZ Group 2006 Annual Report – English version in print	18 May 2007
ČEZ, a. s. non-audited financial figures for 1st half 2007 Financial statements CEZ Group non-audited consolidated financial figures for 1st half 2007 Financial statements Press conference Conference call Brief report	15 August 2007

CEZ Group 2007 Half-year Report	31 August 2007
ČEZ, a. s. non-audited financial figures for 1st – 3rd quarter 2007	15 November 2007
Financial statements	
CEZ Group non-audited consolidated financial figures for 1st – 3rd quarter 2007	
Financial statements	
Press conference	
Conference call	
Brief report	
CEZ Group preliminary consolidated financial figures for 2007	25 February 2008
Financial statements	
Press conference	
Conference call	
Brief report	
ČEZ, a. s. audited financial statements for 2007	28 February 2008
CEZ Group audited consolidated financial statements for 2007	

Contacts

ČEZ, a. s. Press Spokesperson	Ladislav Kříž	ladislav.kriz@cez.cz	+420 211 042 383
	Eva Nováková	eva.novakova@cez.cz	+420 211 042 291
	Ivana Vejvodová	ivana.vejvodova@cez.cz	+420 211 042 540
ČEZ, a. s. Press Spokesperson Temelín Nuclear Power Station	Milan Nebesář	milan.nebesar@cez.cz	+420 381 102 415
ČEZ, a. s. Press Spokesperson Dukovany Nuclear Power Station	Petr Spilka	petr.spilka@cez.cz	+420 561 105 400
Trading	Luděk Horn	ludek.horn@cez.cz	+420 211 042 381
Investor Relations	Petra Šmolíková	investor.relations@cez.cz	+420 211 042 514
Website	Pavel Foršt	pavel.forst@cez.cz	+420 211 043 362
	Ivo Měšťánek	ivo.mestanek@cez.cz	+420 211 042 612
ČEZ Foundation	Lucie Speratová	lucie.speratova@cez.cz	+420 211 046 720
		www.nadacecez.cz	

Glossary of Terms and Abbreviations

Term	Commentary
Achievable capacity	Power plant nameplate capacity less shut-downs caused by changes that are permanent in nature.
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.
Cash pooling	A service under which the balances on all accounts of a particular client belonging to a given group are summed at the end of each day and the client receives a higher interest rate on its primary account based on that sum.
ČEPS, a.s.	Owner and operator of the Czech Republic Transmission Grid.
CO_2	Carbon dioxide.
Cross-border capacity auction	Auction of cross-border power line capacity use.
Distribution Grid	A mutually interconnected set of 110 kV power lines and equipment – with the exception of 110 kV power lines 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 serve purposes of distributing electricity in a designated area of the Czech Republic, including metering, protective, control, security, information and telecommunications systems and technologies.
ECX	European Climate Exchange. A pan-European exchange for trading emission allowances. Based in Amsterdam, Kingdom of the Netherlands.
EEX	European Energy Exchange. A place where electricity is traded. Headquartered in Leipzig, Federal Republic of Germany.
EFET	European Federation of Electricity Traders.
Electricity demand	Total electricity consumed by end customers in a given geographical area 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 over the period in question, as measured from generator terminals.
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.
Emission 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 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.
EU ETS	European Union Greenhouse Gas Emissions Trading Scheme The European Union's emissions trading system as defined by Directive of the European Parliament and Council No. 2003/87/ES, which entered into force on 25 October 2003. The emission allowances exist only in booked form, in national registers.
Fabrication	Production of nuclear fuel.
Flue Gas Desulfurization (FGD)	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.
GPW	(Giełda papierów wartościowych w Warszawie SA) The Warsaw Stock Exchange, where the shares of ČEZ, a. s. have been listed since 25 October 2006.
Greenhouse gas emission allowance	Represents the right of a facility operator to release the equivalent of one ton of carbon dioxide into the air during a given calendar year.
IAEA	International Atomic Energy Agency.
IETA	International Emissions Trading Association.
IFRS	International Financial Reporting Standards.
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.
Nameplate thermal power rating	Value obtained by multiplying fuel consumption by fuel heat content. Fuel consumption and fuel heat content figures used in the calcualtion are measured under precisely defined conditions.
NAP	National Allocation Plan. A document showing the intended allocation of CO_2 emission allowances allocated to each CO_2 producing facility in the given country and trading period. The first trading period encompasses the years 2005–2007, and the second will be 2008–2012.
NO_x	Nitrogen oxides.
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.

