

ČEZ, A. S., AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2006

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006

in CZK Millions

	<u>2006</u>	<u>2005</u>
Assets		
Property, plant and equipment:		
Plant in service	464,776	439,416
Less accumulated provision for depreciation	<u>219,073</u>	<u>199,756</u>
Net plant in service (Note 3)	245,703	239,660
Nuclear fuel, at amortized cost	7,376	7,860
Construction work in progress	<u>16,684</u>	<u>11,570</u>
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)	<u>699</u>	<u>524</u>
Total other non-current assets	<u>32,226</u>	<u>21,310</u>
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)	<u>2,569</u>	<u>1,363</u>
Total current assets	<u>66,666</u>	<u>43,809</u>
Total assets	<u><u>368,655</u></u>	<u><u>324,209</u></u>

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006

continued

	<u>2006</u>	<u>2005</u>
Equity and liabilities		
Equity attributable to equity holders of the parent:		
Stated capital	57,278	58,237
Retained earnings and other reserves	<u>137,659</u>	<u>118,436</u>
Total equity attributable to equity holders of the parent (Note 13)	194,937	176,673
Minority interests	<u>12,716</u>	<u>14,616</u>
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)	<u>15,543</u>	<u>14,974</u>
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)	<u>11,190</u>	<u>7,910</u>
Total current liabilities	<u>46,803</u>	<u>32,936</u>
Total equity and liabilities	<u><u>368,655</u></u>	<u><u>324,209</u></u>

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS 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

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006

in CZK Millions

	Attributable to equity holders of the parent					Minority interests	Total Equity
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total		
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 on equity	-	-	-	(9,068)	(9,068)	-	(9,068)
Effect of acquisition of minority shares in ŠKODA PRAHA 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	<u>58,237</u>	<u>(789)</u>	<u>588</u>	<u>118,637</u>	<u>176,673</u>	<u>14,616</u>	<u>191,289</u>

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006

continued

	Attributable to equity holders of the parent						Total Equity
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	
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	<u>57,278</u>	<u>(1,301)</u>	<u>1,381</u>	<u>137,579</u>	<u>194,937</u>	<u>12,716</u>	<u>207,653</u>

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS 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	<u>62,908</u>	<u>43,895</u>
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	<u>(43,294)</u>	<u>(23,970)</u>

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006

continued

	<u>2006</u>	<u>2005</u>
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	<u>(4,667)</u>	<u>(11,919)</u>
Net effect of currency translation in cash	<u>(806)</u>	<u>(157)</u>
Net increase in cash and cash equivalents	14,141	7,849
Cash and cash equivalents at beginning of period	<u>16,791</u>	<u>8,942</u>
Cash and cash equivalents at end of period	<u><u>30,932</u></u>	<u><u>16,791</u></u>

Supplementary cash flow information

Total cash paid for interest	2,539	2,046
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These financial statements have been authorized for issue on February 23, 2007:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Tomáš Pleskač
Member of Board of Directors
Director of Distribution Division

Petr Vobořil
Chief Financial Officer

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

ČEZ, A. S., AND SUBSIDIARIES
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:

	<u>Lives</u>
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:

	<u>Average Life</u>
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 CO₂ 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 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. 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 life (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 arrangement 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 Equip- ment	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	<u>171,869</u>	<u>288,855</u>	<u>4,052</u>	<u>464,776</u>	<u>439,416</u>
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	<u>(68,747)</u>	<u>(149,500)</u>	<u>(826)</u>	<u>(219,073)</u>	<u>(199,756)</u>
Net plant in service - closing balance	<u>103,122</u>	<u>139,355</u>	<u>3,226</u>	<u>245,703</u>	<u>239,660</u>

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	<u>16,193</u>	<u>16,721</u>

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	<u>2,408</u>	<u>705</u>	<u>4,039</u>	<u>7,152</u>

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	<u>3,244</u>	<u>916</u>	<u>4,400</u>	<u>8,560</u>

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	<u>7,147</u>	<u>-</u>	<u>5</u>	<u>7,152</u>

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	<u>8,427</u>	<u>124</u>	<u>9</u>	<u>8,560</u>

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 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	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, consumer prices, interest rates and nominal wages.

The recoverable amount of Bulgarian distribution companies and TEC Varna 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 Electrociepłownia 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 ČEZ 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 ¹⁾ interest 2006	% voting interest 2006	% equity ¹⁾ interest 2005	% voting interest 2005
CEZ 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%	-	-
CEZ 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 ELECTRO 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 d.o.o. 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 EAD	Bulgaria	67.00%	67.00%	67.00%	67.00%
Elektrorazpredelenie Sofia Oblast EAD	Bulgaria	67.00%	67.00%	67.00%	67.00%
Elektrorazpredelenie Stolichno EAD	Bulgaria	67.00%	67.00%	67.00%	67.00%
Elektrownia Skawina S.A. ²⁾	Poland	74.82%	74.82%	-	-
Energetické opravy, 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., v likvidaci 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%

