

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, Dětmárovice, Chvaletice, Ledvice, Tušimice, Počeradý, Hodonín, Pruněřov), 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	Drahošlav 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 ČEZ 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 CO₂ 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 CO₂.

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.

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.

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.

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 EAD, Elektrorazpredelenie Sofia Oblast EAD and Elektrorazpredelenie Stolichno EAD (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 of 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 CEZ Bulgaria EAD, and CEZ Romania S.R.L. In addition, the Company acquired 100% interests in CEZ 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 CEZ 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, CEZ Srbija DOO (100%) was established in Serbia, New Kosovo Energy L.L.C. (100%) was established in Kosovo, and CEZ Laboratories Bulgaria EOOD (100%) and CEZ Electro 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 TransErgo, 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	-
CEZ Srbija d.o.o.	8	100.00				4	(4)
CEZ 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
CEZ 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	-
CEZ Laboratories Bulgaria EOD	1	100.00				1	-
Středočeská energetická a.s. Elektrorazpredelenie Stolichno EAD	6,301	97.91	3,143,231	1,000		7,869	(45)
Elektrorazpredelenie Pleven EAD	5,827	67.00	129,176	10 ²⁾		4,155	835
Elektrorazpredelenie Sofia Oblast EAD	1,760	67.00	80,802	10 ²⁾		1,275	71
CEZ ELECTRO BULGARIA AD	1,101	67.00	143,983	10 ²⁾		2,026	70
OSC, a.s.	1	67.00	3,350	10 ²⁾		1	-
ČEZ Obnovitelné zdroje, s.r.o.	12	66.67	92,664	100	11	81	15
Ústav jaderného výzkumu Řež a.s.	464	60.80				1,414	(12)
LOMY MOŘINA spol. s r.o.	185	52.46	274,962	1,000		852	39
Electrica Oltenia S.A.	169	51.05				372	1
Nove elektrone Republike Srpske d.o.o.	5,068	51.01	36,481,412	10 ⁴⁾		13,771	767
SIGMA - ENERGO s.r.o.	50	51.00				11	-
	1	51.00				31	2

continued

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
KNAUF POČERADY, spol. s r.o.	200	40.00			19	439	32
VLTA VOTÝNSKÁ 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	<u>102,583</u>				<u>5,064</u>		
Allowances to ownership interest	<u>(721)</u>						
Total, net	<u>101,862</u>						

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
CEZ Trade Bulgaria EAD	5	100.00	300,000	1 ¹⁾		4	-
CEZ Romania S.R.L.	4	100.00				4	-
CEZ Bulgaria EAD	3	100.00	200,000	1 ¹⁾		4	1

continued

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
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 EAD	5,827	67.00	129,176	10 ¹⁾		3,441	549
Elektrorazpredelenie Pleven EAD	1,760	67.00	80,802	10 ¹⁾		1,245	(12)
Elektrorazpredelenie Sofia Oblast EAD	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	53
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	2
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.	<u>10</u>	20.00	1	10,000,000	<u>21</u>	174	108
Total	<u>75,173</u>				<u>4,104</u>		
Allowances to ownership interest	<u>(567)</u>						
Total, net	<u>74,606</u>						

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 TransEnergó, 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):

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

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):

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

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 millions CZK	in thousands tons	in millions CZK
<i>Granted emission rights:</i>				
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	<u>31,951</u>	<u>-</u>	<u>34,467</u>	<u>-</u>
<i>Emission rights held for trading:</i>				
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	<u>1</u>	<u>-¹⁾</u>	<u>205</u>	<u>125</u>

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 CO₂ and 32,750 thousand tons of CO₂, 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 CO₂ per year 2006 was higher by 2,343 tones CO₂ 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 CO₂ valued 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	<u>3,091</u>	<u>1,033</u>

9. Other Financial Assets, net

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

	<u>2006</u>	<u>2005</u>
Derivatives	3,388	956
Securities available for sale	1,405	-
Securities held for trading	21	20
Total	<u>4,814</u>	<u>976</u>

10. Other Current Assets

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

	<u>2006</u>	<u>2005</u>
Prepayments	498	482
Advances granted	247	115
Total	<u>745</u>	<u>597</u>