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.
PowerNext	Energy exchange in France co-owned by the French and Belgian transmission grid operators and French power utilities, among others. Headquartered in Paris.
PSE	Prague Stock Exchange (Official Czech name: Burza cenných papírů Praha, a.s.)
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. Starting in 2006, distribution of electricity in the Czech Republic is secured on a process-driven basis by separate distribution companies. Effective 3 January 2007 CEZ Group also operates a separate distribution company in place of the three regional electricity distribution companies in Bulgaria.
Renewable energy sources	Energy resources that renew themselves naturally. This category includes hydro, geothermal, solar and wind energy as well as energy obtained by combustion of biomass.
Retail electricity customer	A category of electricity consumers, members of which are connected to the low-voltage grid (1 kV and under). The category is further subdivided into households and businesses.
RIOSV	(Регионалната инспекция по околна среда и води) Regional Inspectorate of the Environment and Water Resources. A field office of the Ministry of the Environment and Water Resources of Bulgaria.
TFS	Tradition Financial Services. Enables off-exchange financial and commodities trading, including trading in electricity. It is part of the leading French brokerage house VIEL & Cie.
Transmission grid	A mutually interconnected system of 400 kV, 220 kV power lines and equipment and selected power lines and equipment of the 110 kV grid, which serves the purpose of electricity transmission throughout the entire Czech Republic and that of interconnection with power systems of neighboring countries, including metering, protective, control, safety, information and telecommunications equipment; the transmission grid is built and operated in the public interest.
Unbundling	The separation, 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.
WANO	World Association of Nuclear Operators.
Wholesale electricity customer	A customer who purchases electricity from the high- and medium-voltage grids.
ZIRLO	Trademark owned by Westinghouse Electric Company, Pittsburgh, USA.

Explanation of Units Used in this Document

Unit	Commentary
GWh	Gigawatt-hour = unit of electrical work; 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)

The names of Czech companies in the 2006 Annual Report are given as they appear in the Commercial Register of the Ministry of Justice of the Czech Republic.

Foreign Currencies

Country	Currency Code	Name	Remark
Bosnia and Herzegovina	KM, international code: BAM	konvertibilna marka (convertible mark)	1 KM = 0.51129 EUR exchange rate is fixed and is based on the conversion rate between the Deutsch mark (DEM) and the Euro
Bulgaria	BGN	български лев (lev)	
Kosovo	EUR	euro	officially used
Netherlands	EUR	euro	
Poland	PLN	złoty	
Romania	RON	leu	
Russia	RUB	рубль (ruble)	
Serbia	CSD	динар (dinar)	foreign companies are permitted to have their stated capital in EUR
Ukraine	UAH	гривня (hrivnia)	