Subsidiaries, continued	Country of incorporation	% equity ¹⁾ interest 2006	% voting interest 2006	% equity ¹⁾ interest 2005	% voting interest 2005
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. v likvidaci	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 ¹⁾ interest 2006	% voting interest 2006	% equity ¹⁾ interest 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):

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

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):

	<u>2006</u>	<u>2005</u>
Unbilled electricity supplied to retail customers	361	3,980
Received advances from retail customer	<u>-</u>	<u>(3,634)</u>
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	<u>(2,452)</u>	<u>(2,288)</u>
Total	<u><u>16,334</u></u>	<u><u>14,792</u></u>

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 millions CZK	in thousands tons	in millions CZK
<i>Granted emission rights:</i>				
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	<u>37,792</u>	<u>2,217</u>	<u>35,092</u>	<u>-</u>
<i>Emission rights held for trading:</i>				
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	<u>41</u>	<u>7</u>	<u>219</u>	<u>134</u>

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 CO₂, respectively. In 2006 the Group recognized a provision for CO₂ emissions 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	<u>3,077</u>	<u>1,053</u>

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	<u>8,952</u>	<u>4,824</u>

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	<u>1,756</u>	<u>1,664</u>	<u>12</u>	<u>3,432</u>

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	<u>1,207</u>	<u>1,312</u>	<u>1,171</u>	<u>3,690</u>

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	<u>2,569</u>	<u>1,363</u>

13. Equity Attributable to Equity Holders of the Parent

The Company's stated capital as of 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	<u>(3,455,000)</u>	100	<u>(1,943)</u>
Total	<u>588,755,843</u>		<u>57,278</u>
		2005	
Registered shares	592,210,843	100	59,221
Treasury shares	<u>(2,440,000)</u>	100	<u>(984)</u>
Total	<u>589,770,843</u>		<u>58,237</u>

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 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	<u>41,956</u>	<u>30,586</u>

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	<u>48,321</u>	<u>38,474</u>

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		<u>48,321</u>		<u>38,474</u>

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	<u>2,495</u>	<u>2,495</u>
Total floating rate long-term debt	11,876	8,352
Fixed rate long-term debt	<u>36,445</u>	<u>30,122</u>
Total long-term debt	<u>48,321</u>	<u>38,474</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 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):

	Nuclear Decommissioning	Accumulated provisions		Total
		Interim	Spent fuel storage Long-term	
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):

	<u>2006</u>	<u>2005</u>
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	<u>15,543</u>	<u>14,974</u>

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):

	<u>Mine reclamation</u>	<u>Mining damages</u>	<u>Total</u>
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	<u>6,055</u>	<u>1,120</u>	<u>7,175</u>

18. Short-term Loans

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

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

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):

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

20. Trade and Other Payables

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

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

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):

	<u>2006</u>	<u>2005</u>
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	<u>11,190</u>	<u>7,910</u>

Provision for CO₂ 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):

	<u>2006</u>	<u>2005</u>
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	<u>148,295</u>	<u>115,949</u>

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				Weighted average exercise price (CZK per share)
	Supervisory Board '000s	Board of Directors '000s	Executive Committee '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:

	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 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):

	<u>2006</u>	<u>2005</u>
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	<u>(7,650)</u>	<u>(7,851)</u>

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):

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

	<u>2006</u>	<u>2005</u>
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	<u>10,363</u>	<u>9,423</u>
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	<u>29,681</u>	<u>27,454</u>
Total deferred tax liability, net	<u>19,318</u>	<u>18,031</u>

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):

	<u>2006</u>	<u>2005</u>
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	<u>(201)</u>	<u>343</u>

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
Ministerstvo financí ČR	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 Produc- tion and Trading	Distribu- tion and Sale	Mining	Other	Combi- ned	Elimina- tion	Consoli- dated
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	Distribu- tion and Sale	Mining	Other	Combi- ned	Elimina- tion	Consoli- dated
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	Consoli- dated
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

continued	Central Europe	South East Europe	Combined	Elimination	Consoli- dated
Identifiable liabilities	134,127	6,981	141,108	(123)	140,985
Unallocated liabilities					<u>20,017</u>
Total liabilities					<u>161,002</u>
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	Consoli- dated
Sales other than intersegment sales	110,648	14,435	125,083	-	125,083
Intersegment sales	<u>106</u>	<u>3</u>	<u>109</u>	<u>(109)</u>	<u>-</u>
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					<u>62,150</u>
Total assets					<u>324,209</u>
Identifiable liabilities	107,906	6,570	114,476	(111)	114,365
Unallocated liabilities					<u>18,555</u>
Total liabilities					<u>132,920</u>
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

	<u>2006</u>	<u>2005</u>
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	<u>27,697</u>	<u>21,438</u>
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	589,329	590,426
Dilutive effect of treasury shares	<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	47.0	36.3
Diluted	46.8	36.2

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.

These financial statements have been authorized for issue on February 23, 2007:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Tomáš Pleskač
Member of Board of Directors
Director of Distribution Division

Petr Vobořil
Chief Financial Officer