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:

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

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):

	<u>2006</u>	<u>2005</u>
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	<u>16,833</u>	<u>15,433</u>
Total long-term debt	<u><u>41,871</u></u>	<u><u>38,250</u></u>

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

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

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):

	<u>2006</u>	<u>2005</u>
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	<u>2,495</u>	<u>2,495</u>
Total floating rate long-term debt	5,450	8,145
Fixed rate long-term debt	<u>36,421</u>	<u>30,105</u>
Total long-term debt	<u><u>41,871</u></u>	<u><u>38,250</u></u>

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)
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	2,687	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).

	Accumulated provisions			
	Nuclear Decommissioning	Spent fuel storage		Total
		Interim	Long-term	
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	<u>21,050</u>	<u>9,899</u>

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	<u>3,369</u>	<u>2,913</u>

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
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	<u>95,970</u>	<u>67,644</u>

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⁾	52 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				Weighted average exercise price (CZK per share)
	Supervisory Board 000s	Board of Directors 000s	Other 000s	Total 000s	
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:

	<u>2006</u>	<u>2005</u>
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:

	<u>2006</u>	<u>2005</u>
CZK 100 - 500 per share	2,405	3,250
CZK 500 - 900 per share	1,050	75
Total	<u>3,455</u>	<u>3,325</u>

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):

	<u>2006</u>	<u>2005</u>
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	<u>(4,446)</u>	<u>(4,338)</u>

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):

	<u>2006</u>	<u>2005</u>
Current income tax charge	(6,475)	(1,926)
Adjustments in respect of current income tax of previous periods	17	187
Deferred income taxes	<u>(210)</u>	<u>(1,084)</u>
Total	<u><u>(6,668)</u></u>	<u><u>(2,823)</u></u>

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

	<u>2006</u>	<u>2005</u>
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)
Non-taxable revenue from dividends	1,226	1,067
Tax credits	-	2
Additional tax assessments related to prior years	17	187
Income taxes	<u><u>(6,668)</u></u>	<u><u>(2,823)</u></u>
Effective tax rate	<u><u>21%</u></u>	<u><u>14%</u></u>

20.2. Deferred Taxes

Deferred income tax liability, net, at December 31, 2006 and 2005 was calculated as follows (in CZK millions):

	<u>2006</u>	<u>2005</u>
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	<u>7,626</u>	<u>7,524</u>
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	<u>21,015</u>	<u>20,545</u>
Total deferred tax liability, net	<u><u>13,389</u></u>	<u><u>13,021</u></u>

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):

	<u>2006</u>	<u>2005</u>
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	<u><u>4,371</u></u>	<u><u>4,716</u></u>

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:				
CEZ 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 EAD	-	35	-	-
Elektrorazpredelenie Sofia Oblast EAD	-	35	-	5
Elektrorazpredelenie Stolichno EAD	-	35	-	-
Energetické opravy, 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

continued

Company	Receivables		Payables	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
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		Purchase from related parties	
	2006	2005	2006	2005
Direct control:				
CEZ 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 EAD	-	35	-	-
Elektrorazpredelenie Sofia Oblast EAD	-	35	-	5
Elektrorazpredelenie Stolichno EAD	-	35	-	-
Energetické opravny, a.s.	19	17	501	409
I & C Energo a.s.	26	24	795	841

continued

Company	Sales to related parties		Purchase from related parties	
	2006	2005	2006	2005
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		Purchase from related parties	
	2006	2005	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

	<u>2006</u>	<u>2005</u>
Numerator (CZK millions)		
Basic and diluted:		
Net profit	<u>25,803</u>	<u>17,635</u>
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	589,329	590,426
Dilutive effect of treasury shares ¹⁾	<u>2,882</u>	<u>1,785</u>
Diluted:		
Adjusted weighted average shares	<u>592,211</u>	<u>592,211</u>
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.

Prepared on: February 23, 2007	Signature of entity's statutory body:	Person responsible for accounting: Ing. Petr Vobořil Ing. Martin Novák	Person responsible for the financial statements: Ivan Viktora
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