Method Used by CEZ Group to Calculate Key Figures

Name of indicator	Calculation
Assets turnover	Total revenues / Average total assets
Book value per share	Equity attributable to equity holders of the parent / Number of shares outstanding
Current ratio	Current assets / Current liabilities
Coverage of fixed assets	(Equity + Minority interests + Long-term liabilities + Deferred tax liability) / Fixed assets *) (Equity + Long-term liabilities + Deferred tax liability) / Fixed assets
Dividend per share (gross)	Dividend paid or to be paid in the current year, before taxes
EBIT	Income before income taxes and other expenses/income
EBIT margin	EBIT / Total revenues
EBITDA	Income before income taxes and other expenses/income + Depreciation and amortization
EBITDA margin	EBITDA / Total revenues
Economic Value Added (EVA)	(ROE - Opportunity cost of equity) * Average equity Opportunity cost of equity in 2005 and 2006 = 9.4%
Extent of depreciation	Accumulated depreciation and impairment allowances on property, plant and equipment / Property, plant and equipment in use, gross
Financial debt	Long-term debt including current portion + Short-term loans
Net debt	Long-term debt, net of current portion + Short-term loans + Current portion of long-term debt - Cash and cash equivalents
Net debt / Equity	Net debt / Equity attributable to equity holders of the parent
Operating cash flow	Net cash provided by operating activities
Operating cash flow-to-liabilities ratio	Net cash provided by operating activities / Long-term liabilities
Return on Assets (ROA), net	Net income / Average total assets
Return on Equity (ROE), net	Net income attributable to equity holders of the parent / Average equity attributable to equity holders of the parent *) Net income / Average equity
Return on Invested Capital (ROIC)	(EBIT + Net change in other provisions) * (1 - average income tax rate) / (Average invested capital) **)

*) Definition is for ČEZ, a. s., if different from definition for CEZ Group.
**) Invested capital = net plant in service + nuclear fuel at amortized cost + construction work in progress + long-term intangible assets, net + working capital.
Average value = (Value at end of previous year + Value at end of current year) / 2.

List of Tables and Graphs Used

Tables Used

Graphs Used

Information on Persons Responsible for the Annual Report

Responsibility for the Annual Report

Statutory Declaration:
With the use of all due diligence, to the best of our knowledge the information presented in the Annual Report is factual and no facts have been omitted that could change the meaning of the Annual Report.

Prague, 17 April 2007

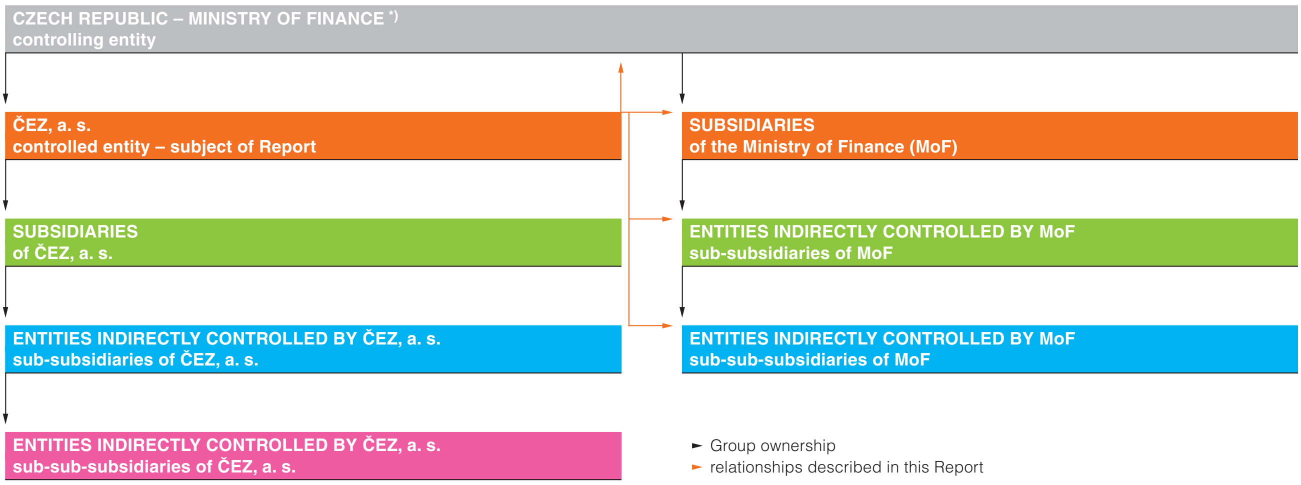
Pavel Cyrani
Director, Planning and Controlling Section

Remuneration principles, information on cash and in-kind income and other securities respective to members of the governing bodies, the Company's senior management:

Petr Vobořil
Chief Financial Officer

ČEZ, a. s.
Related Parties Report for the Year Ended December 31, 2006

1. Chart showing relationships within the Group



*) The Czech Republic is the Controlling Entity. The State's equity stake in ČEZ, a. s. is managed by the Ministry of Finance of the Czech Republic (hereinafter for the purposes of this Report referred to as "the Czech Republic – Ministry of Finance").

2. Group structure chart

See insert under back cover flap.

3. Controlling Entity and subject of Related Parties Report

Czech Republic – Ministry of Finance – Controlling Entity [1]

Name:	Ministry of Finance of the Czech Republic
With its seat at:	Letenská 525/15, 118 10 Prague 1
ID Number:	00006947

ČEZ, a. s. – Controlled Entity – subject of Report

Company:	ČEZ, a. s.
With its seat at:	Duhová 2/1444, 140 53 Prague 4
ID Number:	45274649
Registered in the Commercial Register maintained by:	Prague Municipal Court, Part B, Entry No. 1581
Manner of control:	The Controlling Entity, MoF, owns 67.61% of the share capital of ČEZ, a. s.

1) As of 1 January 2006 inclusive.

In accordance with Section 2 of Act No. 178/2005 Coll. on the winding-up of the National Property Fund of the Czech Republic and on the authority of the Ministry of Finance, the assets of the National Property Fund of the Czech Republic, including the shares of ČEZ, a. s. owned by it, passed to the State as of 1 January 2006. Since said date, the Ministry of Finance of the Czech Republic has managed the State's equity stake.
This Report, unlike the other parts of the 2006 Annual Report, contains information only for the period 1 January – 31 December 2006. In accordance with Section 66a(9) of the Commercial Code, the Related Parties Report is drafted for this period only.

4. Alphabetical list of companies in Group

See insert under back cover flap.

5. Contractual relations

List of contracts signed
This list includes contracts entered into by ČEZ, a. s. with related parties within the Group belonging to the Czech Republic – Ministry of Finance. The companies are listed alphabetically regardless of the value of the contracts in question.

1. ČEPRO, a.s.
One contract on sale of distilled water (ČEZ, a. s. was supplier).

2. ČEPS, a.s.
Three supply contracts and ten purchase contracts. Supply contracts: one contract on granting of consent by ČEPS, a.s. and on its conditions for consent for ČEZ, a. s. to supply regulation energy to the operator of the Slovak Republic's transmission system, one agreement on securing and providing regulation energy from abroad to power system services, and one contract on provision of the "dark start-up" ancillary service. Also, seven annexes to existing contracts were signed (ČEZ, a. s. was supplier). The purchase contracts: eight contracts on purchase of Czech Republic infrastructure maps, one agreement to agree on the connection of a 660 MW generating unit at Ledvice Power Station to the transmission system, and one contract for a grid study on connecting a new generating unit in the Temelín Nuclear Power Station compound to the power system. One purchase order for material was made, constituting a contractual relationship. One annex to an existing contract was signed (ČEZ, a. s. was purchaser).

3. České aerolinie a.s.
One air transport contract was signed (ČEZ, a. s. was purchaser).

4. STAVOCENTRAL, a.s.
One contract on sale of fly ash was signed (ČEZ, a. s. was supplier).

All the above contractual arrangements were entered into at arm's length; the consideration and counter-consideration agreed and provided was in line with customary business terms and did not damage ČEZ, a. s. in any way.

6. Other relations

ČEZ, a. s. did not take any legal actions in the interests of related parties nor did it accept or perform any other measures in the interests of related parties or at their behest.

7. Other information

7.1. Confidential information
Within the Group, information is considered confidential if it constitutes:
- part of a business secret of the Ministry of Finance of the Czech Republic,
- part of a business secret of ČEZ, a. s.,
- part of a business secret of other related parties,

as well as information that has been declared confidential by any entity that is part of the Group and all commercial information that could be, by itself or in conjunction with other information or facts, injurious to any of the entities constituting the Group.

For this reason, this Report does not include:
- information on prices, installments, interest rates, currency rates, and other financial amounts, provided such non-disclosure does not restrict the information value of this Related Parties Report,
- information on quantities.

7.2. Auditor’s opinion on the 2006 Related Parties Report

Name of audit firm:	Ernst & Young Audit & Advisory, s.r.o., člen koncernu
License number:	401
Name and surname of auditor:	Josef Pivoňka
Statutory auditor number:	1963

This Related Parties Report has been audited. The auditor’s opinion is given in the 2006 Annual Report of CEZ Group.

7.3. Abbreviations used

MoF	Ministry of Finance of the Czech Republic
CR	Commercial Register

7.4. Companies that did not provide information

Despite the subject’s best efforts to obtain the information necessary to compile the Related Parties Report, for various reasons (letter returned to sender, failure to respond to calls and reminders, refusal to provide information) the necessary documentation was not obtained by the closing date of this Report, which was 28 February 2007, from the following subsidiaries of the Czech Republic:

Exportní garanční a pojišťovací společnost,a.s.	ID No. 45279314
KONAX a.s. - in liquidation	ID No. 46347801
Ormilk, a.s.in liquidation, in bankruptcy	ID No. 60109092
UNITEX a.s.	ID No. 49969358
Teplotechna Praha, a.s.	ID No. 60192933
SEVAC a.s. in liquidation	ID No. 60192968
HOLDING KLADNO a.s."in liquidation"	ID No. 45144419
Silnice Teplice a.s. in liquidation	ID No. 47285583
Česká inkasní, s.r.o.	ID No. 60468165

8. Conclusion

The compilation of this Report as of 31 December 2006 was secured by the statutory body of ČEZ, a. s.
The Report was compiled according to the best knowledge and awareness of the subject and best efforts were used to obtain the documentation from which the information was drawn.
The definition of the Czech Republic’s Group was prepared from information provided by the majority shareholder.
The Report was submitted to the Supervisory Board for review. The Supervisory Board will present its opinion at the Company’s annual general meeting.

Prague, 6 March 2007

Martin Roman
Chairman of the Board of Directors

Daniel Beneš
Vice Chairman of the Board of Directors

Awards Won in 2006

ČEZ, a. s. – Awards Won in 2006

April

- ZLATÝ STŘEDNÍK 2005 Certificate of Highly Professional Quality in the category Best Annual Report; competition organized by PR Klub.

June

- second place in 100 Largest Corporations of the Czech Republic for 2005 ranking compiled by the CZECH TOP 100 Association; first place in terms of income and value added.

October

- first place in the TOP CORPORATE PHILANTHROPIST 2006 ranking, which is based on the absolute amount of funds distributed among charitable causes.

November

- first place overall as well as first place in the information value, graphic design, and energy industry categories in the 13th annual Best Annual Report of the Year competition organized by the CZECH TOP 100 Association.
- Company defends its first place in the Českých 100 nejlepších 2006 (100 Best Czech) ranking compiled by COMENIUS, the pan-European company for culture, education and cooperation in science and technology.

February 2007

- prize for the best debut on the Warsaw Stock Exchange in 2006 in the “Bulls and Bears” annual event.

March 2007

- “Edison Electric Institute International Utility Award” – first place in category consisting of companies with high market capitalization.

ČEZ Foundation – Awards Won in 2006

September

- award from Sdružení Linka bezpečí (Safety Line Association) for major support.

Other CEZ Group Companies

November

- Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. wins “Environmental Leader Poland 2006” award, which is granted in Poland to companies, municipalities, and groups of municipalities in recognition of excellence in maintaining, protecting, or restoring the environment and improving quality of life.

Group structure chart
Alphabetical list of companies in Group

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

Established: 1992
Legal form: joint-stock company
ID Number: 452 74 649
Tax ID: CZ45274649
Bankers: KB Prague 1, account no. 24003-011/0100
Tel.: +420 211 041 111
Fax: +420 211 042 001
Internet: http://www.cez.cz
E-mail: cez@cez.cz

Closing date of the 2006 Annual Report: 17 April 2007

Consulting, design, and production: