ŠKODA PRAHA a.s.
Annual Report 2005

# ENERGY

# CEZ GROUP

CZECH NATIONAL CHAMPION WITH INTERNATIONAL REACH

CEZ Group is one of the largest electricity conglomerates in Central and Southeastern Europe. In 2005, it further expanded at the international level and reinforced its domestic market position by acquiring a coal mining company.
In the Czech Republic, it is the dominant electricity producer, operator of the distribution grid over most of the country, and the strongest player in the wholesale and retail electricity market. Most of the Group's generation capacity is concentrated in the corporate parent, ČEZ, a. s., which is also one of the largest producers of heat. During 2005 the regional electricity distribution companies of CEZ Group were completely reorganized along process-based lines. One of the reasons for this measure was to separate (or "unbundle") distribution, as a regulated activity, from sales. The key electricity distribution and sales functions were taken over by ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o., respectively. ČEZ, a. s. also acquired a 100% stake in ŠKODA PRAHA a.s., the engineering company, and I & C Energo a.s., a leading supplier of comprehensive industrial systems, continued to grow.
In December 2005, CEZ Group became stronger by acquiring Severočeské doly a.s. Early 2005 saw completion of the acquisition of three Bulgarian distribution companies, Elektrorazpredelenie Pleven EAD, Sofia Oblast EAD, and Stolichno EAD, and the second quarter brought the acquisition of the Romanian distributor Electrica Oltenia S.A. In January 2006 an agreement was signed on the purchase of majority stakes in the Polish electric companies Elektrownia Skawina S.A. and Elektrociepłownia Chorzów Sp. z o. o.
The Group's other businesses include telecommunications, information technology, nuclear research, design, engineering, construction, and maintenance of power-related plant and equipment, mining of raw materials, and processing of electricity generation by-products, among others.

# 77.0

INCOME
BEFORE TAX
(CZK millions)

# 793.7

EQUITY
(CZK millions)

ŠKODA PRAHA

ŠKODA PRAHA a.s. was incorporated on 10 December 1990 by registration in the Commercial Register. It was formed out of the transformed State enterprise ŠKODA PRAHA, legal successor to the State enterprise Energostroj, established in 1953. ŠKODA PRAHA a.s. was established in a single action pursuant to the Founder's Plan of the Ministry of Mechanical and Electrical Engineering Industries of the Czech Republic issued by Decision No. 71/90 of said Ministry dated 28 November 1990. ŠKODA PRAHA a.s. is an engineering contractor well-established in the Czech and foreign energy markets in the field of power engineering construction, refurbishment, and upgrade projects.

In particular, ŠKODA PRAHA a.s. specializes in the following:

- high-performance energy systems – conventional and nuclear power plants, combined-cycle plants, peaking plants,
- industrial and municipal power systems – power heating plants,
- reconstruction of existing power plants – comprehensive retrofits, refurbishing, and upgrades of individual industrial complexes,
- environmental projects – biomass combustion.

In 2005, ŠKODA PRAHA a.s. became a part of CEZ Group, one of the largest energy conglomerates in Central and Southeastern Europe, as a 100% subsidiary of ČEZ, a. s. In this new role, and in accordance with the CEZ Group strategy, ŠKODA PRAHA a.s. will continue to be a growing company with modern management, excelling in the design and execution of energy projects, aggressively expanding its business in the domestic and international markets, and developing its potential to support the expanding CEZ Group.


6.3
RETURN
ON EQUITY
(%)

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# KEY FIGURES

**Selected Indicators**

| | Units | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| Total assets (net) | CZK millions | 7,733.731 | 2,929.666 | 2,160.891 | 1,517.326 | 1,293.073 |
| Net plant in service + Intangible fixed assets | CZK millions | 307.477 | 287.093 | 269.529 | 172.445 | 19.128 |
| Plant and intangible fixed assets in course of construction, including advance payments | CZK millions | 3.527 | 3.062 | 504 | 9.012 | 2.794 |
| Long-term investments | CZK millions | 83.492 | 91.222 | 58.655 | 57.431 | 45.142 |
| Inventories | CZK millions | 4,085.657 | 1,205.675 | 554.732 | 181.794 | 97.022 |
| Trade receivables, including advance payments | CZK millions | 2,165.554 | 619.843 | 796.632 | 346.298 | 197.138 |
| Total equity and liabilities | CZK millions | 7,733.731 | 2,929.666 | 2,160.891 | 1,517.326 | 1,293.073 |
| Equity | CZK millions | 359.180 | 318.275 | 723.957 | 758.789 | 793.686 |
| of which, e.g.: stated capital | CZK millions | 557.524 | 557.524 | 1,257.524 | 1,257.524 | 1,257.524 |
| Liabilities | CZK millions | 7,019.850 | 2,247.659 | 1,431.330 | 758.356 | 499.313 |
| of which, e.g.: provisions | CZK millions | 126.505 | 235.988 | 289.654 | 215.050 | 106.184 |
| of which, e.g.: trade payables, including advance payments | CZK millions | 5,026.049 | 1,651.344 | 966.844 | 428.094 | 227.117 |
| Operating income | CZK millions | 4.778 | (803.551) | (444.342) | 88.393 | 45.664 |
| Revenues | CZK millions | 5,844.461 | 7,101.715 | 3,424.549 | 2,029.573 | 995.311 |
| Value added | CZK millions | 747.350 | (336.635) | 694.994 | 211.702 | 90.796 |
| Depreciation and amortization | CZK millions | 29.155 | 23.461 | 18.345 | 13.257 | 8.069 |
| Income from financing activities | CZK millions | 11.615 | 748.339 | 21.696 | (47.334) | 31.358 |
| Gain on revaluation of securities and derivatives | CZK millions | – | – | 879 | 245 | 13.628 |
| Interest received | CZK millions | 21.334 | 12.342 | 6.700 | 1.833 | 8.015 |
| Interest paid | CZK millions | 15.082 | 2.736 | 51 | 10 | – |
| Extraordinary income, before tax | CZK millions | 14.150 | 56 | – | (157) | – |
| Income before tax | CZK millions | 30.543 | (55.156) | (422.646) | 40.902 | 77.022 |
| Income tax | CZK millions | 19.474 | 1.287 | (162.487) | 7.161 | 28.235 |
| Net income | CZK millions | 11.069 | (56.443) | (260.159) | 33.741 | 48.787 |
| Cash and cash equivalents at beginning of year | CZK millions | 711.927 | 382.402 | 598.266 | 249.273 | 450.490 |
| Cash flows from operating activities | CZK millions | (303.191) | 337.651 | (1,045.630) | 54.427 | (121.153) |
| Cash flows from investing activities | CZK millions | 94.788 | (3.679) | 2.791 | 147.853 | 249.721 |
| Cash flows from financing activities | CZK millions | (121.122) | (118.108) | 693.846 | (1.063) | (1.415) |
| Cash and cash equivalents at end of year | CZK millions | 382.402 | 598.266 | 249.273 | 450.490 | 577.643 |
| Current ratio | % | 105.8 | 133.3 | 182.3 | 284.9 | 360.8 |
| Total indebtedness (provisions excluded) | % | 89.1 | 68.7 | 52.8 | 35.8 | 30.4 |
| Return on equity (ROE), net | % | 3.1 | (16.7) | (49.9) | 4.6 | 6.3 |
| Employee head count as at 31 December | persons | 808 | 659 | 401 | 385 | 381 |

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

### IMPORTANT EVENTS OF 2005

January
- non-mandatory takeover offer of shares of ŠKODA PRAHA a.s. announced by ČEZ, a. s., owner of a 68.88% stake in the company,
- TÜV NORD Czech, s.r.o. (formerly RWTÜV Praha, spol. s r.o.) reaffirms validity of EN ISO 9001:2000 certificate for the Quality Management System and EN 729-2 welding certification; company receives new EN ISO 14001:2004 certification for its Environmental Management System (EMS).

February
- ŠKODA PRAHA a.s. issues internal Employee Codex,
- Government of the Czech Republic decides to sell 24.28% equity stake in ŠKODA PRAHA a.s., held by the National Property Fund of the Czech Republic, to ČEZ, a. s.

March
- non-mandatory takeover offer expires with ČEZ, a. s. gaining 97.6% stake in ŠKODA PRAHA a.s. stated capital.

April
- company enters into a contract with ČEZ, a. s. for basic engineering of comprehensive retrofit of Tušimice II Power Station,
- 2005 Collective Agreement signed.

May
- decision taken to sell the company's current Prague head office building in conjunction with plan to move to the parent company's seat,
- decision taken to establish ŠKODA PRAHA Invest s.r.o., a 100% subsidiary that will support the business of ŠKODA PRAHA a.s., especially in planned retrofitting of ČEZ, a. s. power plants.

June
- CZK 2.4 billion contract to build a power plant in Monterrey, Mexico signed – work is slated to start in second half of 2006,
- Annual General Meeting of shareholders approves the 2004 financial statements and distribution of 2004 net income, passes decision amending Articles of Association and making changes in Supervisory Board,
- start of commercial operation of Unit No. 4 of power heating plant in Shen Tou, China, a project in which ŠKODA PRAHA a.s. acted as Consortium Head of Engineering,
- EUR 22 million contract signed to build a new generating facility for Energetické centrum Kladno,
- company presentation at Power-Gen Europe Conference and Exhibition 2005 international power engineering expo in Milan, Italy.

July
- member of the company's Board of Directors Daniel Jiřička appointed Statutory Representative of ŠKODA PRAHA Invest s.r.o.

August
- company reorganization plan approved – new plan envisions transition to management by processes and more prominent role for Project Manager position; reorganization to be implemented effective 1 January 2006,
- company holds an extraordinary General Meeting of shareholders which decides on transfer of all ŠKODA PRAHA a.s. shares owned by minority shareholders to the majority shareholder, ČEZ, a. s., in accordance with Section 183i *et seq.* of the Commercial Code.

September
- EUR 14.4 million contract signed to supply power generation equipment for a power plant in New Talkha, Egypt – in consortium with Belgian partner CMI.

October
- agreement reached on settlement of long-standing disputes with Slovenské elektrárne, a.s.,
- company exhibits at International Engineering Fair in Brno.

November
- all remaining shares of ŠKODA PRAHA a.s. pass to ČEZ, a. s., making it the sole shareholder of ŠKODA PRAHA a.s.,
- TÜV NORD Czech, s.r.o. (formerly RWTÜV Praha, spol. s r.o.) reaffirms validity of Quality Management, EMS, and welding certificates based on follow-up audit.

## IMPORTANT EVENTS OF 2006 UP TO ANNUAL REPORT CLOSING DATE

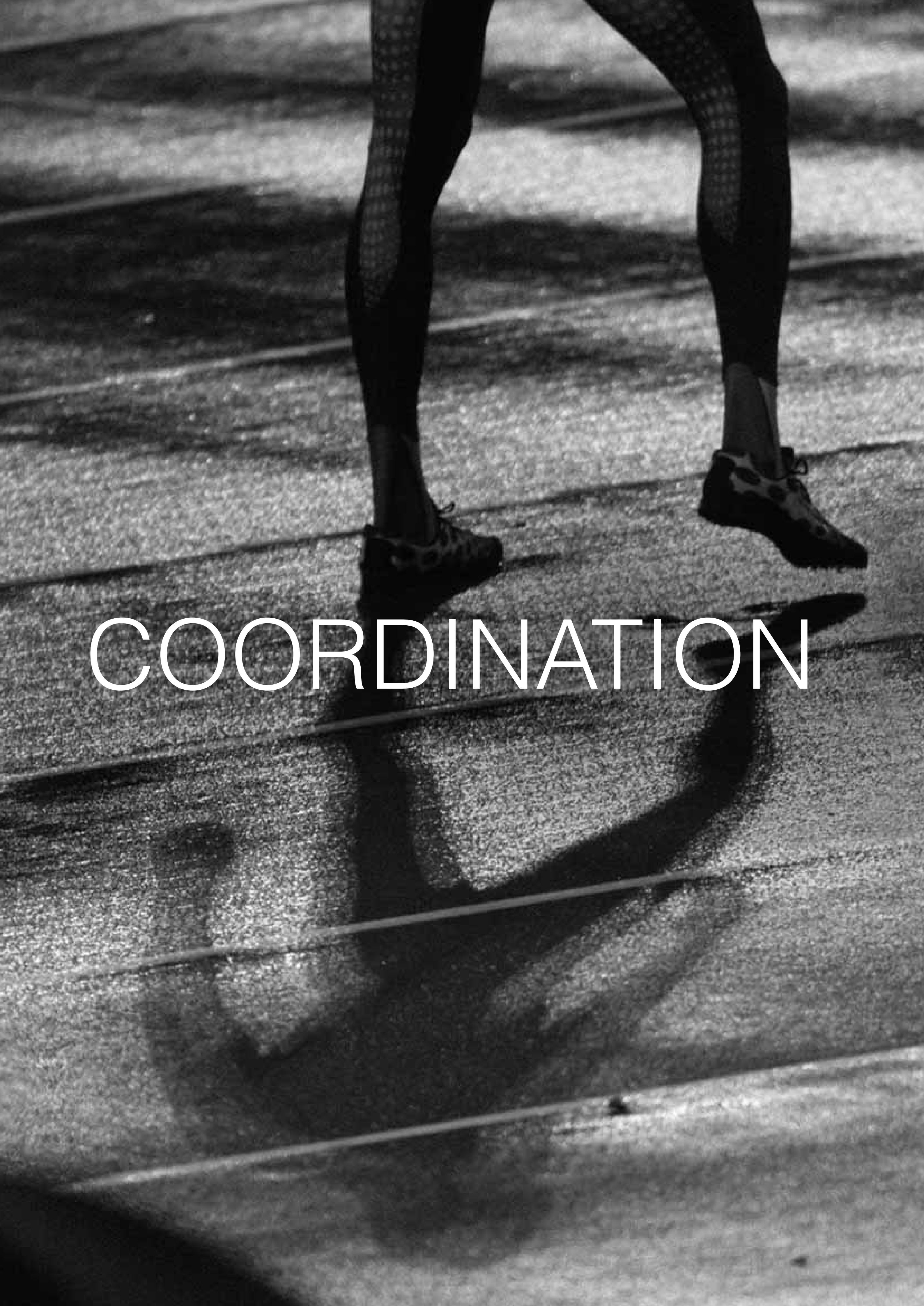
January
- new company organization chart (project management) takes effect,
- sole shareholder acting with powers of General Meeting amends Articles of Association of ŠKODA PRAHA a.s., changing number of members of the Board of Directors and increasing number of Vice Chairmen of the Supervisory Board, accompanied by subsequent changes in staffing of these boards,
- Radek Benčík elected Chairman of the Board of Directors and General Manager of ŠKODA PRAHA a.s., as well as Statutory Representative of subsidiary ŠKODA PRAHA Invest s.r.o.

February
- ŠKODA Alliance consortium partners (ŠKODA PRAHA a.s., Ústav jaderného výzkumu Řež a.s., and ŠKODA JS a.s.) submit bid to complete construction of two generating units of the Belene Nuclear Power Station in Bulgaria,
- EUR 14.5 million contract signed to supply power generation equipment for the El Kureimat II Power Station in Egypt; once again the contract will be implemented in consortium with Belgium-based CMI,
- during a visit to the Czech Republic by the Prime Minister and Minister of Energy of the Republic of Bulgaria, representatives of ŠKODA Alliance support the Alliance’s bid to complete the construction of two generating units of the Belene Nuclear Power Station.

March
- ČEZ, a. s. conducts customer audit of ŠKODA PRAHA a.s., resulting in renewal of ŠKODA PRAHA’s eligibility to supply to ČEZ, a. s. up to 30 January 2008.

April
- 2006 Collective Agreement signed.

# COORDINATION



One of ŠKODA PRAHA's key future projects is the planned comprehensive retrofitting of ČEZ, a. s. power plants, in which it will play a major role as the principal supplier of engineering services. The subsidiary of ŠKODA PRAHA a.s., ŠKODA PRAHA Invest s.r.o., will act as general contractor on the ČEZ, a. s. coal generation portfolio renewal projects, manage contractual relations, and coordinate related activities.

# LETTER TO SHAREHOLDERS

Dear Partners, Shareholders, and Colleagues,
In 2005, ŠKODA PRAHA a.s. found itself playing two major roles: first, it developed its role as a key Czech business entity with a decades-long history of building, refurbishing, and servicing conventional and nuclear power plants both in the Czech Republic and abroad, and, second, it became the newest member of CEZ Group, a fundamentally important step for us. Allow me in this section of the ŠKODA PRAHA a.s. 2005 Annual Report to take a look back at what the past year brought for our company.
Without doubt, much good work and accomplishments were made in the past year, leveraging the company's restructuring and stabilizing process that began in late 2002, i.e., in particular stabilizing of the company's finances and business operations, and restructuring of its work force and organization.
The company's financial performance in 2005 reaffirmed the trend established in the previous year: following several years of losses, 2005 is the second year in which the company has posted profits in the tens of millions of Crowns (2005 net income was CZK 49 million, or CZK 77 million before tax).
Business accomplishments in 2005 included, in particular, contracts to supply a peaking plant for Energetické centrum Kladno and power generation equipment for the New Talkha Power Station in Egypt, and renewal of a contract to build a power plant in Monterrey, Mexico at improved terms for the company. In addition, ŠKODA PRAHA a.s. laid the groundwork for a second Egyptian contract – to supply power generation equipment for the El Kureimat II Power Station – which was signed in early 2006.
In April of last year, ŠKODA PRAHA a.s. and ČEZ, a. s. entered into a contract to do the basic engineering of a comprehensive retrofit of Tušimice II Power Station. The importance of this contract lies not only in its financial benefit, for it also has symbolic meaning – it is the company's first contract in the process of renewing the ČEZ, a. s. coal generation portfolio – a process that will run for many years and in which ČEZ, a. s. is planning to spend many tens of billions of Crowns. Thanks to its know-how, ŠKODA PRAHA a.s. expects to play a significant role in this process.
It was in view of the ČEZ, a. s. coal generation portfolio renewal plan and the need for its smooth execution that ŠKODA PRAHA a.s. established its subsidiary ŠKODA PRAHA Invest s.r.o. in the middle of last year. This subsidiary will act as general contractor on the ČEZ, a. s. coal generation portfolio renewal projects, manage contractual relations, and coordinate related activities.
The principal supplier of engineering work for these projects will be ŠKODA PRAHA a.s. We are aware that the execution of comprehensive retrofits of ČEZ, a. s. power plants will become one of our company's key focuses in the future. As this crucial project goes forward, the management of ŠKODA PRAHA a.s. expects the employees of both companies to be flexible and work together as a team to execute the contracts flawlessly.
Last year's accomplishments in the execution area included the basic engineering of the comprehensive retrofit of Tušimice II Power Station, the completion of Units 3 and 4 of the Shen Tou Power Station in China, groundbreaking on the construction of a new power plant in Kladno, and completion of a project at the Afsin – Elbistan Power Station in Turkey.
And it is the projects that are now getting underway that are revealing what remains to be resolved in our restructuring process. ŠKODA PRAHA a.s. possesses unique know-how, which is particularly concentrated in our technical engineers – however, in today's fast-moving business, we have to constantly work to increase their numbers and develop them, as well as adding value to their work. We are also aware that our project management process needs to be strengthened, especially in the areas of internal communication and coordination. For these reasons, this year's primary management tasks will be to hire both engineering graduates and experienced specialists in the field as well as to improve the effectiveness of the company's internal processes and how its individual organizational units work together.

In 2005 ŠKODA PRAHA a.s. also continued to bid for new contracts. Our priority focus here is on the projects that – we trust – ŠKODA PRAHA a.s. will execute in the ČEZ, a. s. generation portfolio renewal process. These contracts will always have clear priority and customer satisfaction will be the “Alpha and Omega” of our efforts. We also aim to increase the value, competitiveness, and know-how of ŠKODA PRAHA a.s. and maintain the traditional international dimension of our business, newly adding the countries into which our corporate parent has been expanding. In this spirit, 2005 saw ŠKODA PRAHA a.s. dedicate no small attention and energy to the preparation of a bid to complete the construction of the Belene Nuclear Power Station in Bulgaria, in which it worked together – in the ŠKODA Alliance – with other major Czech companies such as Ústav jaderného výzkumu Řež a.s. and ŠKODA JS a.s., as well as bids for ŠKODA PRAHA a.s. involvement in energy industry projects in Vietnam, Turkey, and Moldavia, and a distribution grid project in Sri Lanka. The Mochovce Nuclear Power Station project in Slovakia is also on our radar screen. We are confident that in winning this major tender – in a strategic alliance with other strong business partners – we will be helped by a major step we took in 2005: the settlement of a rights and obligations dispute with Slovenské elektrárne, a.s.

The company would not have achieved these major business successes had it not been for previous restructuring measures. However, the demanding process of stabilizing the company is not yet over. In the middle of last year, we commenced another stabilizing phase – the Change Project. Company management decided on the necessity of transitioning to management by processes; in the new “matrix” organization structure implemented as of 1 January 2006, project managers have gained a strong position as the dominant element in project execution, guiding the whole process throughout the company. We merged the execution and support organization units that had previously been separate. The primary objective of the changes is to encourage smooth project execution and set up relationships of cooperation in the company with an emphasis on internal and external customer approach. A big challenge for this year, then, is to strengthen the company’s team spirit, remove barriers to communication and also create a performance-driven corporate culture in which each employee knows his or her place and responsibilities, and works in the interest of a well-functioning whole. We know that one of the key means to achieve this is the implementation of a properly-designed system of employee incentives, and that is another key task for 2006. We believe that another factor helping us to build a positive team spirit at the company will be a new work environment: in early 2007 we are to move from our current space in Prague to a new, modern facility in the immediate vicinity of our corporate parent (and this plan was part of why a real estate divestiture project was completed last year with the sale of our current seat in Prague).

It would be very difficult to speculate whether we could report all of the above if it hadn’t been for one change that is truly of crucial importance for the company and its future development. In 2005, ŠKODA PRAHA a.s. became a part of CEZ Group: first in March 2005 when a voluntary takeover offer was completed, in which the National Property Fund of the Czech Republic sold its equity stake in ŠKODA PRAHA a.s. to ČEZ, a. s., giving it a sufficiently large majority stake to perform a squeeze-out. Then, on November 5 of last year, ČEZ, a. s. became the sole shareholder of ŠKODA PRAHA a.s. And it is from this event that our next commitment stems: to turn ŠKODA PRAHA a.s. into a useful, full-fledged, and respected member of the CEZ Group family of companies.

In conclusion, allow me to express my gratitude to the employees of ŠKODA PRAHA a.s. for a job well done, and to our corporate parent for the trust it placed in us in making its investment decision, to our partners for their cooperation and support, and, last but not least, to the many customers that make use of our company’s services. I assure you that our number-one objective will continue to be the satisfaction and benefit of all the groups just mentioned.

Radek Benčík
Chairman of the Board
General Manager

# DIRECTORS AND OFFICERS

The governing bodies of ŠKODA PRAHA a.s. and their powers are set forth by the Articles of Association. The highest governing body of ŠKODA PRAHA a.s. is the General Meeting of shareholders. In accordance with the valid Articles of Association, the General Meeting elects and removes the members of the Supervisory Board. Members of the Board of Directors are elected and removed by the Supervisory Board. The Board of Directors appoints and removes the company's General Manager and the Section Managers, which report to the General Manager.

## SUPERVISORY BOARD

The company's Supervisory Board has nine members. The Supervisory Board itself elects one and two of its members to serve as its Chairman and Vice Chairmen, respectively. The system of two Supervisory Board Vice Chairmen was implemented by an amendment of the Articles of Association that took effect on 10 January 2006. During 2005, the Supervisory Board elected a Chairman and one Vice Chairman.

In accordance with the applicable provisions of the Articles of Association and the Commercial Code, six Supervisory Board members are elected by the shareholders at the General Meeting, and the remaining three are elected by company employees. Currently, there are two vacancies of members of the Supervisory Board elected by the employees, even though the Board of Directors repeatedly organized elections in 2005. These elections did not have the desired result due to insufficient participation on the part of employees. Under the Articles of Association, the Supervisory Board has the power to elect a substitute member for a member (elected by the shareholders) who resigns or whose membership is otherwise terminated.

The powers and responsibilities of the Supervisory Board are given by the Commercial Code and by the Articles of Association, which are passed by the General Meeting. The Supervisory Board is the company's oversight body. It oversees the conduct of the company's business activity and the activities of the Board of Directors. In particular, it inspects the company's financial performance and reviews the financial statements and proposals for income distribution or loss settlement.

In the "German model" of corporate governance, the Supervisory Board, in addition to the oversight role described above, also acts as an advisory authority that provides support, recommendations, and opinions to the Board of Directors to help it make strategic decisions, and as a conduit for suggestions from the shareholder, based on the strategy of CEZ Group, of which the company is a member. In cases set forth by the Articles of Association, the Supervisory Board confirms and/or gives its prior consent for certain key decisions and steps of the Board of Directors. The Supervisory Board has the power to elect members of the Board of Directors as well as to remove them from office.

In 2005, the Supervisory Board of ŠKODA PRAHA a.s. met nine times (nonetheless, the Articles of Association stipulate that, as a rule, the Supervisory Board is to meet once per month). The Supervisory Board's organization and functioning are governed by its Rules of Order, which are approved by the Supervisory Board itself. The Supervisory Board takes decisions by a simple majority of all members, and may take *ad hoc* decisions by holding votes outside of its regular meetings. Meetings must be preceded by invitations containing the proposed meeting agenda, which must be delivered to the Supervisory Board members at least seven days in advance (this time period can be reduced to three days if necessary) to allow members enough time to study the materials upon which the oversight activity is to be based.

As a rule, the Chairman of the Board of Directors is present at all Supervisory Board meetings. Also present, if needed, may be members of the Board of Directors and/or Section Directors that are reporting to the Supervisory Board in person on materials relating to the current agenda. Meetings are also attended by the Company Clerk, who is responsible for preparing minutes of all Supervisory Board meetings.

All documents discussed by the Supervisory Board or submitted to it by the company are archived in both physical and electronic form. The security of these archives is managed in accordance with the company principles that govern this area.

**Members of the Supervisory Board**

Vladimír Johanes (* 1959) Chairman since 2 December 2004,
Member since 31 March 2004

Vladimír Johanes serves on the Supervisory Boards of a number of companies: OSINEK, a.s. (Member), ČEPS, a.s. (Chairman), Elektrorazpredelenie Sofia Oblast EAD, the Bulgarian electricity distribution company (Member), and Severočeské doly a.s. (Member). His extensive past professional experience includes: Statutory Representative of Grey Praha spol. s r.o./Grey Worldwide s.r.o. (branch of an international communications group); coordinator of Grey Worldwide s.r.o.'s activities in Slovakia, Ukraine, Russia, and Romania; member of the Supervisory Board of MORAVIA STEEL a.s.; and Chairman of the Board of Directors of AB BARRANDOV, a.s. Mr. Johanes is a graduate of the Charles University Faculty of Law in Prague and speaks Russian and English.

Daniel Beneš (* 1970) Vice Chairman since 17 January 2006,
Member from 3 December 2004 to 22 June 2005,
co-opted 14 December 2005, re-elected 10 January 2006

Daniel Beneš has been a senior manager of ČEZ, a. s. since 2004, first as Chief Procurement Officer and, since February 2006, as Chief Administration Officer. Concurrently, since late 2005, he has been a member of the Board of Directors of ČEZ, a. s. He is also Chairman of the Supervisory Board of Severočeské doly a.s., Chairman of the Supervisory Board of ČEZ Logistika, s.r.o., and Chairman of the Supervisory Board of ŠKODA PRAHA Invest s.r.o. Before coming to CEZ Group he worked for TCHAS, spol. s.r.o. as director of the fuels trading unit and sales director for the domestic market, for HEDVIGA GROUP, a.s. as general manager, and at BOHEMIACOAL s. r. o. as head of sales. He was awarded a degree from the Technical University of Ostrava, Mechanical Engineering Faculty, and speaks English, Russian, and Polish.

Jiří Borovec (* 1964) Vice Chairman since 17 January 2006,
Member since 22 June 2005

Jiří Borovec has been with ČEZ, a. s. since 2004, first as a member and subsequently as a Vice Chairman of the Board of Directors and as Chief Production Officer. He is also Vice Chairman of the Supervisory Board of ŠKODA PRAHA Invest s.r.o. In 2000–04 he led ŠKODA JS a.s. as Chairman of the Board of Directors and General Manager. In 1995–2000 he worked for ABB Czech Republic in the following positions: Country Human Resources Manager, Vice President, Human Resources, Member of the Country Board, and General Manager of ABB Service s.r.o. In 1990–95 he served in the Army of the Czech Republic as an interpreter and translator, UN military observer in the former Yugoslavia, and foreign relations officer to the Army's Chief of Staff. He is a graduate of the Brno Military Academy, the Masaryk University in Brno, United States Air Force Defense Language Institute, USA, and the Brno Business School – Nottingham Trent University (MBA). He speaks English, Spanish, and Russian.

Jaroslav Ambrož (* 1951) Member elected by the employees since 30 January 2004

Jaroslav Ambrož has been with ŠKODA PRAHA a.s. since 1974 and is one of the company's key professionals. Over the years he has served in several positions: designer, chief engineer, head project engineer, and currently he is a key professional (head of a team of engineers). He has been involved in many of the company's important projects. He is a graduate of the Czech Technical University, Prague, Department of Power Generation Machinery and Equipment, with a specialization in turbine design, and a post-graduate course in Regulation of High-performance Power Generating Units. He is fluent in English, German, and Serbo-Croatian, and partially fluent in Russian and Spanish.

Čestmír Čejka (* 1928) Member since 31 March 2004,
Vice Chairman from 31 March 2004 to 16 January 2006

Čestmír Čejka has been with ŠKODA PRAHA a.s. since 1997, serving in the positions Chairman of the Board of Directors, Member of the Board of Directors, and Vice Chairman and Member of the Supervisory Board. He has been in the governing bodies of the following companies: První východní a.s. (Member of the Supervisory Board), ČPP Transgas s.p. (Chairman of the Supervisory Board), SPT Telecom a.s. (Member of the Supervisory Board), National Property Fund of the Czechoslovak Federative Republic (Member of the Supervisory Board), and the National Property Fund of the Czech Republic (Member of the Presidium). Mr. Čejka is a professional with great practical experience: he managed Rapid, a.s. as General Manager and Chairman of the Board and served as Deputy Minister of the Federal Ministry of Audit of the Czechoslovak Federative Republic and Deputy Mayor of the City of Prague. He studied at the Charles University Faculty of Law in Prague, but was unable to graduate for political reasons. He speaks English and German.

Vladimír Schmalz (* 1966) Member since 22 June 2005,
co-opted from 3 May 2005 to 22 June 2005

Vladimír Schmalz graduated from the University of Economics, Prague, Faculty of International Relations (major in economics of foreign trade) in 1994. He has over 13 years of corporate management experience both in the Czech Republic and abroad, working in areas such as team management and motivation, analysis, organization, planning, and control. In 1991–2004 he was General Manager of SAWBAC Česká republika a.s., a facilities management company active in the Czech Republic and Slovakia, and later became a shareholder of that company and Chairman of its Board of Directors. In May 2004, the Board of Directors of ČEZ, a. s. appointed him director of the M&A section, where he is currently responsible for power sector acquisition projects in Central and Eastern Europe.

Přemysl Skočdopol (* 1957) Member since 31 March 2004
Přemysl Skočdopol works for ČEZ, a. s. as a specialist in equity holdings. Prior to that, he worked for Spořitelní investiční společnost a.s. as department head and deputy director of the equity holdings analysis and management group; as a security analyst with CREDIT TRADING, s.r.o., he assisted in the preparation of the Czech Republic's credit rating system; and also worked as a deputy department head at the Ministry of Industry and Trade of the Czech Republic. He was awarded a Master's degree by the University of Economics, Prague, specializing in the economics of industry. He is partially fluent in English, German, and Russian.

**Members of the ŠKODA PRAHA a.s. Supervisory Board whose memberships terminated in 2005 or before the Annual Report closing date (18 April 2006)**

| | | |
|---|---|---|
| Jan Kalina | (* 1969) | Member from 31 March 2004 to 22 June 2005 |
| Josef Petřík | (* 1952) | Member from 11 August 2004 to 23 March 2005 |
| Peter Szénásy | (* 1975) | Member from 22 June 2005 to 13 December 2005 |

## BOARD OF DIRECTORS

As of 10 January 2006, the Board of Directors of ŠKODA PRAHA a.s. consists of six members. In the first part of 2005 it had five members, while as of 22 June 2005 the valid Articles of Association specified it as the company's four-member statutory body. The Board of Directors elects one Chairman and one Vice Chairman from among its members. Members of the Board of Directors are elected and removed by the Supervisory Board.
As of March 2004, the company uses the "German model" of corporate governance. Under this system, the Board of Directors plays an executive role, i.e. members of the Board of Directors also serve in the company's executive management as Section Directors (or, as of 2005, Division Directors). The ŠKODA PRAHA a.s. corporate governance model also includes the principle of one person serving as both General Manager and Chairman of the Board of Directors. Both the company and its shareholder consider this combination of positions to be a systemic instrument for ensuring effective communication within the company's management.
The powers and responsibilities of the Board of Directors are stipulated by the Commercial Code and the Articles of Association passed by the General Meeting. As the company's statutory body, the Board of Directors runs the company's activities, manages its business, sees to the exercise and discharge of the company's rights and obligations as an employer, and acts in the company's name (in all external matters, at least two members of the Board of Directors act on behalf of the company jointly – either the Chairman and one other member, the Vice Chairman and one other member, or an authorized member and one other member). The powers and responsibilities of the Board of Directors are set forth in detail in the Articles of Association of ŠKODA PRAHA a.s., which are available at every General Meeting and are deposited in the Collection of Documents of the Commercial Register of the Prague Municipal Court.
The Board of Directors submits to the General Meeting the company's business policy and amendments thereto, and subsequently carries out the various aspects of this key document in practice in the company's strategic management. Another key aspect in the Board of Directors' strategic decision-making consists of recommendations provided to it by the Supervisory Board. In running company affairs, the Board of Directors receives guidance from the Supervisory Board in the form of opinions and, where required by the Articles of Association, prior consent.
Externally (in business dealings) and internally, the Board of Directors approves internal management instruments, particularly the Organization Rules, the Signature Rules, and the Work Rules. In the Organization and Signature rules, for example, the Board of Directors stipulates the powers and responsibilities of the General Manager and his direct subordinates, whom it also appoints (and removes).
In accordance with the Articles of Association, the Board of Directors meets at least 12 times per year. In 2005, it met a total of 21 times. The company's experience and needs have proven the usefulness of meeting once every 14 days, and therefore this frequency has been recently implemented in the system used to convene Board of Directors meetings. In its organization, the Board of Directors is governed by its Rules of Order, which it itself approves.
The Board of Directors takes decisions by a simple majority of the votes of all members, and its Rules of Order permit several forms of meetings (by invitation with deadlines of 7 and 3 days, and immediately convened meetings – each of these forms being secured by appropriate instruments to prevent misuse); the Board of Directors may also take decisions outside of meetings.
Depending on the topics discussed, meetings of the Board of Directors are regularly attended by Section Directors (and, in 2005, Division Directors) who present their materials and proposals to the Board in person. The Chairman of the Supervisory Board is regularly invited to attend meetings of the Board of Directors and he receives the same meeting materials as do members of the Board of Directors.
Board of Directors meetings are attended by the Company Clerk, who keeps minutes. All documents discussed by the Board of Directors and those it submits to the Supervisory Board are archived in physical and electronic form. The security of these archives is managed in accordance with the company principles that govern this area.

## Members of the Board of Directors

Radek Benčík (* 1966)
Chairman since 16 January 2006,
Member since 16 January 2006

A graduate of the Brno University of Technology, Faculty of Mechanical Engineering, where he majored in production management, Mr. Benčík was awarded an MBA by the Brno Business School – Nottingham Trent University. He has been Chairman of the Board of Directors and General Manager of ŠKODA PRAHA a.s. since 16 January 2006, and since 17 January 2006 he has been Statutory Representative of the company's subsidiary, ŠKODA PRAHA Invest s.r.o. In 2001–06 he worked for ŠKODA JS a.s. (from 2004 as General Manager and Chairman of the Board of Directors) and was also a member of the Board of Directors of OMZ Nuclear Division. In 1990–2000 he worked in various management positions in companies of the ABB Czech Republic group, and in 1988–90 he worked for První brněnská strojírna (PBS). He speaks English and Russian.

Jindřich Pechan (* 1957)
Vice Chairman since 31 March 2004,
Member since 31 March 2004

Graduate of the University of Mechanical and Electrical Engineering, Plzeň, major in nuclear power engineering. He has been with ŠKODA PRAHA a.s. since December 2002 as Vice Chairman of the Board of Directors, director of the Finance Division, and director of the Service Division. As of 1 January 2006 he is Director of Project Managers and acting Director of the Execution Section. Prior to that, he served as Director of ŠKODA ETD s.r.o., Finance Director of ŠKODA MACHINE TOOL s.r.o., and Director of ŠKODA DOS s.r.o. He speaks English and Russian.

Daniel Jiřička (* 1962)
Member since 22 June 2005

Graduate of the Czech Technical University, Prague. He has been with ŠKODA PRAHA a.s. as member of the Board of Directors since 22 June 2005, and since 16 August 2005 he has been a Statutory Representative of the subsidiary, ŠKODA PRAHA Invest s.r.o., and director of that subsidiary since 1 January 2006. Between 2002 and his arrival at ŠKODA PRAHA a.s., he worked for AL INVEST Břidličná, a.s., where, as a member of management he helped to restructure that company's business activities. After graduation his first employer was ŠKODA PRAHA a.s., where he served in various management positions (particularly in the construction of Temelín Nuclear Power Station) until 2000. He speaks English and German.

Jan Postolka (* 1967)
Member since 10 February 2005
A graduate of the University of Economics, Prague, major in industrial economics, Mr. Postolka has been with ŠKODA PRAHA a.s. since early 2003, and manages the company's finances as director of the Finance Division and, since 1 January 2006, director of the Finance Section. Prior to that, he worked in banking and finance in positions such as Head of Sales, Senior Dealer, and Chief Dealer with Komerční banka, a.s. and Guttmann&CIE Praha. He speaks English and Russian.

Jiří Smola (* 1946)
Member since 31 March 2004,
Chairman from 31 March 2004 to 15 January 2006
A power engineering graduate of the Czech Technical University, Prague, Mr. Smola was General Manager of ŠKODA PRAHA a.s. between 1 June 2004 and 15 January 2006. After resigning as General Manager, he remains with the company as director of the Sales Section. At the same time, he is a Member of the Board of Directors. Before coming to ŠKODA PRAHA a.s., he worked for Foster Wheeler Trading Company (Manager for Central Europe), ŠKODAEXPORT, a.s. (Area Manager for the Andean countries and Cuba), and with the Federal Ministry of Foreign Trade of the Czech and Slovak Federal Republic as the Czech Republic's representative for Venezuela, the Caribbean Area, Peru and Bolivia. He is fluent in English, German, and Spanish, and partially fluent in Russian and French.

Tomáš Vachtl (* 1968)
Member since 16 January 2006
Studied at the Technical University of Ostrava. He joined ŠKODA PRAHA a.s. on 1 April 2005 as director of the Procurement Division (as of 1 January 2006, director of the Procurement Section). Before coming to ŠKODA PRAHA a.s. he worked in management positions in procurement and logistics in the companies ŠKODA, KOVÁRNY, Plzeň, s.r.o., ŠKODA HOLDING a.s., Procter & Gamble Czech Republic s.r.o., and AssiDomän. He speaks English.

**Members of the ŠKODA PRAHA a.s. Board of Directors whose memberships terminated in 2005 or before the Annual Report closing date (18 April 2006)**

| | | |
|---|---|---|
| Jan Doležal | (* 1943) | Member from 31 March 2004 to 22 June 2005 |
| Vojtěch Razima | (* 1968) | Member from 31 March 2004 to 9 February 2005 |
| Vladimír Stratil | (* 1966) | Member from 31 March 2004 to 22 June 2005 |

## EXECUTIVE MANAGEMENT

The company is run through a system of line managers combined with project management (matrix system). The company's line organization is divided into sections and independent departments that report directly to the General Manager. Each section is divided into departments and teams. (The company's organization chart appears on page 65.)
The matrix system makes it possible to combine horizontal and vertical (line) management models, and their precise intersection is determined by the project manager for each specific case. Within the matrix system of management, the project manager sets up execution teams for individual projects, the staffing (with employees from various sections and departments) and workload of which vary over the course of project execution.
Effective 1 January 2006, this new management system was implemented as part of a reorganization (compare the organization chart as of 31 December 2005 with the current one on pages 51 and 65 of this Annual Report, respectively). The essence of this change was a transition from a division-based organization used to take restructuring steps, to a less stratified organization that nonetheless supports project execution. Execution, technical, and support functions were merged, a project managers office was formed, led by a new Director of Project Managers, and the project managers themselves were placed outside of the organization structure, allowing them to work with all company employees, including members of management, to ensure smooth execution of the company's contracts.

Directors of sections and heads of independent departments – company management – report directly to the General Manager. Company management consists of the General Manager and these direct reports:
- Director of Project Managers,
- Director for Development,
- Head of General Manager's office,
- Head of Human Resources (Personnel Director),
- Head of Quality Management (Quality and EMS representative),
- Sales Section Director,
- Technical Section Director,
- Procurement Section Director,
- Execution Section Director,
- Finance Section Director.

The General Manager and the Section Directors are appointed and removed by the Board of Directors. The General Manager, in turn, appoints the Director of Project Managers, the Director for Development, and the heads of independent departments.

The company has an Executive Committee which consists of the following:
- General Manager,
- Director of Project Managers,
- Director for Development,
- Head of Human Resources (Personnel Director),
- Sales Section Director,
- Technical Section Director,
- Procurement Section Director,
- Execution Section Director,
- Finance Section Director.

The powers and responsibilities of the Executive Committee are given by the company's Organization Rules which are approved by the Board of Directors. Under the appropriate provisions of the Organization Rules, the Board of Directors delegated certain of its powers and responsibilities – in particular those relating to management of the company's bidding and contract execution functions – to the Executive Committee, but kept the power to veto any decision of the Executive Committee.
The Executive Committee also acts as the company's Management Meeting, an advisory body to the General Manager, and the body that decides the company's organizational and day-to-day business matters that do not fall under the Section Directors, the heads of independent departments, the General Manager, or the company's statutory bodies. The General Manager has the power to veto any decision of the Executive Committee. The status, composition, powers, and rules of order of the Executive Committee are decided by the General Manager based on a proposal put forward by the Executive Committee.

**Members of Executive Management**

Radek Benčík (* 1966) General Manager since 16 January 2006

Bohumil Lisner (* 1956) Technical Section Director since 1 January 2006,
Acting Manager of Conventional Energy Division from 1 December 2005 to 31 December 2005 (division wound up)

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, Bohumil Lisner rejoined ŠKODA PRAHA a.s. in December 2005. His connection with ŠKODA PRAHA a.s. is very close – he worked for the company 18 years as a designer. In the intervening period he worked for Foster Wheeler Energia Oy and Foster Wheeler Italiana as a Service Manager and subsequently as head of the Czech Republic organizational units of both companies. He speaks English and Russian.

Jindřich Pechan (* 1957) Director of Project Managers and acting Execution Section Director since 1 January 2006,
Service Division Director and acting Director of Nuclear Power Division
from 1 April 2004 and 1 June 2005, respectively, to 31 December 2005 (divisions wound up)

Jan Postolka (* 1967) Finance Section Director since 1 January 2006,
Finance Division Director from 1 April 2004 to 31 December 2005 (division wound up)

| | | |
|---|---|---|
| Otakar Rýdl | (* 1959) | Director for Development since 15 March 2006 |

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, Otakar Rýdl joined ŠKODA PRAHA a.s. in March 2006. Prior to that, he worked for ČEZ, a. s. as Director for Plant Retrofitting and Construction and Director of the Technical Section. In the past, he has held various management positions in the Finland-based companies IVO Power Engineering Ltd. and Fortum Engineering Ltd. as well as in ČEZ, a. s. – Chvaletice Power Station. He speaks English.

| | | |
|---|---|---|
| Jiří Smola | (* 1946) | Sales Section Director since 16 January 2006 (acting director from 1 January to 15 January 2006), General Manager from 1 June 2004 to 15 January 2006 |

| | | |
|---|---|---|
| Ludmila Süssová | (* 1960) | Head of Human Resources (Personnel Director) since 1 January 2006 |

A graduate of the Charles University, Prague, Faculty of Philosophy and Arts, where she majored in sociology, Ludmila Süssová has been with ŠKODA PRAHA a.s. since 2004 as Personnel Director. Before that she worked as head of human resources of Pražská teplárenská a.s. and at the Prague 7 City District Office. She speaks English, Russian, and Polish.

| | | |
|---|---|---|
| Tomáš Vachtl | (* 1968) | Procurement Section Director since 1 January 2006, Procurement Division Director from 1 April 2005 to 31 December 2005 (division wound up) |

**Members of the ŠKODA PRAHA a.s. executive management whose positions terminated in 2005 or before the Annual Report closing date (18 April 2006)**

| | | |
|---|---|---|
| Jan Doležal | (* 1943) | Head of Risk Management Dept. from 1 November 2003 to 31 December 2005 (department wound up) |
| Marcela Hortenská | (* 1961) | Head of Internal Audit Dept. from 16 February 2004 to 31 December 2005 (department wound up) |
| Felix Chytrý | (* 1951) | Acting Director of Sales & Marketing Division from 11 January 2005 to 31 December 2005 (division wound up),<br>Director of Foreign Business Division until 10 January 2005 (position terminated) |
| Petr Lamač | (* 1962) | Acting Director of Procurement Division from 1 February 2005 to 31 March 2005 |
| Vojtěch Razima | (* 1968) | Director of Nuclear Power Division from 11 February 2004 to 31 May 2005 |
| Vladimír Stratil | (* 1966) | Director of Conventional Power Division from 11 February 2004 to 30 November 2005 |
| Peter Szénásy | (* 1975) | Director of Procurement Division from 1 August 2003 to 31 January 2005 |
| Zdeněk Veselý | (* 1958) | Director of Operation Division from 7 November 2003 to 31 December 2005 (division wound up) |

Note: Bios of company executives who are also members of the Board of Directors are given in the Board of Directors section, above.

**Remuneration Principles**

The Articles of Association stipulate that remuneration of members of the Board of Directors and Supervisory Board is decided by the General Meeting (typically at the request of the Board of Directors or an authorized shareholder). Also at the request of the Board of Directors, the General Meeting approves the internal rules for providing consideration to members of the governing bodies; further, the General Meeting approves all consideration provided to board members to which they are not expressly entitled under applicable law, their contracts, or the internal rules mentioned above.

The contracts of members of the Board of Directors are approved by the Supervisory Board at the request of the Board of Directors, and the contracts of members of the Supervisory Board are subject to the decision of the General Meeting (typically at the request of the Board of Directors, after dicussion by the Supervisory Board).

In conjunction with the implementation of the “German Model” of corporate governance effective 31 March 2004, the Board of Directors is considered an executive body, i.e. it consists of the company’s senior managers. Under the applicable provisions of the Wage Act and the Articles of Association, the prior consent of the Supervisory Board (i.e. the body that elects the Board of Directors) is required for the signing of senior managers’ contracts, as well as for their remuneration and changes thereto, for task assignments used to award annual bonuses to said managers, the evaluation of performance in these assignments, and all related matters.

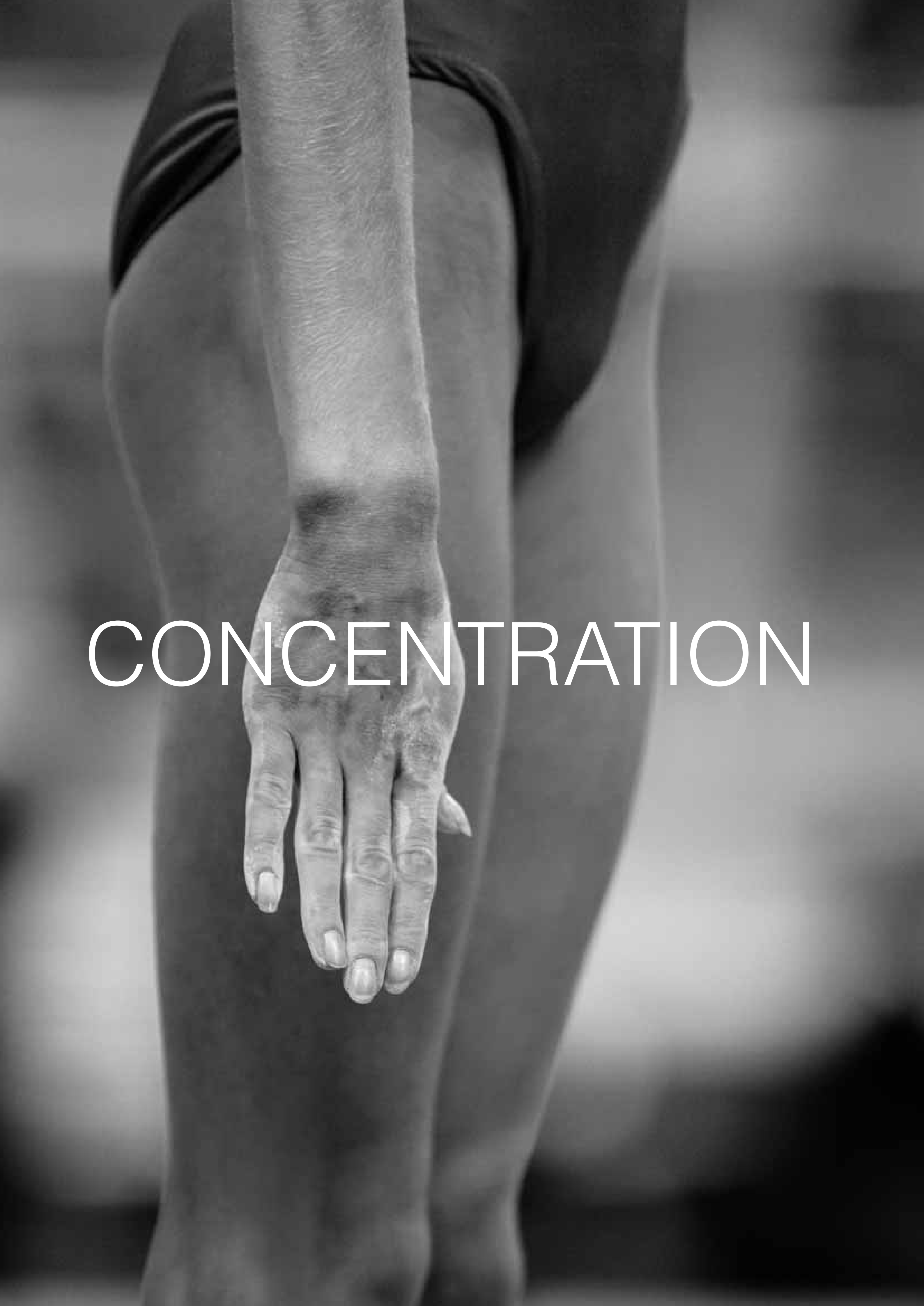
Members of the executive management (Section Directors) are appointed by the Board of Directors, typically after being nominated by the General Manager. Remuneration of these officers, task assignments, and the payment of bonuses upon fulfillment of these assignments, are in the purview of the Board of Directors.

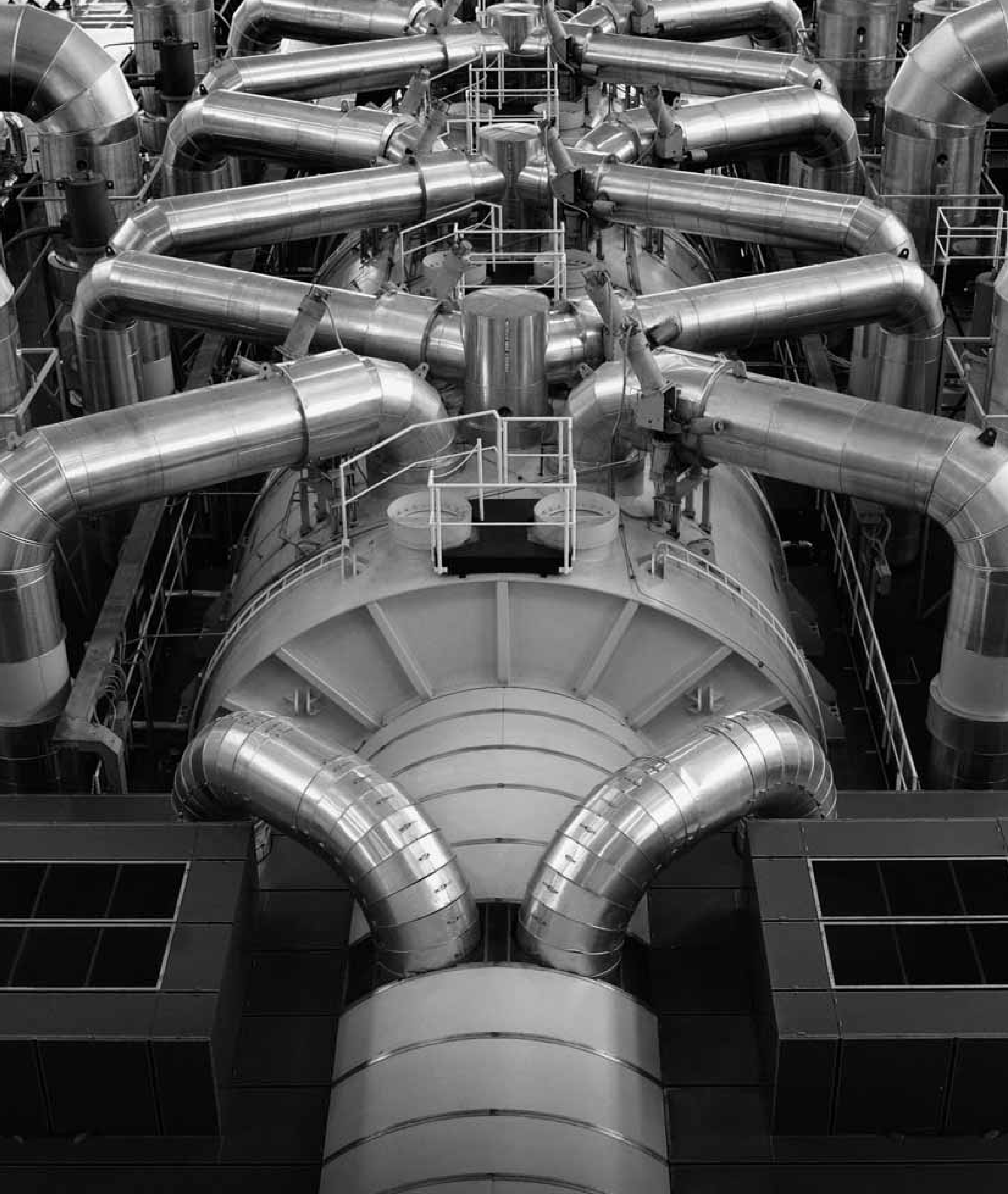
The system of employee remuneration is dealt with by the company’s internal directives (in particular, the Employment Remuneration directive). This directive is issued by the General Manager after it has been approved by the company’s labor organization. Under this directive, the basic components of employee wages are a wage tariff and equalization pay. The directive also stipulates a system of special compensation (extraordinary and targeted) and a system of employee bonuses. Employee wage increases are treated in the collective bargaining process, which culminates in the Collective Agreement entered into between the company and the labor unions active in the company. Employee wages are determined and may be changed on an *ad hoc* basis, individually, based on a proposal put forward by the Section Director or independent department head and are subject to approval by the Personnel Director and the General Manager.

Company management is currently working on implementing a system of employee incentives, focusing particularly on employees involved in contract execution, to support the continued profitability of these projects.

For more on the employee policy, see the Human Resources section, below.

# CONCENTRATION





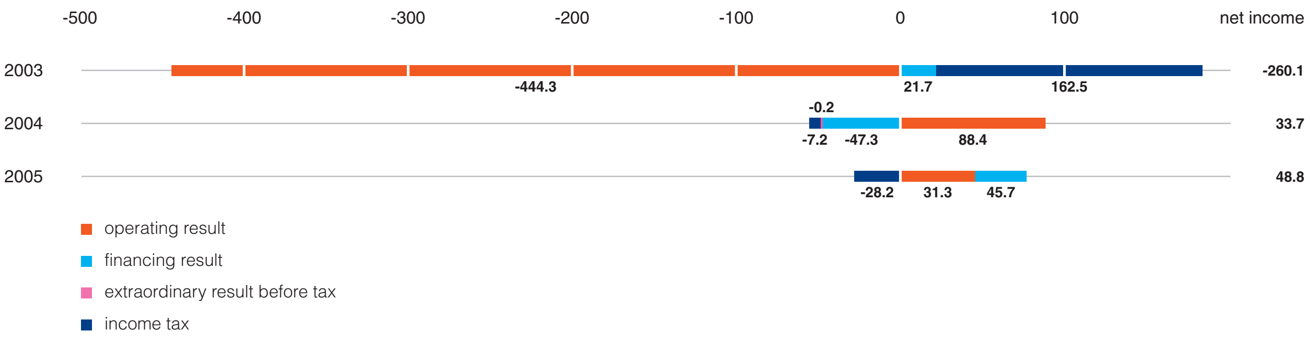
One part of the process of stabilizing ŠKODA PRAHA a.s. in 2005 was preparations for a complete reorganization of the company, the principal goal of which was smooth execution of contracts and the establishment of cooperative relationships in the company, with an emphasis on an internal and external customer-oriented approach. The new project management system, effective 1 January 2006, represents in particular a transition to a less stratified system of organization that supports project execution by strengthening the position of the project manager in navigating the entire contract throughout the company, with the power to demand cooperation from all company employees, including managers.

# REPORT ON THE COMPANY'S OPERATIONS AND THE STATE OF ITS ASSETS
# FINANCIAL PERFORMANCE

## REVENUES, EXPENSES, INCOME

In the 2005 accounting period, ŠKODA PRAHA a.s. posted income of CZK 48.79 million (net), an increase of CZK 15.05 million compared to the same period of the previous year (CZK 33.74 million).
In 2005, ŠKODA PRAHA a.s. posted contract revenues of CZK 995.3 million, 41% of which was for work in Temelín Nuclear Power Station, in the construction of which ŠKODA PRAHA a.s. participated in the past as general engineering contractor; 18% of the revenues figure consisted of work on the basic engineering of the Tušimice II Power Station retrofit.

**Income Breakdown (CZK millions)**

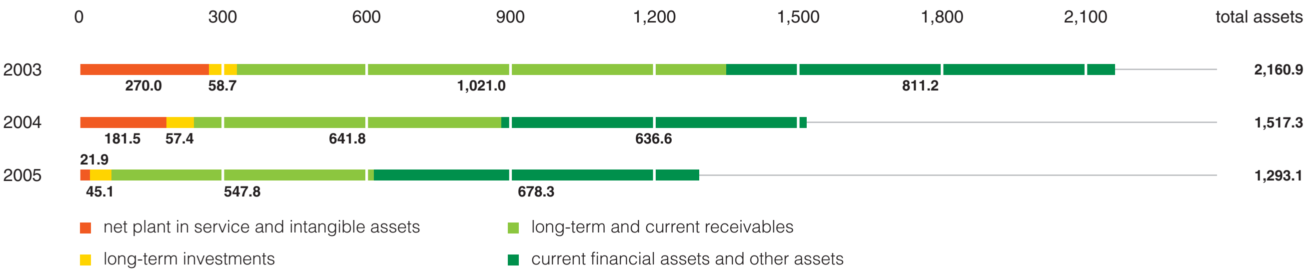



## STRUCTURE OF ASSETS

### Assets

Total assets were down 15% (CZK 224 million) for the year. In 2005, the company sold real property in a total acquisition cost of CZK 212 million (net book value CZK 157.4 million). The total gain on the sale of real property (proceeds from sale of real property less total cost of sale) was CZK 84.8 million. Also in 2005, ŠKODA PRAHA a.s. acquired CZK 5.8 million in intangible assets (primarily further expenditures to acquire the ORACLE E-Business software). The largest component (45%) in total assets is current financial assets, and 42% of these is blocked in conjunction with bank guarantees.
In 2005 there was a radical drop in goods on hand due to the termination of a contractual relationship with Westinghouse Electric Czech Republic s.r.o. to which ŠKODA PRAHA a.s. provided services relating to customs proceedings and transport of supplies to Temelín Nuclear Power Station; another reason was the sale of two RUSTON engine-generator aggregates with natural gas-fired piston engines. Although these aggregates were sold at a loss, it was mitigated by impairment allowances taken in previous years. Inventory liquidity further improved in 2005 thanks to the sell-off of certain inventories that had not seen movement in a long time.

**Structure of Assets (CZK millions)**



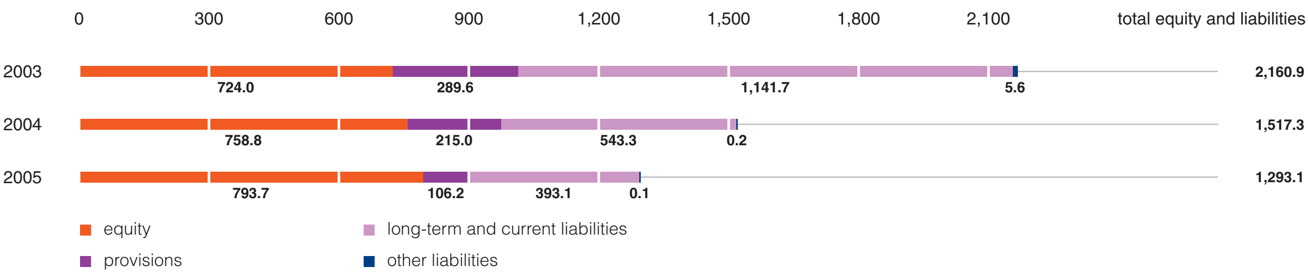

**Equity and Liabilities**

Liabilities accounted for 39% of overall equity and liabilities in 2005. The greatest year-on-year drop (in liabilities) was in the provisions and advances received component.

The decline in provisions (by CZK 109 million from the previous year) was caused by the reversal of guarantee provisions for the Temelín Nuclear Power Station contract, not only due to additional expenses to correct defects and complete unfinished items, but also in conjunction with warranty expiration for a portion of the contract.

The CZK 158 million year-on-year decline in advances received related to the termination of a contractual relationship between ŠKODA PRAHA a.s. and Westinghouse Electric Czech Republic s.r.o. (Temelín Nuclear Power Station).

**Structure of Equity and Liabilities (CZK millions)**




## BANK AND OTHER LOANS AND THEIR MATURITY

As of 31 December 2005 the company had not drawn any loans. For business purposes, the company utilizes, in particular, bank guarantees and letters of credit. For this purpose, current and long-term lines were opened with three banks, based on which the company can utilize the above mentioned products at any time.

## DEVELOPMENT OF KEY FINANCIAL INDICATORS

| | Units | 2004 | 2005 |
|---|---|---|---|
| Return on Invested Capital (ROIC) | % | 0.9 | (12.0) |
| Return on Equity (ROE), net | % | 4.6 | 6.3 |
| Return on Assets (ROA), net | % | 1.8 | 3.5 |
| EBIT margin | % | 4.4 | 4.6 |
| EBITDA margin | % | 5.0 | 5.4 |
| Debt/Equity | % | 0.0 | 0.0 |
| Total indebtedness, provisions excluded | % | 35.8 | 30.4 |
| Long-term indebtedness | % | 6.3 | 4.2 |
| Current ratio | % | 284.9 | 360.8 |
| Operating cash flow-to-liabilities ratio | % | 7.2 | (24.3) |
| Assets turnover | 1 | 1.1 | 0.8 |
| Fixed assets coverage | % | 357.9 | 1,264.5 |
| Extent of depreciation | % | (49.7) | (76.6) |

The “return on” indicators have been growing since 2004, reflecting the growth in net income. Despite lower sales revenues, the company posted an increase in Return on Sales, i.e. higher income per Crown of revenues. The liquidity indicators include current financial assets that are blocked in conjunction with bank guarantees. These blocked assets accounted for 42% of total current financial assets. Even when the liquidity indicators are adjusted for these blocked assets, they remain at satisfactory levels.
The high levels of receivables and liabilities turnover relates to the high proportion of long-term trade receivables/payables in the form of retention in total receivables/payables. Indebtedness, which has been declining in the past few years, is also influenced by lower long-term liabilities due to retention that are being freed up upon correction of defects and completion of unfinished work, and none of the debts have a maturity of over five years.
The negative values for ROIC and Operating cash flow-to-liabilities in 2005 are influenced by the reversal of warranty provisions relating to Temelín Nuclear Power Station and the reversal of impairment allowances on inventories.

## FINANCIAL PERFORMANCE OUTLOOK

In 2006, ŠKODA PRAHA a.s. plans to generate contract execution turnover of approximately CZK 1.36 billion with a planned net income of over CZK 55 million.
In view of the number and volume of contracts planned, company management anticipates gradual growth in contract volume, and hence in revenues and income in the years to come.

**Financial Summary (CZK millions)**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Consolidated revenues (ŠKODA PRAHA a.s., ŠKODA PRAHA Invest s.r.o.) | 3,778 | 6,779 | 13,025 | 15,001 | 12,132 |
| Consolidated net income (ŠKODA PRAHA a.s., ŠKODA PRAHA Invest s.r.o.) | 157 | 190 | 587 | 661 | 380 |

## EXPENSES INCURRED BY THE COMPANY RELATING TO ACTIVITIES OF EXTERNAL AUDITORS IN 2005

| Services rendered by external auditors (cash and in-kind) | CZK ’000 |
|---|---|
| Audit services | 2,572 |
| Tax consulting | – |
| Economic and organizational consulting | 150 |
| Other | 9.3 |
| **Total** | **2,731.3** |

| Audit firm | Subject matter of audit |
|---|---|
| TÜV NORD Czech, s.r.o. (formerly RWTÜV Praha, spol. s r.o.) | 2nd follow-up audit – Quality Management and Welding |
| TÜV NORD Czech, s.r.o. (formerly RWTÜV Praha, spol. s r.o.) | 1st follow-up audit – EMS |
| TÜV NORD Czech, s.r.o. (formerly RWTÜV Praha, spol. s r.o.) | quality training for selected employees |
| Český lodní a průmyslový registr, s.r.o. | 2nd follow-up audit – Steel Structures |
| Deloitte s. r. o. | Audit of the 2004 non-consolidated financial statements |
| Deloitte s. r. o. | Audit of the 2005 non-consolidated financial statements |
| ČEZ, a. s. – Internal Audit Department | Internal audit “Contract Effectiveness” |

## LITIGATION

**Disputes in which ŠKODA PRAHA a.s. is defendant**
ŠKODA PRAHA a.s. is involved in the following lawsuits as defendant:

Králodvorské železárny ENERGO s.r.o.
Plaintiff filed suit seeking payment of approximately CZK 51 million. In the course of the dispute, the amount sought was reduced to CZK 48.931 million. In the company's opinion, the claim is baseless.
After the company sued Králodvorské železárny ENERGO s.r.o. for CZK 8.292 million, Králodvorské železárny ENERGO s.r.o. filed a countersuit seeking CZK 8.060 million.

CHEMONT, a.s.
The company is being sued for CZK 5.712 million plus interest. No hearings have been scheduled yet.

JUDr. Jaroslava Vaňková
The company is being sued for CZK 4.613 million plus interest. The company has filed a countersuit seeking payment of CZK 20.898 million and at the same time requesting that the court reject Jaroslava Vaňková's suit. In January 2006, the court issued an interim judgment on the legal grounds for Jaroslava Vaňková's suit, deciding that the claim is based in the law. The dispute continues to make its way through the courts.

M A D E S, spol. s r.o.
On 23 September 2003, a suit was filed asking for the court to declare null and void a resolution of the General Meeting dated 30 June 2003. On 9 December 2003, a suit was filed asking for the court to declare null and void a resolution of the General Meeting dated 10 September 2003. Litigation continues in both matters.

ČKD PRAHA DIZ, a.s.
In a CZK 16.025 million suit filed by the company, ČKD PRAHA DIZ, a.s. filed a countersuit seeking CZK 12.395 million. Currently proceedings have been suspended for the purpose of negotiating a settlement.

**Disputes in which ŠKODA PRAHA a.s. is plaintiff**

Bankruptcy proceedings of GOODWILL FOUNDATION, a. s. "in liquidation"
In the bankruptcy proceedings, which were announced on 15 June 2000, the company is seeking settlement of a CZK 95.037 million receivable. The bankruptcy proceedings are in their final phase.

ŠKODA POWER a.s.
On 21 March 2002, a lawsuit was filed with the Plzeň Regional Court seeking payment of CZK 18.266 million plus interest. Subsequently, an amount of CZK 12.589 million was added to the suit. In 2004, another two suits, for CZK 10.411 million and CZK 15.412 million, respectively, were filed with the same court.
On 2 November 2004, a settlement agreement was reached. When the conditions of this agreement are met, the company anticipates that it will terminate the litigation by withdrawing the suits.

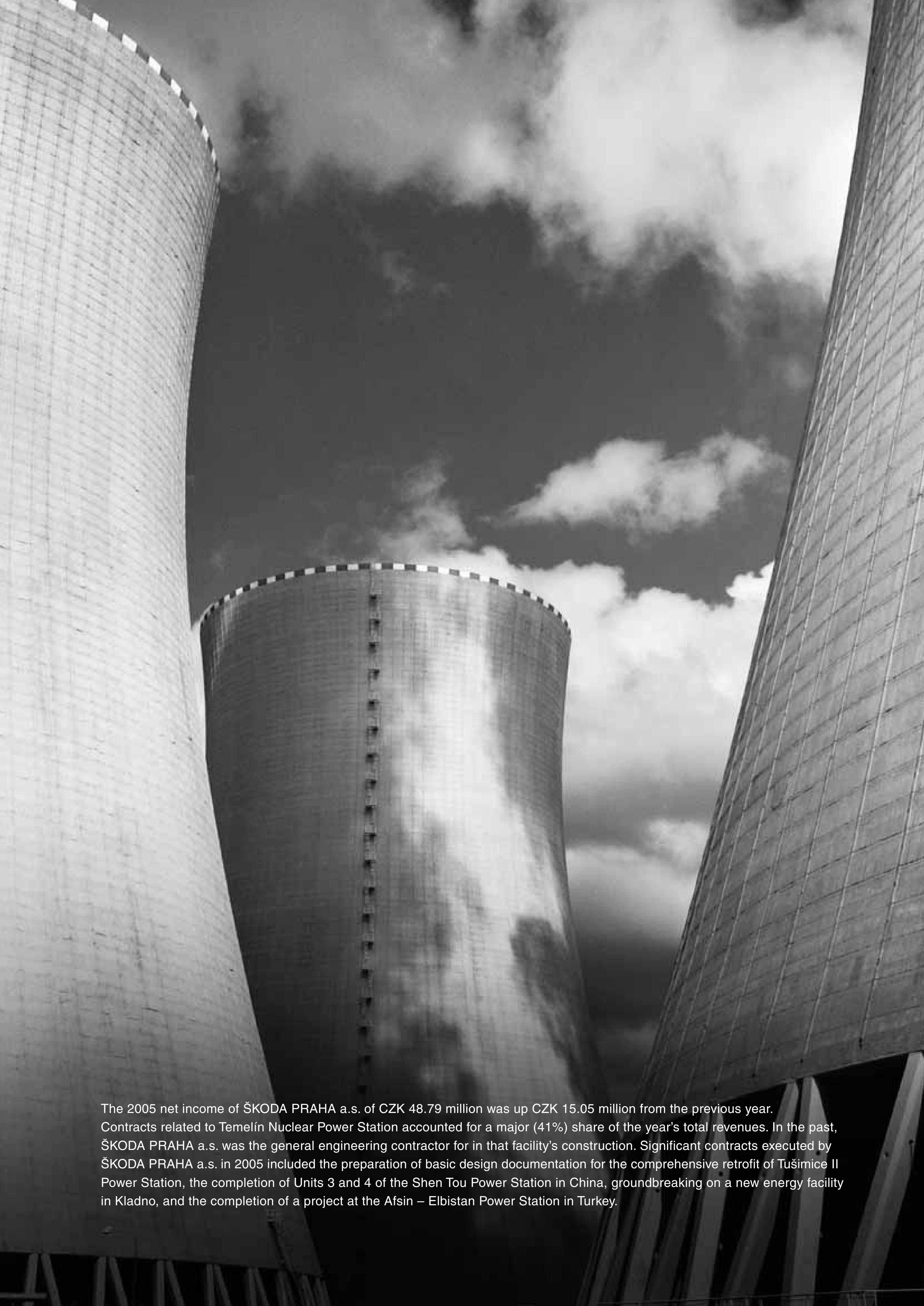
ČKD PRAHA DIZ, a.s.
Suit for CZK 16.025 million was filed with the Prague Municipal Court. The defendant filed countersuit for CZK 12.395 million. Currently the litigation has been suspended for the purpose of negotiating a settlement.

Králodvorské železárny ENERGO s.r.o.
In 1999, two suits were filed against Králodvorské železárny ENERGO s.r.o. seeking payment of CZK 8.292 million and CZK 4.418 million. On 7 December 2005, a filing was submitted to the court adding another CZK 9.369 million to the suit seeking CZK 8.292 million. In both cases the litigation is in the fact-finding stage.

MONSTAV, spol. s r.o. "in liquidation"
The company's receivable of CZK 3.727 million plus interest was granted by a binding decision of the Brno Regional Court. It was proposed that the decision be carried out by selling off movable property of the debtor. However, because this method of collection is not effective, in 2004 the company proposed that the court order foreclosure proceedings by a court-appointed executor and the previous proceedings seeking payment through the court itself were terminated.

D.O.S. Modřany, a.s.
On 27 October 2005, a lawsuit was filed seeking SKK 6.690 million for unwarranted enrichment. No hearings have been ordered yet in the matter.

# PERFORMANCE



The 2005 net income of ŠKODA PRAHA a.s. of CZK 48.79 million was up CZK 15.05 million from the previous year. Contracts related to Temelín Nuclear Power Station accounted for a major (41%) share of the year's total revenues. In the past, ŠKODA PRAHA a.s. was the general engineering contractor for in that facility's construction. Significant contracts executed by ŠKODA PRAHA a.s. in 2005 included the preparation of basic design documentation for the comprehensive retrofit of Tušimice II Power Station, the completion of Units 3 and 4 of the Shen Tou Power Station in China, groundbreaking on a new energy facility in Kladno, and the completion of a project at the Afsin – Elbistan Power Station in Turkey.

# PRINCIPAL COMMERCIAL ACTIVITIES AND PROJECTS
IN 2005

## MOST IMPORTANT CONTRACT EXECUTION WORK IN CONVENTIONAL AND NUCLEAR POWER

**Basic engineering of the Tušimice II Power Station retrofit**
One of the most important contracts was the basic engineering of the comprehensive retrofit of Tušimice II Power Station with generation capacity of 4 x 200 MW. This was a CZK 182 million contract and the customer was ČEZ, a. s. In 2005, ŠKODA PRAHA a.s. performed the following work:
- studies and underlying materials for preparing the basic design documentation, documentation for zoning and building-permit proceedings, and materials for contractor selection,
- drawing up of documentation for the clarified project concept,
- drawing up of materials for selection of construction contractors and selecting contractors for the boiler room, machinery room, and Flue-gas Desulfurization (FGD) contract packages,
- drawing up of documentation for the joint building-permit and zoning-decision proceedings.

Execution work by ŠKODA PRAHA a.s. on contracts relating to the comprehensive retrofit of Tušimice II Power Plant will last from 2006 to 2010.

**Supplemental engineering work on primary coolant loop pipe whiplash limiters in Dukovany Nuclear Power Station**
With this contract, ŠKODA PRAHA a.s. successfully continued in a series of successful phases of installing pipe whiplash limiters in VVER nuclear power plants. The project's objective is to increase the overall safety and operational reliability of Dukovany Nuclear Power Station, which has an installed capacity of 4 x 440 MW, by expanding the passive limiters by making appropriate supplemental mechanical modifications in selected spots. The customer on this contract, which is valued at nearly CZK 20 million, is ČEZ, a. s. The task of ŠKODA PRAHA a.s. is to coordinate the project, draw up the project documentation, conduct engineering supervision, contract for supplies, and provide warranty and post-warranty service. The project documentation and other related documentation was completed in 2005, while actual execution of the contract will take place during planned outages for fuel replacement that will take place at Dukovany Nuclear Power Station in 2006 and 2007.

**Supply of equipment for Energetické centrum Kladno (45 MW)**
The nearly EUR 22 million contract to supply power generation equipment for Energetické centrum Kladno was signed by ŠKODA PRAHA a.s. with Kladno GT, s.r.o. The project is for a peaking power plant with a 45 MW gas turbine. In this contract, ŠKODA PRAHA a.s. is acting as an EPC (Engineering, Procurement, Construction) supplier, and this will be the company's first gas-fired peaking plant. Construction work on the project began in September 2005, and commissioning is planned for November of this year.

**Data Center – construction work in the Temelín Nuclear Power Station Central Electrical Monitoring Room to accommodate technical infrastructure**

The aim of this project was to make necessary modifications to the Central Electrical Monitoring Room building to allow it to accommodate subsequent technology installations relating to the Data Center at Temelín Nuclear Power Station (capacity 2 x 1,000 MW). The technical infrastructure includes new electrical wiring, a Category I power source, HVAC equipment, a fire sprinkler system, communications cables, and a building security system. Here again, the customer was ČEZ, a. s. The contract was for CZK 43.5 million. ŠKODA PRAHA's mandate was to coordinate the whole project, draw up the project documentation, provide for technical supervision, contract supplies, and installation, conduct tests, and provide warranty service. Execution of this contract took place in the second half of 2005. In this project, ŠKODA PRAHA a.s. successfully continued in its role as a turn-key project contractor, completing and successfully handing over the Data Center to the customer in a very short time.

**Repair of the flow-through portion of the high-pressure part of a 1,000 MW turbine in Temelín Nuclear Power Station**

With this contract, ŠKODA PRAHA a.s. continued in its role as final machine room contractor to Temelín Nuclear Power Station. This time, the high-pressure part of a turbine was repaired by fitting the appropriate wheels with replacement blades with a new profile, repair of the forked leg, and replacement of corresponding distribution wheels. ŠKODA PRAHA a.s. is acting as project coordinator and technical supervisor, contracting for supplies, and carrying out disassembly and subsequent assembly of the finished project, including prescribed tests. The customer on the project is ČEZ, a. s. and the contract is valued at CZK 120.5 million. The actual repair of the flow-through portion of the high-pressure turbine part will take place during planned outages in 2006; the work done on this contract in 2005 was preparatory in nature.

**Upgrade of high-pressure portions of 1,000 MW turbo aggregates in Temelín Nuclear Power Station**

This contract for ČEZ, a. s. has several objectives: to increase the output and efficiency of the nuclear power plant, improve operating economy, increase the reliability of electricity supply, increase the planned facility life, and reduce maintenance costs. In this project, ŠKODA PRAHA a.s. is supplying two upgraded high-pressure parts for Temelín Nuclear Power Station's 1,000 MW turbo aggregates, their disassembly and subsequent assembly, conducting of pre-comprehensive and comprehensive testing, guarantee measurements on both reactor units, and a replacement bladed VT rotor. This contract is valued at nearly CZK 755 million. The upgrade will take place during planned outages in 2007, and the spare parts are to be supplied by the end of 2007. Preparations for this contract's execution took place in 2005.

**Construction of Units 3 and 4 of Shen Tou Power Plant in China (2 x 500 MW)**
ŠKODA PRAHA a.s. is working on this contract as part of a consortium of four Czech and Slovak companies, alongside ŠKODAEXPORT, a.s., ŠKODA POWER a.s., and SLOVENSKÉ ENERGETICKÉ STROJÁRNE, a.s. ŠKODA PRAHA a.s., acting as Consortium Head of Engineering with responsibility for the engineering aspects of the project, supplied process equipment and spare parts for the power plant, and provided engineering assistance. In 2005, construction work was completed and the power plant's new units were put into operation. Warranty operation of both units will end in 2006. The customer was Datang Shang Xi Power Plant Ltd., and the contract was valued at USD 268 million; ŠKODA PRAHA's share was USD 85 million. ŠKODA PRAHA a.s. is utilizing the successfully completed Shen Tou project as a major reference for winning further contracts in the region.

**Construction of Afsin – Elbistan Power Station in Turkey (4 x 360 MW)**
ŠKODA PRAHA a.s. has been working on the construction of the Afsin – Elbistan heating power plant since the contract was signed in 1999. Our assignment in this contract was to draw up design documentation and, further, to manufacture, install, and commission selected electrical components of the power plant's boilers for the client, Turkey-based EUAS. ŠKODA PRAHA a.s. revenue from the contract is CZK 600 million. Commercial operation of Unit One of the power plant began in early 2006. Units Two through Four will be commissioned for commercial operation by September 2006.

**Significant service projects**
In the Czech Republic, the company refurbished a 28 MW turbo aggregate, including replacing the turbine regulation equipment, for the CHEMOPETROL, a.s. industrial power plant, as well as replacing regulation equipment on another turbo-aggregate for the same company in a total value of CZK 18.8 million.
In Slovakia, the company overhauled a 110 MW turbo aggregate in the Vojany Power Station and supplied spare parts for it in a contract valued at CZK 6 million. The most important service contract executed in 2005 at the international level was the supply of spare parts and technical assistance for the Guemes and Lujan de Cuyo power plants in Argentina, with a total value of CZK 26 million.

## MOST SIGNIFICANT NEW CONTRACTS

**Construction of Monterrey Power Plant in Mexico (117 MW)**
In 2005, ŠKODA PRAHA a.s. signed a contract to supply power generation equipment for the Monterrey Power Station in Mexico. The customer is the U.S.-Mexican firm GENERMEX, and the contract's value is nearly USD 99 million. The Monterrey Power Station will be one of the first private power plants in Mexico. ŠKODA PRAHA a.s. will supply the complete combined cycle gas turbine as a turn-key project, including engineering and commissioning. The contract is subject to a condition precedent: a cumulative total of 90 MW of power must be sold. Execution of the contract is planned to begin in the second half of 2006, and the project is to be completed 23.5 months after the contract takes effect. This will be the first combined cycle gas turbine contract for ŠKODA PRAHA a.s.

**Construction of New Talkha Power Station in Egypt (750 MW)**
In September 2005, ŠKODA PRAHA a.s. signed a contract to supply power generation equipment for the Egyptian power plant in New Talkha. ŠKODA PRAHA a.s. will work on building the new power plant in a consortium with Belgium-based CMI. The customer is the East Delta Electricity Production Company. The contract is for the supply of all piping, measurement and regulation equipment, electrical equipment, and other power plant equipment, including installation and commissioning. ŠKODA PRAHA's share of the contract is valued at EUR 14.4 million. With this project, ŠKODA PRAHA a.s. is gaining an important reference for building a high-capacity combined cycle power plant.

**Construction of El Kureimat II Power Plant in Egypt (750 MW)**
Another major contract for ŠKODA PRAHA a.s. in Egypt is the supply of power generation equipment for the El Kureimat II Power Station (contract was signed in early February 2006). ŠKODA PRAHA a.s. will work on building the new power plant in a consortium with Belgium-based. The customers are Egyptian Electricity Holding Company and Upper Egypt Electricity Production Company. ŠKODA PRAHA's share in the contract is valued at EUR 14.5 million. The contract is for the supply of all piping, feedwater pumps, measurement and regulation equipment, installation, and commissioning, among others.
The El Kureimat II and New Talkha projects are important for ŠKODA PRAHA a.s. because they represent the first combined cycle plants of such high capacity that the company has worked on. Thanks to them, there is a higher probability that ŠKODA PRAHA a.s. will win a contract for the next phase in the construction of the El Kureimat Power Station.

# SHAREHOLDERS
## AND SECURITIES IN ISSUE

### ŠKODA PRAHA A.S. SHAREHOLDERS STRUCTURE IN 2005

**Period from 5 November 2005 to the Annual Report closing date (18 April 2006)**

| | |
|---|---|
| total number of shares issued: | 1,257,524 |
| total number of shareholders: | 1 |
| identification of issuer's controlling entity: | ČEZ, a. s., ID: 45274649 |
| number of shares owned: | 1,257,524 |
| share in voting rights: | 100% |

**Period from 9 March 2005 to 5 November 2005**

shareholders – legal entities

| | |
|---|---|
| number of shares held by legal entities: | 1,229,312 |
| number of shareholders – legal entities: | 21 |
| total share of shareholders – legal entities in voting rights: | 97.76% |
| of which, number of shareholders that control the issuer: | 1 (to the issuer's knowledge) |
| identification of issuer's controlling entity: | ČEZ, a. s., ID: 45274649 |
| number of shares owned: | 1,227,323 |
| share in voting rights: | 97.6% |

shareholders – private individuals

| | |
|---|---|
| number of shares owned by shareholders – private individuals: | 28,212 |
| number of shareholders – private individuals: | 3,521 |
| total share of shareholders – private individuals in voting rights: | 2.24% |
| of which, number of shareholders that control the issuer: | 0 (to the issuer's knowledge) |

**Period from 1 January 2005 (from 14 January 2004) to 9 March 2005**

| | |
|---|---|
| shareholders – legal entities | |
| number of shares held by legal entities: | 1,228,920 |
| number of shareholders – legal entities: | 26 |
| total share of shareholders – legal entities in voting rights: | 97.73% |
| of which, number of shareholders that control the issuer: | 2 (to the issuer's knowledge) |
| identification of issuer's controlling entities: | ČEZ, a. s., ID: 45274649 |
| number of shares owned: | 866,122 |
| share in voting rights: | 68.88% |
| identification of issuer's controlling entities: | National Property Fund of the Czech Republic, ID: 41692918 |
| number of shares owned: | 305,351 |
| share in voting rights: | 24.28% |

Note: The controlling entities ČEZ, a. s. and the National Property Fund of the Czech Republic acted in concert during the period in question.

| | |
|---|---|
| shareholders – private individuals | |
| number of shares owned by shareholders – private individuals: | 28,604 |
| number of shareholders – private individuals: | 3,527 |
| total share of shareholders – private individuals in voting rights: | 2.27% |
| of which, number of shareholders that control the issuer: | 0 (to the issuer's knowledge) |

## TYPES AND VOLUMES OF SHARES IN ISSUE

**Shares of ŠKODA PRAHA a.s.**

| | |
|---|---|
| company stated capital amount: | CZK 1,257,524,000 |
| total number of shares issued by the company: | 1,257,524 |
| par value of one share: | CZK 1,000 |
| type and form of shares: | common stock, booked to owner |

As of the Annual Report closing date, the shares were not listed for trading on public markets. Until 5 November 2005 the shares were listed on the second tier of the Prague Stock Exchange.
Records of the booked shares (list of shareholders) are kept by the Prague Securities Center.

## SHAREHOLDER AND INVESTOR RELATIONS

The General Meeting is the company's highest governance body. The General Meeting consists of all the shareholders present at the General Meeting. The General Meeting's powers and responsibilities are given by the Commercial Code and the Articles of Association. They include the power to approve amendments to the Articles of Association, changes in the company's stated capital, election and removal of Supervisory Board members, setting the company's business policy, approving financial statements, and making decisions on the distribution of income or settlement of losses, as well as the power to restrict the Board of Director's power to act on behalf of the company. The General Meeting also approves all remuneration of members of the company's governing bodies except that to which they are expressly entitled under law, and the contracts entered into between the company and members of the Supervisory Board.
Two General Meetings were held in 2005. In organizing them, the Board of Directors complied with all legal and ethical standards vis-à-vis the shareholders. The General Meetings were convened, and notices published, within the time periods set forth in the applicable provisions of the Commercial Code. Minutes were taken of the General Meetings' deliberations. General Meeting minutes are archived by the company in perpetuity and are available to authorized shareholders for inspection.
Throughout 2005, ŠKODA PRAHA a.s. allowed all shareholders to exercise their rights. It upheld the rule of equal treatment of all shareholders, and its relations with shareholders (and other stakeholders) were governed by the recommendations of the Corporate Governance Code of 2004, based on OECD principles, adherence to which the company declared in the 2004 Annual Report.

For the statutory time period before each General Meeting, the shareholders had access to the materials on the agenda. Further, they had access to the company's financial figures on a quarterly basis through the Prague Stock Exchange's web portal.
As of 5 November 2005, the company is owned by one shareholder and, as of the same date, the General Meetings are replaced by decisions taken by that shareholder, acting with the powers of the General Meeting. The shareholder issues these decisions in written form in accordance with the law and delivers them to all members of the Board of Directors and Supervisory Board.

The Annual General Meeting was held on 22 June 2005 and its deliberations included the following:
- the Board of Directors' report on the company's operations and the state of its assets in 2004, the Board of Directors' report on the financial statements and on the proposed settlement of the 2004 net income,
- the Supervisory Board's report on its oversight activity in 2004, including its opinion on the 2004 financial statements and the proposed settlement of the 2004 net income, as well as the Supervisory Board's report on its review of the report on relations,
- approval of the 2004 financial statements,
- decision on distribution of 2004 net income: CZK 33,740,788.64 was allocated to the capital reserve fund and to the losses carried forward account,
- decision to amend the Articles of Association to clarify the text of the Articles, revise the list of the company's principal businesses, and change the number of members of the Board of Directors (in conjunction with this amendment, the Supervisory Board subsequently removed Mr. Jan Doležal and Mr. Vladimír Stratil from their positions on the Board of Directors and elected Mr. Daniel Jiřička as the fourth member of the Board of Directors),
- change in the Supervisory Board: the General Meeting removed Mr. Jan Kalina from the Supervisory Board and elected Mr. Jiří Borovec, Mr. Vladimír Schmalz, and Mr. Peter Szénásy as new members of the Supervisory Board (to fill vacated spots, including spots occupied by members co-opted to the Supervisory Board),
- sponsorship donations: the General Meeting approved a resolution stating that in the period between 23 June 2005 and 30 June 2006 the company may disburse CZK 1 million on sponsorship donations.

Eleven shareholders were present at the Annual General Meeting and they held shares with an aggregate par value of CZK 1,228,087,000, or 97.66% of the company's stated capital.
At the request of an authorized shareholder, an extraordinary General Meeting was held on 31 August 2005. Its main agenda item was a decision under Section 183i *et seq.* of the Commercial Code on the passage of all other equity securities to the principal shareholder.
Three shareholders were present at the extraordinary General Meeting and they held shares with an aggregate par value of CZK 1,227,328,000, or 97.6% of the company's stated capital.
In its deliberations on the above mentioned main agenda item, the extraordinary General Meeting decided on the passage to ČEZ, a. s. of all equity securities (shares of ŠKODA PRAHA a.s.) owned by other company shareholders and set the compensation per share with par value CZK 1,000 at CZK 352. The reasonableness of this compensation was demonstrated by Expert Appraisal No. 66-1/2005 dated 19 July 2005, from the appraisal institute TACOMA Consulting, a.s.
The General Meeting further ordered ČEZ, a. s. to provide the compensation to the remaining shareholders of ŠKODA PRAHA a.s. or their authorized lien creditors without unnecessary delay, but no later than 60 days after ownership title to the shares is credited to the account of ČEZ, a. s. in the Prague Securities Center.
On 5 October 2005, the Commercial Register Court published an announcement stating that the decision of this extraordinary General Meeting had been recorded in the Commercial Register entry for ŠKODA PRAHA a.s. After the expiration of the statutory 30-day period, i.e. as of 5 November 2005, all shares issued by ŠKODA PRAHA a.s. passed to its principal shareholder, ČEZ, a. s. In the period that followed, ČEZ, a. s. commenced pay-out of the compensation to the former minority shareholders through Česká spořitelna, a.s.
One take-over offer was made in the company in 2005 – a voluntary, unconditional, and unlimited offer by ČEZ, a. s. to buy shares of ŠKODA PRAHA a.s. This offer was announced on 17 January 2005. ČEZ, a. s. was entitled to make the offer by its equity stake, which at the time was 68.88% of the stated capital of ŠKODA PRAHA a.s. The offer price, CZK 193 per share, was set on the basis of Expert Appraisal No. 70-8/2004 dated 16 December 2004.
A fundamental milestone in the takeover offer process was a decision of the Government of the Czech Republic dated 16 February 2005 to sell to ČEZ, a. s. a 24.28% stake in ŠKODA PRAHA a.s. held by the National Property Fund of the Czech Republic.
Subsequently, on 9 March 2005, ČEZ, a. s. concluded the voluntary take-over offer having increased its stake in the stated capital of ŠKODA PRAHA a.s. to 97.6%.

## EQUITY HOLDINGS

| | |
|---|---|
| Company name: | EGI, a.s. |
| Legal form: | joint stock company |
| Seat: | M. Horákové 109, 160 41 Prague 6, Czech Republic |
| ID No.: | 60721332 |
| Registration: | Prague Municipal Court, Part B, Entry 2879 |
| Stated capital: | CZK 83,699,000 |
| ŠKODA PRAHA a.s. stake in stated capital: | 100% |
| Principal businesses: | purchase of goods for resale, sale of goods; leasing of real property, including residential property management; economic and organizational consultancy; real estate agency; organizing tenders; acting as an intermediary in process plant and equipment installation and service; lease and rental of movable items; engineering consultancy in the preparation, construction, and commissioning of plant and equipment in the machinery, steel, and power industries |

| | |
|---|---|
| Company name: | EGI servis, s.r.o. “in bankruptcy” |
| Legal form: | limited liability company |
| Seat: | Kozovazská 1049, 250 88 Čelákovice, Czech Republic |
| ID No.: | 26423316 |
| Registration: | Prague Municipal Court, Part C, Entry 81102 |
| Stated capital: | CZK 7,510,000 |
| ŠKODA PRAHA a.s. stake in stated capital: | 100% |
| Principal businesses: | purchase of goods for resale, sale of goods; installation and servicing of industrial and power plant and equipment; lease of machinery and equipment; consultancy in the preparation, construction, and commissioning of plant and equipment in the power industry, district heating, and environmental projects; inspections and testing of designated pressurized equipment and installation, repair, and refurbishment of boilers and pressure vessels; installation, repair, inspection, and testing of designated gas equipment; welding; metal turning; plumbing, heating; operating warehouses, loading and unloading; real property management and maintenance |

By resolution of the Prague Regional Court ref. no. 36 K 51/2003-21 dated 19 December 2003, EGI servis, s.r.o. was declared bankrupt.

| | |
|---|---|
| Company name: | ŠKODA PRAHA Invest s.r.o. |
| Legal form: | limited liability company |
| Seat: | Milady Horákové 109/116, 160 41 Prague 6, Czech Republic |
| ID No.: | 27257517 |
| Registration: | Prague Municipal Court, Part C, Entry 108145 |
| Stated capital: | CZK 650,000 (stated capital amount at 31 December 2005 was CZK 200,000) |
| ŠKODA PRAHA a.s. stake in stated capital: | 100% |
| Principal businesses: | engineering activity in capital construction; engineering consultancy in machinery, steel, power, environmental protection, and waste management industries; business, financial, organizational, and economic consultancy; design of electrical equipment; drawing up technical proposals and documentation; wholesale; trade and service intermediary; technical services provider; freight forwarder; testing, measurement, analysis, and control; research and development in the area of natural sciences, engineering, and social sciences |

# CAPITAL EXPENDITURE
## IN 2005

ŠKODA PRAHA a.s. expenditures to acquire plant and equipment and intangible assets in 2005 totaled CZK 7.7 million. Of this amount, CZK 5.8 million went on information systems: CZK 3.9 million being part of the acquisition cost of the company's financial information system and CZK 1.9 million being for software upgrades and licenses.
Other capital expenditures, at CZK 1.9 million, consisted of two main items: CZK 1.3 million for boiler preparation equipment classified as capitalization of goods produced in-house (under customer contracts) and CZK 0.5 million for a server.
ŠKODA PRAHA a.s. did not execute any capital projects exceeding CZK 100 million in value for its own purposes in 2005.
ŠKODA PRAHA's capital expenditure, modernization, and development policies in 2005 were focused on information technology. The biggest capital expenditure item was the above mentioned acquisition of a cutting-edge financial information system, the implementation of which improved the clarity and effectiveness of the company's accounting and controlling procedures and procurement processes, as well as improving project management and resource utilization by enabling projects to be planned and monitored all the way down to individual functions and, most importantly, increasing the transparency of all processes.


EXPERIENCE

As a major Czech company with dozens of years of experience in building, refurbishing, and servicing conventional and nuclear power plants both in the Czech Republic and abroad, ŠKODA PRAHA a.s. possesses unique engineering know-how supported by certified quality management systems. Together with the newly implemented, process-based project management model, these are fundamental tools for achieving the company's strategic business objectives in accordance with the strategy of CEZ Group, of which ŠKODA PRAHA a.s. became a 100% member in 2005.

# MANAGEMENT OF SELECTED PROCESSES

## QUALITY MANAGEMENT AND ENVIRONMENTAL MANAGEMENT SYSTEMS

Certified quality management and environmental management systems are fundamentally important tools for the management of ŠKODA PRAHA a.s., enabling continual increase in the company's competitiveness and the satisfaction of its customers. Through these systems, the company puts into practice and complies with Czech Republic legislation, which is based on secondary European Union law.

The certificates and documented procedures of these systems support company management's strategy of building recognition of the ŠKODA PRAHA brand by domestic and international customers, who perceive the company as a qualified supplier of capital projects and other services. These systems also build business partner confidence, help improve internal communication, and develop corporate culture, leading to increased employee loyalty. The experience gained to-date with both systems now forms the foundation for the addition of an occupational safety and health system.

The ŠKODA PRAHA a.s. quality management system was recertified for compliance with the EN ISO 9001:2000 standard by TÜV NORD Czech, s.r.o. (formerly RWTÜV Praha, spol. s r.o.) in November 2005 for engineering, trading, installation, manufacturing, and servicing functions in conventional and nuclear power, chemicals, petroleum, and environmental protection plant and equipment. This certificate also includes certification of welding operations for compliance with EN 729-2.

The certificate is valid for the entire company, including its organizational unit in Mochovce, Slovakia. The company first obtained a quality management system certificate in 1998.

The ŠKODA PRAHA a.s. environmental management system was also recertified for compliance with the EN ISO 14001:2004 standard by TÜV NORD Czech, s.r.o. (formerly RWTÜV Praha, spol. s r.o.) for engineering, trading, installation, manufacturing, and servicing functions in conventional and nuclear power, chemicals, petroleum, and environmental protection plant and equipment. The certificate is valid for the entire company ŠKODA PRAHA a.s., including its organizational unit in Mochovce, Slovakia. The company obtained its first environmental management system certificate in 2001.

ŠKODA PRAHA a.s. is also certified to manufacture and install steel structures up to first-degree competency pursuant to the ČSN 73 2601 – Z2:1994 standard. The certificate was issued by Český lodní a průmyslový registr, s.r.o./Germanischer Lloyd Group.

Based on successful past contracts and external customer audits of its quality management system by auditors from ČEZ, a. s. and Slovenské elektrárne, a.s., both companies have registered ŠKODA PRAHA a.s. as a vetted supplier of both conventional and nuclear power applications.

Environmental stewardship is an integral part of the ethical approach championed by the management of ŠKODA PRAHA a.s. in the course of its business dealings. This includes, in particular, strict compliance with applicable laws and regulations and follow-up inspections by company experts, as well as internal environmental protection measures such as sorting and recycling of waste materials.

## OCCUPATIONAL AND FIRE SAFETY

In 2005, ŠKODA PRAHA a.s. commenced preparations for implementing an OHSAS 18001-compliant occupational safety and health management system with the aim of certifying the system in 2006 and integrating it into the already implemented and certified quality and environmental management systems.

In order to successfully manage these disciplines, the company instated a Risks Register and an interactive Register of Laws and Regulations. Risks relating to occupational safety are managed by specialists in Occupational Safety & Health (OSH) and Fire Safety (FS) as part of their inspections, assessments of individual inspections, cases, discrepancies, etc.

The system's effectiveness is ensured within the company by internal directives, in individual contracts by cooperation among specialists in the preparation of project documentation and, after the contract is opened, by drawing up OSH, FS, and Environmental Protection (EP) rules in the form of an OSH, FS, and EP Plan or Rules with subsequent inspections by supervisors, finding of discrepancies and cases of non-compliance, proposal of measures to correct discrepancies, and follow-up inspections focusing on these measures and their effectiveness. Based on the above materials, OHS, FS, and EP documentation is prepared and, when the contract is finished, it forms part of the contract's evaluation by the individual project managers.
No fire or extraordinary environmental event was registered in ŠKODA PRAHA a.s. in 2005, nor did the company register any lethal or serious occupational injury in conjunction with contract execution. No financial sanctions were imposed by government authorities in relation to the disciplines described above.

## RISK MANAGEMENT POLICY

**Currency and Financial Risk**
The company hedges currency risk on a portion of the open currency position. However, the company's first priority in this area is natural hedging – i.e., the use of the same currency for both revenues and expenditures at the project level. Terms are always negotiated prior to entering into each contract. In cases when the company fails to negotiate terms favorable to natural hedging, individual payments are made through short- and long-term financial instruments. These items and their impact on the company's cash flows are monitored using an internal treasury application.

**Contract Risk**
Contract risk is managed by the key account manager and the project manager of the given contract working together with the company's Risk Manager. For all material contracts, risks were identified and valued pursuant to internal management directives that are revised annually. In the course of contract execution, the identified risks are reviewed and new risks identified and valued. At the same time, provisioning for risk is recalculated. Insurance is used as a risk management tool to eliminate certain risks. Specific contract risks are utilized to create a database of contract risks, which serves as a basic reference in the contract risk management process.

**Insurance**
In 2005, ŠKODA PRAHA a.s. carried liability insurance for damaged caused:
- in conjunction with the activities of an authorized architect, authorized engineer, or technician in the course of construction,
- in conjunction with the company's principal businesses as listed in the Commercial Register.

The company also acquired natural hazards insurance during the year.
Construction, installation, transport, and like activities conducted in the course of contract execution are insured in accordance with the relevant supply contracts, i.e. in some case the insurance is carried by the company's subcontractors.
Liability insurance covering members of the company's Board of Directors, Supervisory Board and Statutory Representatives is acquired in cooperation with the parent company, both for ŠKODA PRAHA a.s. and its subsidiary ŠKODA PRAHA Invest s.r.o.

## SPONSORSHIP PROGRAM

In 2005, ŠKODA PRAHA a.s. sponsored mainly smaller projects the objective of which was to support foundations and organizations active in the areas of health, culture, education, and sports.
The most significant charity item in terms of financial value was support for the Kapka naděje (Drop of Hope) Foundation Fund, which works for the benefit of children with hematological disorders and children whose illness requires bone marrow transplant. Drop of Hope regularly holds a Christmas charity concert. In 2005, ŠKODA PRAHA a.s. was General Partner of this concert for the third year and donated CZK 100,000.

## RESEARCH & DEVELOPMENT, PATENTS, AND LICENSES

ŠKODA PRAHA a.s. expended a total of CZK 2.2 million on R&D in 2005. Most of this amount went on preparation of the grant projects "Research and development of an advanced system for planning generating unit maintenance using predictive maintenance techniques" and, in cooperation with Polytechna Consulting, a.s., "Increasing competitiveness by preparing employees for the implementation of advanced software applications in corporate practice".
In addition, ŠKODA PRAHA a.s. spent part of its R&D budget on completing an internal task assignment entitled "Development of statistical methods of measurement accuracy, evaluation, and resistance of outputs to measurement anomalies".

ŠKODA PRAHA a.s. holds the following patents and licenses:

1. Equipment for suppressing dynamic effects
   Patent 278499 dated 28 December 1993, Inventor: Josef Šíp
2. Equipment for absorbing high impact energies
   Patent 279038 dated 28 September 1994, Inventor: Josef Šíp
3. Connection for transmission of thermal (heat or cold) energy
   Patent 281515 dated 29 August 1996, Inventor: Pavel Bláha
4. Method for reducing nitrogen oxide content in flue gases inside combustion chambers
   with two or more burners firing gas or liquid fuel
   Patent 285546 dated 30 June 1999, Inventors: Pavel Bláha and František Jirouš
5. Equipment for limiting pipe whiplash
   Patent 285772 dated 3 September 1999, Inventor: Josef Šíp
6. Connecting steam pipes to appliances
   Certificate No. 9219 dated 18 October 1999, Inventor: Pavel Bláha
7. Equipment to limit overloading of weight-bearing elements of a structure and related technology
   Certificate No. 12842 dated 2 December 2002, Inventor: Josef Šíp
8. Equipment to limit whiplash of T-section pipes
   Certificate No. 13011 dated 17 February 2003, Inventor: Josef Šíp
9. Equipment for extinguishing flammable materials in vessels filled with inert gas
   Certificate No. 13621 dated 15 September 2003, Inventors: Pavel Bláha and Petr Janda
10. License to use ŠKODA word, image, and combined trademark
    Received for consideration from HQU International, a.s.

# STRATEGIC OBJECTIVES
## OF CEZ GROUP

### CEZ GROUP BUSINESS POLICY

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

### STRATEGIC OBJECTIVES OF CEZ GROUP

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

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

Other tasks include:

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

## THE VIZE 2008 PROJECT

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

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

ČEZ, a. s. + five Czech regional electricity distribution companies

2004 "Big Bang"

2005 Transformation

2006 Performance enhancing

2007 Project completion

2008 ČEZ, a. s. + ten process-based companies

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

**Wind up the regional electricity distribution companies**

**Enhance performance, implement CEZ Group best practices**

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

2005 – the year of transformation

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

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

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

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

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

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

## ANTICIPATED ECONOMIC AND FINANCIAL SITUATION IN 2006

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

Note: JI (Joint Implementation) or CDM (Clean Development Mechanism) – a project within the Kyoto Protocol in which an investor from a technologically advanced country can reduce another entity's $CO_2$ emissions (typically located in a developing country).

## ŠKODA PRAHA A.S. VISION

ŠKODA PRAHA's vision is to be a company with modern management that excels in designing and building power engineering projects and aggressively develops its business in the domestic and international markets.

The company's philosophy is to:
- be an EPC contractor for conventional and nuclear power plants,
- satisfy to the greatest possible extent the needs of our customers, drawing from the company's rich tradition, the expertise of our employees, our technological know-how, experience in innovation, and the company's good name,
- be a driving force in the renaissance of the Czech power industry utilizing the potential of Czech engineering firms,
- grow shareholder value,
- support the effective and considerate utilization of resources,
- behave ethically towards both business partners and employees,
- utilize cutting-edge hardware and software to support and grow know-how,
- become one of the biggest Czech exporters by 2010.

## ŠKODA PRAHA A.S. STRATEGY

The company's strategy is based on an analysis of the external environment. The development of the world's resource base must keep pace with ever increasing demand for energy and at the same time maintain emissions of greenhouse gases at an acceptable level. In the medium term that will lead to:
- optimized choice of fossil fuels in terms of carbon dioxide production,
- increased efficiency of the transformation of primary energy into electricity and heat,
- higher utilization of nuclear energy in the resources structure,
- a steady increase in the share of renewable energy sources in overall energy generation within the given natural and climate conditions.

The fulfillment of these imperatives is beginning to be evident in practice:
- in a renaissance of nuclear power as an environmentally friendly alternative (currently 40 nuclear units are under construction, preparations are underway to extend useful life to up to 60 years, VVER power plants are being refurbished, new types of light-water plants using a combination of active and passive safety systems are being built),
- in the development and construction of new fossil power plants with high heat efficiency (with supercritical parameters) and flue gas purification (pressure up to 28 MPa, temperature up to 600 °C, heat efficiency up to 45%),
- in the ongoing spread of combined cycle gas turbine (CCGT) power plants.

At the same time, worldwide electricity demand is growing (by 2030 installed generating capacity is to double over current levels, which means 4.7 TW of new capacity). Much of the new construction will take place in developing countries in Asia and the Middle East, Latin America, and the Balkans. ŠKODA PRAHA a.s. is also aware of growing competition originating in particular from certain developing countries.

In its business strategy, ŠKODA PRAHA a.s. takes maximum account of the objectives of its corporate parent, ČEZ, a. s. The parent's M&A expansion plans are also reflected in the selection of key markets on which ŠKODA PRAHA a.s. focuses its activities. These markets are divided into three groups:

- Group A (top priority)
  The Czech Republic, with principal emphasis on the ČEZ, a. s. plant portfolio renewal project and construction of new power plants, the Slovak Republic,

- Group B (countries into which ČEZ, a. s. is expanding)
  Bulgaria, Romania, Russia, Poland, Serbia and Montenegro,

- Group C (countries in which ŠKODA PRAHA a.s. is a candidate for a major contract and countries in which it has references)
  Mexico, Turkey, Vietnam, Egypt, China, Cuba.

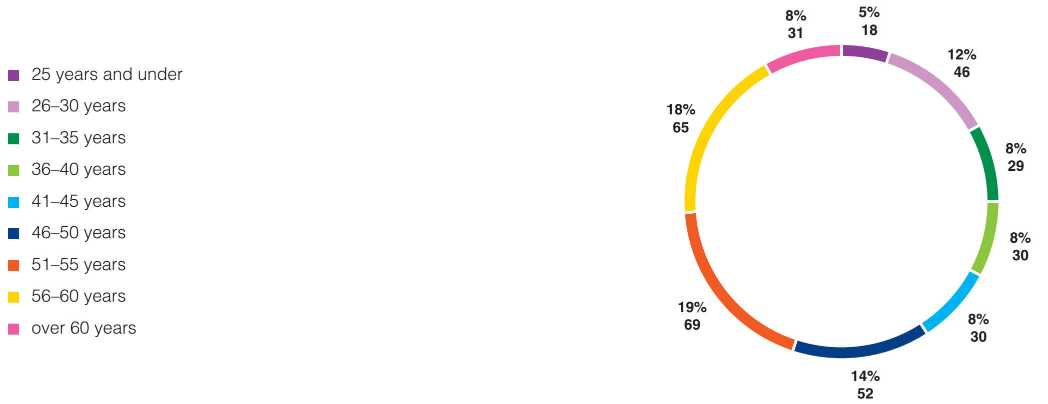
# HUMAN RESOURCES

In 2005, ŠKODA PRAHA a.s. human resources management focused, in particular, on the following:
- reduction of the work force and optimizing of its structure,
- preparations for reorganization – transition to management by processes,
- stabilizing of professional work teams and high-potential employees,
- partial shake-up in managerial positions,
- hiring of engineers, technicians and employees for high-profile sales positions,
- support for employee continuing education,
- preservation of labor peace while carrying out structural changes.

## Work Force Reduction

The average number of employees in 2005 was 374, compared to 394 in 2004. During 2005, 103 employees left the company, including 16 that shifted to the subsidiary ŠKODA PRAHA Invest s.r.o. effective 1 January 2006. The total number of newly hired employees was 72.
Reduction of the work force through organizational changes took place on an ongoing basis, in consultation with the labor organization. At the end of 2005, collective bargaining commenced on a Collective Agreement for 2006–08.

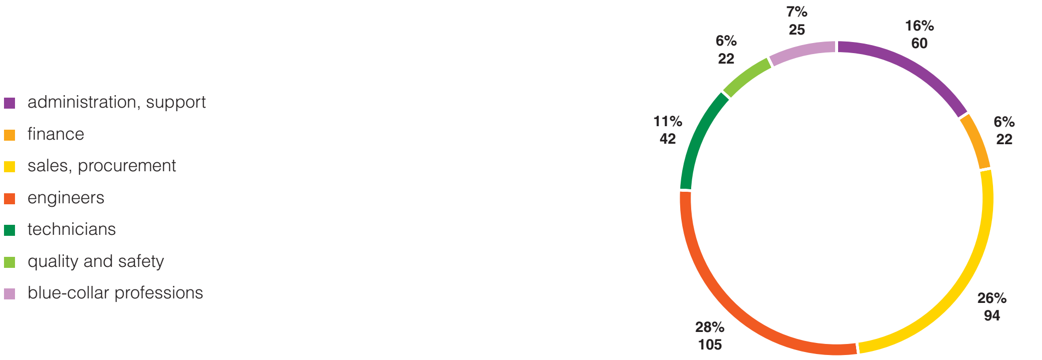
**Work Force Age Structure as of 31 December 2005**



## Recruiting

Recruiting in 2005 focused primarily on engineers and employees qualified for technical positions. Also significant was hiring of graduates for succession management. The company's average employee age in 2005 was 47.85 years (2004: 47.97 years).

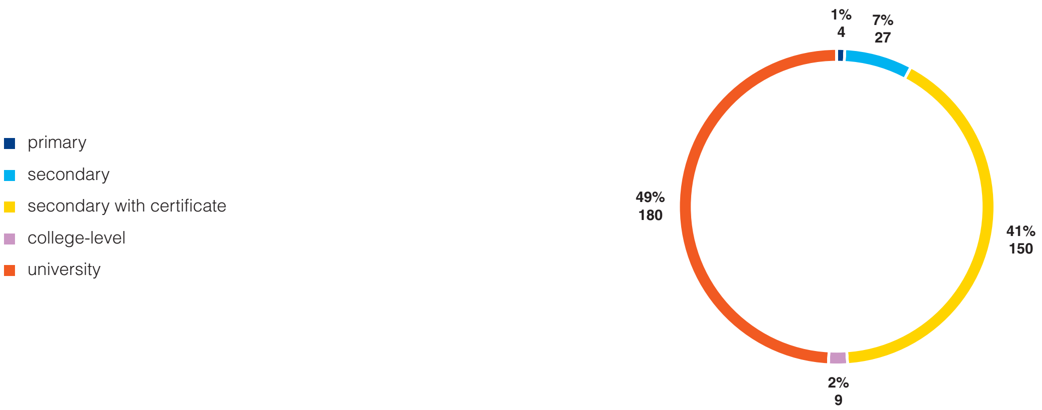
**Work Force Profession Structure as of 31 December 2005**




## Support for Continuing Education

The company continuously supports employee education. A permanent part of this effort is maintenance of prescribed qualifications of the company's key professionals, in step with the development of both Czech and EU legislation. The language skills development program also continued, and a new program focused on targeted development of management teamwork commenced.

**Work Force Education Structure as of 31 December 2005**




## Employee Care

In consultation with the labor organization, employee care focuses on maintaining and implementing a system of social benefits that are compatible with the company's interest of maintaining its work force profession structure. These benefits include, in particular:

- a shorter, 37.5 hour work week,
- one extra week of paid vacation per year,
- an incentive bonus system,
- employee meal plan contribution,
- Supplemental Pension Insurance contribution,
- a system of contributions and bonuses relating to fulfillment of obligations set forth in the Collective Agreement,
- a wide range of work leave opportunities, including some with full pay.

# INDEPENDENT AUDITOR'S REPORT
## TO THE SHAREHOLDERS OF ŠKODA PRAHA A.S.

Having its registered office at: Milady Horákové 109/116, 160 41 Prague 6
Identification number: 00128201
Principal activities: comprehensive engineering and construction of power plant and equipment in the Czech Republic and abroad

**Deloitte.**

### Financial Statements

Based upon our audit, we issued the following audit report dated March 3, 2006 on the financial statements which are included in this annual report on pages 46 to 64:

"We have audited the accompanying financial statements of ŠKODA PRAHA a.s. (the Company) for the year ended 31 December 2005. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

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

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the Company as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

### Annual Report

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

The related party transactions report does not form part of this annual report, even though required by the Commercial Code.

In Prague on April 7, 2006

| Audit firm: | Represented by: | Statutory auditor: |
|---|---|---|
| Deloitte s.r.o.<br>Certificate no. 79 | Stanislav Staněk<br>statutory executive | Stanislav Staněk<br>certificate no. 1674 |

# BALANCE SHEET, UNABRIDGED
## AS OF 31 DECEMBER 2005

(in thousands of Czech Crowns – TCZK)

| ASSETS | | | | 2005 Gross | 2005 Adjustment | 2005 Net | 2004 Net |
|---|---|---|---|---|---|---|---|
| | | | TOTAL ASSETS | 1,584,995 | 291,922 | 1,293,073 | 1,517,326 |
| B. | | | Fixed assets | 124,692 | 57,628 | 67,064 | 238,888 |
| B. | I. | | Intangible fixed assets | 33,891 | 16,790 | 17,101 | 16,160 |
| B. | I. | 3. | Software | 31,963 | 16,790 | 15,173 | 7,947 |
| B. | I. | 7. | Intangible fixed assets in progress | 1,928 | | 1,928 | 8,213 |
| B. | II. | | Property, plant and equipment | 45,659 | 40,838 | 4,821 | 165,297 |
| B. | II. | 1. | Land | 1,534 | | 1,534 | 8,908 |
| B. | II. | 2. | Buildings | 3,352 | 3,352 | | 152,571 |
| B. | II. | 3. | Movables | 39,907 | 37,486 | 2,421 | 3,019 |
| B. | II. | 7. | Plant and equipment under construction | 866 | | 866 | 799 |
| B. | III. | | Long-term investments | 45,142 | | 45,142 | 57,431 |
| B. | III. | 1. | Equity investments in subsidiaries and controlled entities | 45,142 | | 45,142 | 57,417 |
| B. | III. | 3. | Other non-current securities and investments | | | | 14 |
| C. | | | Current assets | 1,456,718 | 234,294 | 1,222,424 | 1,274,128 |
| C. | I. | | Inventories | 126,122 | 29,100 | 97,022 | 181,794 |
| C. | I. | 1. | Materials | | | | 20 |
| C. | I. | 2. | Work-in-progress and semi-finished products | 208 | | 208 | 113 |
| C. | I. | 5. | Merchandise | 21,327 | 3,075 | 18,252 | 138,571 |
| C. | I. | 6. | Advance payments for inventories | 104,587 | 26,025 | 78,562 | 43,090 |
| C. | II. | | Long-term receivables | 179,810 | | 179,810 | 253,575 |
| C. | II. | 1. | Trade receivables | 52,595 | | 52,595 | 98,107 |
| C. | II. | 8. | Deferred tax receivable | 127,215 | | 127,215 | 155,468 |
| C. | III. | | Current receivables | 573,143 | 205,194 | 367,949 | 388,269 |
| C. | III. | 1. | Trade receivables | 330,838 | 193,140 | 137,698 | 235,598 |
| C. | III. | 2. | Receivables – controlling entity | 218,991 | 10,359 | 208,632 | 118,429 |
| C. | III. | 2.A | Receivables – controlling entity – trade receivables | 213,506 | 4,874 | 208,632 | 115,881 |
| C. | III. | 2.B | Receivables – controlling entity – loans | 5,485 | 5,485 | | 2,548 |
| C. | III. | 6. | State – tax-related receivables | 4,370 | | 4,370 | 2,265 |
| C. | III. | 7. | Current advances paid | 6,845 | | 6,845 | 12,593 |
| C. | III. | 8. | Estimated receivables | 462 | | 462 | 12,552 |
| C. | III. | 9. | Other receivables | 11,637 | 1,695 | 9,942 | 6,832 |
| C. | IV. | | Current financial assets | 577,643 | | 577,643 | 450,490 |
| C. | IV. | 1. | Cash on hand | 2,459 | | 2,459 | 2,585 |
| C. | IV. | 2. | Cash at bank | 306,478 | | 306,478 | 368,456 |
| C. | IV. | 3. | Current securities and investments | 268,706 | | 268,706 | 79,449 |
| D. | I. | | Prepayments and accrued income | 3,585 | | 3,585 | 4,310 |
| D. | I. | 1. | Prepayments | 3,585 | | 3,585 | 4,309 |
| D. | I. | 3. | Accrued income | | | | 1 |

(TCZK)

| EQUITY AND LIABILITIES | | | | 2005 | 2004 |
|---|---|---|---|---|---|
| | | | TOTAL EQUITY AND LIABILITIES | 1,293,073 | 1,517,326 |
| A. | | | Shareholders' equity | 793,686 | 758,789 |
| A. | I. | | Share capital | 1,257,524 | 1,257,524 |
| A. | I. | 1. | Share capital | 1,257,524 | 1,257,524 |
| A. | II. | | Capital reserves | (45,464) | (32,989) |
| A. | II. | 2. | Other capital reserves | 803 | 803 |
| A. | II. | 3. | Revaluation surplus | (46,267) | (33,792) |
| A. | III. | | Reserve funds, statutory and other, created from income | 7,147 | 6,874 |
| A. | III. | 1. | Statutory reserve fund / Indivisible fund | 2,241 | 554 |
| A. | III. | 2. | Other reserve funds created from income | 4,906 | 6,320 |
| A. | IV. | | Retained earnings | (474,308) | (506,361) |
| A. | IV. | 2. | Accumulated losses carried forward | (474,308) | (506,361) |
| A. | V. | | Profit or (loss) for the current period | 48,787 | 33,741 |
| B. | | | Liabilities | 499,313 | 758,356 |
| B. | I. | | Provisions | 106,184 | 215,050 |
| B. | I. | 4. | Other provisions | 106,184 | 215,050 |
| B. | II. | | Long-term liabilities | 54,361 | 96,142 |
| B. | II. | 1. | Trade payables | 54,361 | 96,142 |
| B. | III. | | Current liabilities | 338,768 | 447,164 |
| B. | III. | 1. | Trade payables | 156,202 | 157,399 |
| B. | III. | 2. | Liabilities – controlling entity | 190 | 664 |
| B. | III. | 2.A | Liabilities – controlling entity – trade payables | 190 | 664 |
| B. | III. | 5. | Payable to employees | 11,488 | 9,487 |
| B. | III. | 6. | Social security and health insurance payables | 5,983 | 5,281 |
| B. | III. | 7. | State – tax payables and subsidies | 10,921 | 6,022 |
| B. | III. | 8. | Current advances received | 16,554 | 174,553 |
| B. | III. | 10. | Estimated liabilities | 132,783 | 83,371 |
| B. | III. | 11. | Other liabilities | 4,647 | 10,387 |
| C. | I. | | Accrued expenses and deferred income | 74 | 181 |
| C. | I. | 1. | Accrued expenses | 69 | 176 |
| C. | I. | 2. | Deferred income | 5 | 5 |

# PROFIT AND LOSS ACCOUNT
## USING THE NATURE OF EXPENSES METHOD FOR THE YEAR ENDED 31 DECEMBER 2005

(TCZK)

| | | | 2005 | 2004 |
|---|---|---|---|---|
| I. | | Revenues from goods for resale | 907,062 | 1,896,069 |
| A. | | Cost of goods resold | 794,154 | 1,652,052 |
| + | | **Gross profit on goods for resale** | **112,908** | **244,017** |
| II. | | **Total output** | **171,155** | **208,673** |
| II. | 1. | Revenues from sale of own goods and services | 88,249 | 133,504 |
| II. | 2. | Change in internally produced inventory | 95 | (1,693) |
| II. | 3. | Own work capitalized | 82,811 | 76,862 |
| B. | | **Purchased consumables and services** | **193,267** | **240,988** |
| B. | 1. | Cost of materials and energy | 12,789 | 29,224 |
| B. | 2. | Cost of services | 180,478 | 211,764 |
| + | | **Value added** | **90,796** | **211,702** |
| C. | | **Personnel costs** | **235,653** | **246,911** |
| C. | 1. | Wages and salaries | 170,165 | 179,891 |
| C. | 2. | Board member remuneration | 3,703 | 3,773 |
| C. | 3. | Social security and health insurance costs | 56,766 | 59,008 |
| C. | 4. | Fringe benefits | 5,019 | 4,239 |
| D. | | Taxes and fees | 11,959 | 8,792 |
| E. | | Depreciation and amortization | 8,069 | 13,257 |
| III. | | **Revenues from sale of fixed assets and materials** | **257,659** | **164,702** |
| III. | 1. | Sales of fixed assets | 257,572 | 164,269 |
| III. | 2. | Sales of materials | 87 | 433 |
| F. | | **Net book value of fixed assets and material sold** | **157,432** | **92,960** |
| F. | 1. | Net book value of fixed assets sold | 157,432 | 92,960 |
| G. | | Change in operating provisions and allowances and comprehensive prepaid expenses | (201,393) | (76,004) |
| IV. | | Other operating revenues | 1,226 | 32,256 |
| H. | | Other operating expenses | 92,297 | 34,351 |
| * | | **Operating profit or (loss)** | **45,664** | **88,393** |
| K. | | Expenses relating to financial assets | | 3,378 |
| IX. | | Gain on revaluation of securities and derivatives | 13,628 | 245 |
| L. | | Loss on the revaluation of securities and derivatives | 4,307 | 66 |
| X. | | Interest revenue | 8,015 | 1,833 |
| N. | | Interest expenses | | 10 |
| XI. | | Other financial income | 88,224 | 134,059 |
| O. | | Other financial expenses | 74,202 | 180,017 |
| * | | **Financial profit or (loss)** | **31,358** | **(47,334)** |
| Q. | | **Income tax on current activity** | **28,235** | **7,161** |
| Q | 1. | – due | | 245 |
| Q | 2. | – deferred | 28,235 | 6,916 |
| ** | | **Profit or (loss) from current activity** | **48,787** | **33,898** |
| XIII. | | Extraordinary revenues | | 17 |
| R. | | Extraordinary expenses | | 174 |
| * | | **Extraordinary profit or (loss)** | | **(157)** |
| *** | | **Profit or (loss) for the accounting period** | **48,787** | **33,741** |
| **** | | **Profit or (loss) before tax** | **77,022** | **40,902** |

# STATEMENT OF CHANGES IN EQUITY
## AS OF 31 DECEMBER 2005

(TCZK)

| | Share capital | Revaluation surplus | Other capital reserves | Reserve funds, statutory and other, created from income | Accumulated loss carried forward | Current period profit or (loss) | Total equity |
|---|---|---|---|---|---|---|---|
| Balance as of 31 December 2003 | 1,257,524 | (35,946) | 803 | 7,937 | (246,202) | (260,159) | 723,957 |
| Distribution of income result | | | | | (260,159) | 260,159 | |
| Payments debited to reserves | | 2,154 | | (1,063) | | | 1,091 |
| Current period profit or (loss) | | | | | | 33,741 | 33,741 |
| Balance as of 31 December 2004 | 1,257,524 | (33,792) | 803 | 6,874 | (506,361) | 33,741 | 758,789 |
| Distribution of income result | | | | 1,688 | 32,053 | (33,741) | |
| Payments debited to reserves | | (12,475) | | (1,415) | | | (13,890) |
| Current period profit or (loss) | | | | | | 48,787 | 48,787 |
| Balance as of 31 December 2005 | 1,257,524 | (46,267) | 803 | 7,147 | (474,308) | 48,787 | 793,686 |

# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2005

(TCZK)

| | | | | 2005 | 2004 |
|---|---|---|---|---|---|
| P. | | | Cash and cash equivalents at beginning of accounting period | 450,490 | 249,273 |
| | | | Cash flows from operating activities | | |
| Z. | | | Income on ordinary activities before taxation | 77,022 | 41,059 |
| A. | 1. | | Reconciliation to net cash flow from operating activities | (274,225) | (131,735) |
| A. | 1. | 1. | Depreciation of fixed assets | 8,069 | 13,257 |
| A. | 1. | 2. | Change in allowances and provisions | (201,393) | (73,202) |
| A. | 1. | 3. | Gain (loss) on the sale of fixed assets | (100,140) | (71,309) |
| A. | 1. | 5. | Interest paid and received | (8,015) | (1,823) |
| A. | 1. | 6. | Adjustment for other non-monetary items | 27,254 | 1,342 |
| A.* | | | Net cash flow from operating activities before changes in working capital | (197,203) | (90,676) |
| A. | 2. | | Change in working capital | 68,033 | 151,189 |
| A. | 2. | 1. | Change in receivables, prepayments, and accrued income | 5,229 | 393,212 |
| A. | 2. | 2. | Change in liabilities, accrued expenses, and deferred income | (150,284) | (603,793) |
| A. | 2. | 3. | Change in inventories | 213,088 | 361,770 |
| A.** | | | Net cash flow from operating activities before taxation and extraordinary items | (129,170) | 60,513 |
| A. | 3. | | Interest paid | | (10) |
| A. | 4. | | Interest received | 8,015 | 1,833 |
| A. | 5. | | Corporate income tax paid on ordinary activities | 2 | (7,752) |
| A. | 6. | | Net cash flow from extraordinary activities, including income tax paid on such activities | | (157) |
| A.*** | | | Net cash flow from operating activities | (121,153) | 54,427 |
| | | | Cash flows from investing activities | | |
| B. | 1. | | Costs associated with acquisition of fixed assets | (7,851) | (16,416) |
| B. | 2. | | Proceeds from sale of fixed assets | 257,572 | 164,269 |
| B.*** | | | Net cash flow from investing activities | 249,721 | 147,853 |
| | | | Cash flows from financing activities | | |
| C. | 2. | | Net effect of changes in equity | (1,415) | (1,063) |
| C. | 2. | 5. | Payments debited to reserves | (1,415) | (1,063) |
| C.*** | | | Net cash flow from financing activities | (1,415) | (1,063) |
| F. | | | Net change in cash and cash equivalents | 127,153 | 201,217 |
| R. | | | Cash and cash equivalents at end of accounting period | 577,643 | 450,490 |

# NOTES TO 2005 FINANCIAL STATEMENTS

## 1. Basis of preparation

### 1.1. The Company

ŠKODA PRAHA a.s. (the "Company") was established on 1 December 1990 as the successor to the State enterprise ŠKODA PRAHA, státní podnik and was incorporated on 10 December 1990 by registration in the Commercial Register maintained by the Prague Municipal Court. The Company's principal businesses are comprehensive engineering and construction of power plant and equipment in the Czech Republic and abroad.

The Company's seat is at Milady Horákové 109/116, Prague 6, 160 41, Czech Republic.

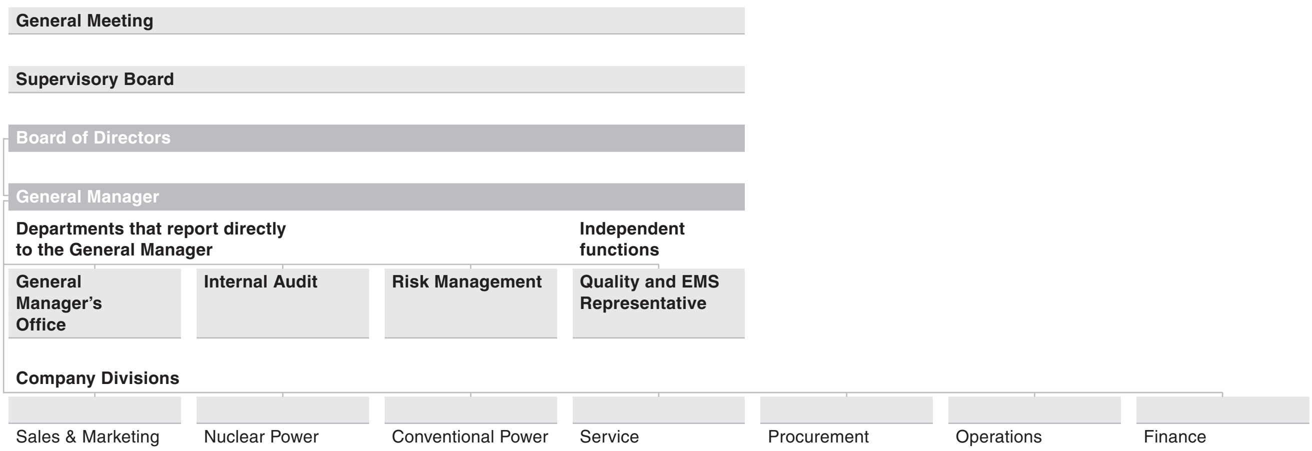
As of 31 December 2005, the Company had share capital of CZK 1,257,524,000. The Company's sole shareholder is ČEZ, a. s. with its seat at Duhová 2/1444, Prague 4, 140 53, Czech Republic, identification number 45274649.

The Company's financial statements were compiled as of 31 December 2005.

### 1.2. Changes and additions to the Commercial Register in the past accounting period

Changes in the Company's Commercial Register data included changes in its principal businesses, Board of Directors, and Supervisory Board (see Note 1.5., below) and the recording of the existence of a sole shareholder, ČEZ, a. s. Also recorded in the Commercial Register was the resolution of the General Meeting on the passage of all other equity securities issued by the Company to the sole shareholder, ČEZ, a. s. This resolution was approved in accordance with Section 183i of Act No. 513/1991 Sb., the Commercial Code, as amended, at the Company's extraordinary General Meeting held on 31 August 2005.

### 1.3. Organization structure (as of 31 December 2005)




The Company has an organizational unit in Slovakia called ŠKODA PRAHA a.s., organizačná zložka Mochovce (the "Mochovce Organizational Unit").

### 1.4. Identification of group

The Company is part of CEZ Group.

### 1.5. Board of Directors and Supervisory Board (as of 31 December 2005)

| | Position | Name |
|---|---|---|
| Board of Directors | Chairman | Jiří Smola |
| | Vice Chairman | Jindřich Pechan |
| | Member | Daniel Jiřička |
| | | Jan Postolka |
| Supervisory Board *) | Chairman | Vladimír Johanes |
| | Vice Chairman | Čestmír Čejka |
| | Member | Jaroslav Ambrož |
| | | Daniel Beneš |
| | | Jiří Borovec |
| | | Vladimír Schmalz |
| | | Přemysl Skočdopol |

During the accounting period the following changes took place in the Board of Directors:

**Board of Directors**

| Position | Original member | New member | Date of change |
|---|---|---|---|
| Member | Vladimír Stratil | Daniel Jiřička | 22 June 2005 |
| Member | Vojtěch Razima | Jan Postolka | 9 February 2005/10 February 2005 |
| Member | Jan Doležal | | 22 June 2005 |

During the accounting period the following changes took place in the Supervisory Board:

**Supervisory Board**

| Position | Original member | New member | Date of change |
|---|---|---|---|
| Member | Josef Petřík | Vladimír Schmalz | 23 March 2005/3 May 2005 |
| Member | Vladimír Schmalz | Vladimír Schmalz **) | 22 June 2005 |
| Member | Daniel Beneš | Peter Szénásy | 22 June 2005 |
| Member | Jan Kalina | Jiří Borovec | 22 June 2005 |
| Member | Peter Szénásy | Daniel Beneš | 13 December 2005/14 December 2005 |

*) The Supervisory Board meetings that took place between March 2005 and June 2005 (i.e. Supervisory Board meeting nos. 2/2005 – 6/2005) were attended by Mr. František Cibula and Mr. Miroslav Zeman under an injunction issued on 4 March 2005 by the Prague Municipal Court which ordered the Company to refrain from all actions preventing these two people from acting as members of the Supervisory Board. The injunction was canceled by the Prague High Court by a resolution dated 20 June 2005.

**) Effective 3 May 2005, Vladimír Schmalz was appointed a substitute member of the Supervisory Board replacing Josef Petřík, who had resigned. In this matter, the Articles of Association state that such co-optation is valid until the next General Meeting. Therefore, on 22 June 2005 Mr. Schmalz's Supervisory Board membership ceased and he was re-elected to the office of Supervisory Board member by the Annual General Meeting held on that date.

## 2. Accounting methods and general accounting principles

The Company's books are kept, and its financial statements were prepared, in accordance with Act No. 563/1991 Sb. on Accounting, Decree No. 500/2002 Sb. which implements certain provisions of Act No. 563/1991 Sb. on Accounting, as amended, for accounting units that are businesses using double-entry bookkeeping, as amended by Decree No. 472/2003 Sb., and the Czech Accounting Standards for Businesses.

The accounting respects generally accepted accounting principles such as the historical cost principle, the revenue recognition principle, the principle of prudence, and the assumption that the accounting unit exists as a going concern.

Figures in these financial statements are expressed in thousands of Czech Crowns (TCZK).

## 3. Overview of material accounting rules and procedures

**3.1. Tangible fixed assets**
Purchased tangible fixed assets are stated at cost less accumulated depreciation.

Tangible fixed assets built by the Company include direct costs, indirect costs immediately relating to building the asset (production overhead), and possibly administrative overheads, if the process of building the asset lasts longer than one accounting period.

Replacement value is used to state those tangible fixed assets that are acquired by donation, tangible fixed assets acquired free of charge under an agreement on purchase of a leased item (recorded with a corresponding entry to the appropriate accumulated depreciation account), tangible assets recently entered in the books (recorded with a corresponding entry to the appropriate accumulated depreciation account), and any tangible fixed assets acquired as capital contributions. Replacement value is set by expert appraisal.

Tangible fixed assets are those assets whose useful life is longer than one year and which are valued at over TCZK 20 per item.

Technical improvements, provided they exceed TCZK 40 for a particular asset during a single tax year, increase the carrying value of the asset in question.

All tangible fixed assets other than land and assets in the course of construction are depreciated using the straight-line method over their estimated useful life as follows:

| | Number of years |
|---|---|
| Buildings | 34–42 |
| Machines | 7–12.5 |
| Computer systems | 5 |
| Vehicles | 6 |
| Furniture and fittings | 7 |

Depreciation of assets acquired through finance leases is provided by the lessor.

Gains and/or losses on sales or disposals of assets are determined as the difference between the sale proceeds and the net book value of the asset in question. They are recorded to the profit and loss account.

Treatment of impairment
No allowances were recorded on tangible fixed assets in 2005.

**3.2. Intangible fixed assets**
Purchased intangible fixed assets are recorded at cost.

Intangible fixed assets include, inter alia, intangible R&D results with a useful life of longer than one year, provided they are utilized for repeat sales. In-house software and intangible R&D results are not classified as assets. Intangible fixed assets created by the Company are recorded at cost or replacement value, whichever is lower.

Intangible fixed assets are defined as an asset whose useful life exceeds one year and which is valued at over TCZK 40.

Technical improvements, provided they exceed TCZK 40 for a particular asset during the tax year, increase the carrying value of that asset.

Intangible fixed assets are amortized using the straight-line method over their estimated useful life, as follows:

| | Number of years |
|---|---|
| Software | 3 |
| Patents and similar rights | 3 |

Treatment of impairment
An allowance was recorded as of 31 December 2005 for intangible fixed assets whose book value temporarily does not reflect a realistic assessment of its fair value.

**3.3. Long-term investments**

Long-term investments include, in particular, equity stakes, loans provided to group companies and other loans with maturity of over one year, securities and ownership interests available for sale, and debentures held to maturity provided they have a maturity of over one year, and fixed assets leased under a business lease arrangement.

Upon purchase, securities and equity stakes are recorded at cost. Cost includes direct costs relating to acquisition as well as fees and commissions paid to brokers, advisors, and exchanges.

As of the date of purchase, securities and equity interests are classified, as appropriate, as stakes in subsidiaries and controlled entities, stakes in associates, debentures held to maturity, or securities and ownership interests available for sale.

Stakes in companies whose financial and operating processes can be controlled by the company with the objective of gaining benefits from them are classified as stakes in subsidiaries and controlled entities.

Stakes in companies whose financial and operating processes can be significantly influenced with the aim of gaining benefits from them are classified as stakes in associates.

As of the balance sheet date:
- stakes in subsidiaries and controlled entities are valued using the equity method. As of the balance sheet date, the carrying value of the asset is adjusted to a value corresponding to the Company's stake in the subsidiary's equity.
- securities and ownership interests available for sale are carried at fair value, if it can be determined. Changes in the fair value of securities and ownership interests available for sale are recorded in the balance sheet, with a corresponding entry under Revaluation surplus.

**3.4. Current financial assets**

Current financial assets consist of cash on hand, cash at bank, securities held for trading, debentures held to maturity with maturities less than one year, treasury shares, own bonds, and other marketable securities.

Upon purchase, current securities are recorded at cost, which includes direct costs relating to the purchase and any fees and commissions paid to brokers, advisors, and exchanges.

As of the acquisition date, the Company classifies current securities as current financial assets held for trading or current financial assets available for sale. Current financial assets held for trading are securities held for the purpose of carrying out a transaction on a public securities market to realize a gain by leveraging price movements within a short period of time, no longer than one year.

As of the balance sheet date, current financial assets are restated at fair value, provided it can be determined.

Changes in fair values of current financial assets held for trading are recorded as a financial expense or financial revenue.

**3.5. Derivatives**

The Company uses derivatives for hedging purposes and for trading.

Derivatives for trading are defined by the Company as derivatives that meet the following conditions:
- at the onset of hedging, decisions were made as to which items to hedge, the hedging instruments to be used, the risks to be hedged against, and the method used to calculate and demonstrate the hedging's effectiveness; also, the hedging relationship must be formally documented;
- the hedging is highly effective (i.e. in the 80–125% range);
- the hedging's effectiveness is reliably measurable and continually evaluated.

Derivatives that do not satisfy the above conditions for hedging derivatives are classified by the Company as derivatives held for trading.

As of 31 December 2005 the Company owned derivates held for trading.

**3.6. Inventories**

Valuation

Purchased inventories are recorded at cost, which includes the purchase price and ancillary costs of acquisition – in particular, customs duties, transport and storage fees, commissions, insurance premiums, and non-returnable containers.

Inventories created in-house are valued at cost, which includes direct costs incurred in the production or other activity, as well as the portion of indirect costs attributable to the production.

Release of inventories from the warehouse is recorded at cost determined by weighted arithmetic average. Values of inventories relating to capital projects are recorded individually for each item.

Treatment of impairment

Allowances are made in cases when the reduction in value is not permanent and are determined on the basis of an inventory age analysis and an analysis of selling prices.

### 3.7. Receivables

When they arise, receivables are recorded at face value less an allowance for doubtful and unrecoverable amounts. Receivables obtained by purchase or as a capital contribution are recorded at cost, less an allowance for doubtful and unrecoverable amounts.

Treatment of impairment

In the 2005 accounting period, the Company made allowances on receivables based on an analysis of their overdue status.
For receivables:
– over 365 days overdue, the allowance is 100% of face value,
– over 181 and under 365 days overdue, the allowance is 70% of face value,
– over 91 and less than 180 days overdue, the allowance is 40% of face value,
– less than 90 days overdue, the allowance is 10% of face value.

Furthermore, where needed, an additional allowance is made on an individual basis based on an assessment of risk and anticipated recovery time.

### 3.8. Trade payables

Trade payables are recorded at face value.

### 3.9. Provisions

Provisions are made for future risks and expenditures whose purpose is known, it is probable that they will arise, yet their amount and/or the date when they will arise is not known.

For accounting purposes, the Company makes provisions for guarantees that are recorded based on a quantification of anticipated risk, i.e. future costs relating to already completed capital projects, as well as provisions for litigation based on the anticipated risk of future consideration and a provision for vacations not taken.

### 3.10. Translation of foreign currencies

Accounting transactions in foreign currencies during the year are recorded using the Czech National Bank exchange rate valid as of the date the accounting transaction takes place.

Investments and current assets and liabilities denominated in foreign currencies are translated as of the balance sheet date using the valid rates published by the Czech National Bank for that date and any differences are charged to financial revenues or financial costs, as appropriate, of the current period.

### 3.11. Finance leases

A finance lease is a method used to acquire tangible fixed assets in which an asset is first leased over an agreed period and, upon expiration of that period or during it, ownership title to the asset is transferred from the lessor to the lessee and, until said transfer takes place, the lessee records the lease payments as expenses.

The total value of finance leases is recorded on an accrual basis and amortized to expenses over the term of the lease.

Technical improvements are amortized over the remaining lease term. When ownership title is transferred to the lessee, the cost of any technical improvements increases the carrying amount of the assets so acquired and depreciation continues using the cost so increased.

### 3.12. Taxation

#### 3.12.1. Tax due

Tax due for the accounting period is based on taxable income. Taxable income is distinguished from the net income reported in the profit and loss account because it does not include revenue and expense items that are taxable or recognizable in other periods and, further, does not include items not subject to taxation and non-tax-deductible items. Depreciation and amortization provided for tax purposes uses the straight-line method.

#### 3.12.2. Deferred tax

Deferred tax is calculated using the liability method based on the balance sheet approach.

The liability method is a procedure using the income tax rate that will be valid in the period in which the tax liability or asset will be recognized.

The balance sheet approach means that the liability method uses temporary differences between the tax base of assets and/or liabilities and the actual amounts of assets and/or liabilities in the balance sheet. The tax base of assets and/or liabilities is the value of these assets and/or liabilities recognizable in the future for tax purposes.

As of each balance sheet date, the book value of the deferred tax asset is reviewed and reduced to the extent it is no longer probable that sufficient taxable income will be available against which to set off the asset, in whole or in part.

Deferred tax is provided in the profit and loss account unless it relates to items that are recorded directly to equity, in which case it is recognized in equity.

Deferred tax assets and liabilities are set off against each other and recorded in total net value in the balance sheet, except in cases when certain partial tax assets cannot be set off against partial tax liabilities.

### 3.13. Impairment

As of each balance sheet date, the Company reviews the carrying amounts of its assets to look for indications that assets may be impaired. If such signals are found to exist, the recoverable amounts of the assets in question are estimated and the allowances determined. If recoverable amounts for individual assets cannot be estimated, the Company assesses the recoverable amount of the Cash Generating Unit (CGU) to which the assets belong.

The recoverable amount is either the fair value less costs to sell or the value in use, whichever is higher. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate, before tax, which reflects the current market estimate of the time value of money and the specific risks associated with the asset in question.

If the estimated recoverable amount of the asset (or CGU) is lower than the carrying amount, the carrying amount of the asset (or CGU) is reduced by recording an allowance in the amount of the difference.

### 3.14. Government subsidies

Subsidies received as reimbursement for costs incurred are recognized in other operating and financial revenues on an accrual basis, i.e. in the periods in which the associated costs are recognized. In 2005, the Company received a total of TCZK 154 in subsidies for participation in trade expos.

### 3.15. Revenues

Revenues are recognized as of the date goods are released from the warehouse and ownership title passes to the customer or as of the date services are provided, and they are recognized net of discounts and value-added tax.

Interest revenues are accrued and recognized on the basis of the remaining unpaid principal amount and the applicable interest rate.

Dividend revenues are recognized at the moment the dividend is declared.

### 3.16. Use of estimates

Compilation of the financial statements requires the Company to use estimates and assumptions that influence the reported values of assets and liabilities as of the balance sheet date as well as on the reported amounts of revenues and expenses for the period in question. Company management made these estimates and assumptions on the basis of the relevant information available to it. Nonetheless, the actual future values may differ from these estimates.

### 3.17. Extraordinary expenses and extraordinary revenues

These items contain revenues/expenses from operations that are entirely extraordinary compared to the accounting unit's customary operations, as well as revenues/expenses from randomly-occurring events.

### 3.18. Changes in valuation methods, depreciation policies, and accounting procedures compared to the previous accounting period

No changes were made in 2005.

### 3.19. Statement of cash flows

The statement of cash flows was compiled using the indirect method. Cash equivalents consist of current liquid assets that can be easily and readily converted into an amount of cash known in advance. Cash and cash equivalents may be broken down as follows:

**(TCZK)**

| | 31 Dec 2005 | 31 Dec 2004 |
|---|---:|---:|
| Cash on hand and en route | 2,459 | 2,585 |
| Cash at bank | 306,478 | 368,456 |
| Cash equivalents included in current financial assets | 268,706 | 79,449 |
| Total cash and cash equivalents | 577,643 | 450,490 |

Cash flows from operating, investing, and financing activities presented in the statement of cash flows are not offset.

## 4. Supplemental information on the balance sheet and profit and loss account

### 4.1. Fixed assets

#### 4.1.1. Intangible fixed assets

**Acquisition cost (TCZK)**

| | Balance at 31 Dec 2003 | Additions | Disposals | Balance at 31 Dec 2004 | Additions | Disposals | Balance at 31 Dec 2005 |
|---|---|---|---|---|---|---|---|
| Software | 21,008 | 8,439 | 772 | 28,676 | 12,076 | 8,789 | 31,963 |
| Patents and similar rights | 1,088 | 0 | 1,088 | 0 | 0 | 0 | 0 |
| Other intangible fixed assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intangible fixed assets in progress | 0 | 16,652 | 8,439 | 8,213 | 5,791 | 12,076 | 1,928 |
| Total | 22,096 | 25,091 | 10,299 | 36,889 | 17,867 | 20,865 | 33,891 |

**Accumulated amortization (TCZK)**

| | Balance at 31 Dec 2003 | Additions | Disposals | Balance at 31 Dec 2004 | Additions | Disposals | Balance at 31 Dec 2005 |
|---|---|---|---|---|---|---|---|
| Software | 20,220 | 1,281 | 772 | 20,729 | 4,850 | 8,789 | 16,790 |
| Patents and similar rights | 1,088 | 0 | 1,088 | 0 | 0 | 0 | 0 |
| Other intangible fixed assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intangible fixed assets in progress | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 21,308 | 1,281 | 1,860 | 20,729 | 4,850 | 8,789 | 16,790 |

**Net book value (TCZK)**

| | Balance at 31 Dec 2003 | Balance at 31 Dec 2004 | Balance at 31 Dec 2005 |
|---|---|---|---|
| Software | 788 | 7,947 | 15,173 |
| Patents and similar rights | 0 | 0 | 0 |
| Other intangible fixed assets | 0 | 0 | 0 |
| Intangible fixed assets in progress | 0 | 8,213 | 1,928 |
| Total | 788 | 16,160 | 17,101 |

The most significant addition to intangible fixed assets in 2005 was the ORACLE E-Business software.

As of 31 December 2005, a TCZK 1,699 allowance was recorded on intangible fixed assets to bring the carrying amount to the level the company expects to recover in the years to come.

#### 4.1.2. Tangible fixed assets

**Acquisition cost (TCZK)**

| | Balance at 31 Dec 2003 | Additions | Disposals | Balance at 31 Dec 2004 | Additions | Disposals | Balance at 31 Dec 2005 |
|---|---|---|---|---|---|---|---|
| Land | 13,757 | 0 | 4,849 | 8,908 | 0 | 7,374 | 1,534 |
| Buildings | 332,921 | 142 | 125,047 | 208,016 | 0 | 204,664 | 3,352 |
| Movables | 256,916 | 580 | 168,846 | 88,650 | 1,806 | 50,549 | 39,907 |
| – machinery and equipment | 214,191 | 555 | 137,456 | 77,290 | 1,806 | 45,631 | 33,465 |
| – vehicles | 31,408 | 25 | 25,881 | 5,552 | 0 | 874 | 4,678 |
| – furniture and fittings | 3,507 | 0 | 1,684 | 1,823 | 0 | 308 | 1,515 |
| – other tangible fixed assets | 7,810 | 0 | 3,825 | 3,985 | 0 | 3,736 | 249 |
| Tangible fixed assets under construction | 499 | 1,023 | 723 | 799 | 1,873 | 1,806 | 866 |
| Advance payment for tangible fixed assets | 5 | 0 | 5 | 0 | 0 | 0 | 0 |
| Total | 604,098 | 1,745 | 299,470 | 306,373 | 3,679 | 264,393 | 45,659 |

**Accumulated depreciation (TCZK)**

| | Balance at 31 Dec 2003 | Additions | Disposals | Balance at 31 Dec 2004 | Additions | Disposals | Balance at 31 Dec 2005 |
|---|---|---|---|---|---|---|---|
| Land | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Buildings | 90,870 | 89,622 | 125,047 | 55,445 | 152,571 | 204,664 | 3,352 |
| Movables | 243,983 | 10,494 | 168,846 | 85,631 | 2,404 | 50,549 | 37,486 |
| – machinery and equipment | 204,319 | 8,373 | 137,456 | 75,236 | 1,910 | 45,631 | 31,515 |
| – vehicles | 28,667 | 1,917 | 25,881 | 4,703 | 461 | 874 | 4,290 |
| – furniture and fittings | 3,187 | 204 | 1,684 | 1,707 | 33 | 308 | 1,432 |
| – other tangible fixed assets | 7,810 | 0 | 3,825 | 3,985 | 0 | 3,736 | 249 |
| Tangible fixed assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 334,853 | 100,116 | 293,893 | 141,076 | 154,975 | 255,213 | 40,838 |

**Net book value (TCZK)**

| | Balance at 31 Dec 2003 | Balance at 31 Dec 2004 | Balance at 31 Dec 2005 |
|---|---|---|---|
| Land | 13,757 | 8,908 | 1,534 |
| Buildings | 242,051 | 152,571 | 0 |
| Movables | 12,933 | 3,019 | 2,421 |
| – machinery and equipment | 9,871 | 2,054 | 1,950 |
| – vehicles | 2,741 | 849 | 388 |
| – furniture and fittings | 320 | 116 | 83 |
| – other tangible fixed assets | 0 | 0 | 0 |
| Tangible fixed assets under construction | 499 | 799 | 866 |
| Advance payment for tangible fixed assets | 5 | 0 | 0 |
| Total | 269,245 | 165,297 | 4,821 |

The most significant addition to tangible fixed assets in 2005 was boiler chemical treatment equipment built in-house and added by capitalization.

Asset disposals were recorded in 2005 to account for the sale of the following buildings and other items: Hradčanská, Chvaletice compound, Břevnov offices, Trnava social building, Klausová apartment, computer server, telephone exchanges in Spálená, Plzeň, and Břevnov, warehouse in Mochovce organizational unit.

In 2005, the Company spent TCZK 546 (2004: TCZK 3,923) to acquire low-value tangible fixed assets which it charged directly to the profit and loss account.

### 4.1.3. Tangible assets encumbered by liens and mortgages

As of the balance sheet date, none of the company's fixed assets were encumbered by liens or mortgages.

### 4.1.4. Assets leased under finance and operating leases

**Finance leases with subsequent purchase of leased item (TCZK)**

| Description | Opening date | Lease duration in months | Total value of lease | Payments actually made as of 31 Dec 2005 | Due in 2006 | Due in subsequent years |
|---|---|---|---|---|---|---|
| Passenger car | 23 Jul 2004 | 37 | 2,031 | 1,072 | 615 | 344 |
| Truck | 31 Mar 2005 | 36 | 870 | 406 | 214 | 250 |
| Total | | | 2,901 | 1,478 | 829 | 594 |

The amounts include value-added tax.

**Operating leases (TCZK)**

| Description | Opening date | Closing date | Total rent amount per year | Payments actually made in 2005 |
|---|---|---|---|---|
| PVT (outsourcing services) | 15 Jul 2004 | open-ended | 20,104 | 17,963 |
| Cars | | | 4,844 | 4,599 |
| Total | | | 24,948 | 22,562 |

The amounts do not include value-added tax provided this tax is deductible.

## 4.2. Long-term investments

**(TCZK)**

| | Balance at 31 Dec 2003 | Additions | Disposals | Revaluation at 31 Dec 2004 | Balance at 31 Dec 2004 | Additions | Disposals | Revaluation at 31 Dec 2005 | Balance at 31 Dec 2005 |
|---|---|---|---|---|---|---|---|---|---|
| Stakes in subsidiaries and controlled entities | 58,641 | 0 | 0 | (1,224) | 57,417 | 200 | 0 | (12,475) | 45,142 |
| Non-current securities and interests available for sale | 14 | 0 | 0 | 0 | 14 | 0 | 14 | 0 | 0 |
| Total | 58,655 | 0 | 0 | (1,224) | 57,431 | 200 | 14 | (12,475) | 45,142 |

### 4.2.1. Stakes in subsidiaries and controlled entities

**2005 (TCZK)**

| Company name | Seat | Acquisition cost | Ownership stake (%) | Voting rights (%) | Shareholders' equity | Net income | Revaluation in 2005 | Dividend income | Valuation at 31 Dec 2005 |
|---|---|---|---|---|---|---|---|---|---|
| EGI, a.s. | Praha 6, M. Horákové 109 | 83,699 | 100 | 100 | 44,942 | (7,354) | (12,475) | 0 | 44,942 |
| ŠKODA PRAHA Invest s.r.o. | Praha 6, M. Horákové 109 | 200 | 100 | 100 | 29 | (171) | 0 | 0 | 200 |
| Total | | 83,899 | | | | | (12,475) | 0 | 45,142 |

In 2005, ŠKODA PRAHA a.s. established a new 100% subsidiary: ŠKODA PRAHA Invest s.r.o., ID: 27257517, which was recorded in the Commercial Register of the Prague Municipal Court on 11 July 2005. The share capital amount recorded in the Commercial Register as of 31 December 2005 was TCZK 200.

The Company decided not to revalue this equity interest using the equity method because in 2005 the subsidiary had only just begun its business and, for this reason, its expenses in 2005 were mainly expenses relating to the commencement of its business activities.

**2004 (TCZK)**

| Company name | Seat | Acquisition cost | Ownership stake (%) | Voting rights (%) | Shareholders' equity | Net income | Revaluation in 2005 | Dividend income | Valuation at 31 Dec 2004 |
|---|---|---|---|---|---|---|---|---|---|
| EGI, a.s. | Praha 6, M. Horákové 109 | 83,699 | 100 | 100 | 57,417 | (1,224) | (1,224) | 0 | 57,417 |
| Total | | 83,699 | | | | | (1,224) | 0 | 57,417 |

### 4.2.2. Non-current securities and interests available for sale

**2005 (TCZK)**

| Type of security/interest | Acquisition cost as of 31 Dec 2005 | Fair value as of 31 Dec 2005 | Revaluation change | Carrying amount as of 31 Dec 2005 |
|---|---|---|---|---|
| Stake – EGI servis, s.r.o. (in bankruptcy) | 7,510 | 0 | (7,510) | 0 |
| Total | 7,510 | 0 | (7,510) | 0 |

**2004 (TCZK)**

| Type of security/interest | Acquisition cost as of 31 Dec 2004 | Fair value as of 31 Dec 2004 | Revaluation change | Carrying amount as of 31 Dec 2004 |
|---|---|---|---|---|
| Stake – EGI servis, s.r.o. (in bankruptcy) | 7,510 | 0 | (7,510) | 0 |
| ŠKODAEXPORT, a.s. | 14 | 14 | 0 | 14 |
| Total | 7,524 | 14 | (7,510) | 14 |

### 4.2.3. Non-current financial assets encumbered by liens

As of the balance sheet date, none of the Company's non-current financial assets were encumbered by liens.

### 4.3. Inventories

The largest component in the inventories total of TCZK 126,122 reported as of 31 December 2005 consisted of goods purchased in conjunction with the construction of Temelín Nuclear Power Station (monitoring systems) valued at CZK 6 million and goods, such as electric motors, transformers, and pipe fittings, purchased for other projects and, further, the Company's own design and assembly work.

The allowance on goods purchased in conjunction with the construction of Temelín Nuclear Power Station as of 31 December 2005 was CZK 1.6 million.

The change in the allowance can be broken down as follows:

**(TCZK)**

| | 2005 | 2004 |
|---|---|---|
| Opening balance as of 1 January | 95,919 | 94,751 |
| Added | 121 | 51,013 |
| Reversed | 92,965 | 49,845 |
| Closing balance as of 31 December | 3,075 | 95,919 |

**Allowance on advance payments for inventories (TCZK)**

| | 2005 | 2004 |
|---|---|---|
| Opening balance as of 1 January | 10,000 | 10,000 |
| Added | 16,025 | 0 |
| Reversed | 0 | 0 |
| Closing balance as of 31 December | 26,025 | 10,000 |

### 4.4. Receivables

4.4.1. Long-term receivables
As of 31 December 2005, the Company carried long-term receivables (retention) in the amount of TCZK 52,595. As of 31 December 2004, the Company recorded long-term trade receivables of TCZK 98,107, TCZK 93,752 of which were retention monies.

### 4.5. Short-term receivables

4.5.1. Age structure of trade receivables (receivables vis-à-vis controlling entity excluded)

**(TCZK)**

| Year | Category | Not yet overdue | Overdue 0–90 days | 91–180 days | 181–360 days | 1–2 years | 2 and more years | Total overdue | Total |
|---|---|---|---|---|---|---|---|---|---|
| 2005 | Short-term | 112,528 | 24,146 | 2,022 | 16,994 | 25,556 | 149,592 | 218,310 | 330,838 |
| | Allowance | 0 | 2,415 | 613 | 14,964 | 25,556 | 149,592 | 193,140 | 193,140 |
| | Net | 112,528 | 21,731 | 1,409 | 2,030 | 0 | 0 | 25,170 | 137,698 |
| 2004 | Short-term | 219,680 | 17,687 | 16,864 | 11,629 | 27,752 | 153,069 | 227,001 | 446,681 |
| | Allowance | 1,755 | 8,151 | 11,851 | 10,050 | 27,752 | 151,524 | 209,328 | 211,083 |
| | Net | 217,925 | 9,536 | 5,013 | 1,579 | 0 | 1,545 | 17,673 | 235,598 |

4.5.2. Receivables vis-à-vis group companies (net)

**(TCZK)**

| Company name | Balance as of 31 Dec 2005 | Balance as of 31 Dec 2004 |
|---|---|---|
| Short-term receivables | | |
| – trade receivables | 45 | 607 |
| Ústav jaderného výzkumu Řež a.s. | 0 | 607 |
| I & C Energo a.s. | 45 | 0 |
| – controlled entity | 208,632 | 118,429 |
| ČEZ, a. s. | 201,486 | 109,996 |
| EGI, a.s. | 7,146 | 6,219 |
| EGI Machine, s.r.o. | 0 | 2,214 |
| Short-term receivables vis-à-vis group companies, total | 208,677 | 119,036 |
| Short-term receivables outside of group | 159,272 | 269,233 |
| Short-term receivables, total | 367,949 | 388,269 |

Receivables vis-à-vis group companies include, in particular, trade receivables and loans that totaled TCZK 213,506 and TCZK 3,944, respectively, as of 31 December 2005.

Further, item C.III.2.B “Receivables – controlling entity – loans” includes a loan to EGI servis, s.r.o. (in bankruptcy) the balance of which at 31 December 2005 was TCZK 1,541.

### 4.6. Current financial assets

**(TCZK)**

| | Balance as of 31 Dec 2005 | Balance as of 31 Dec 2004 |
|---|---|---|
| Petty cash | 1,945 | 2,083 |
| Stamps and vouchers | 514 | 502 |
| Cash on hand | 2,459 | 2,585 |
| Current accounts | 161,331 | 286,834 |
| Time deposits | 145,147 | 81,622 |
| Cash at bank | 306,478 | 368,456 |
| Debt securities held for trading | 268,706 | 79,449 |
| Current securities and interests | 268,706 | 79,449 |
| Total current financial assets | 577,643 | 450,490 |

The debt securities are certificates of deposit.

### 4.7. Prepayments and accruals
Prepayments and accrual accounts reflect, in particular, costs associated with insurance, business travel, and interest on deposits.

### 4.8. Equity

4.8.1. Changes in equity
As of 31 December 2005, the stated capital consists of 1,257,524 shares, each with par value CZK 1,000.

As of the balance sheet date, long-term investments were restated to a value corresponding to the participation in the shareholders' equity of subsidiaries and controlled entities and the difference was recorded as "Revaluation surplus". The total revaluation surplus as of the balance sheet date was TCZK (46,267).

Disbursements from the social fund in 2005 totaled TCZK 1,415.

In 2005, TCZK 32,053 of 2004 net income was used to reduce losses carried forward and TCZK 1,688 was added to the statutory reserve fund. As of the balance sheet date, the distribution of 2005 net income had not yet been decided.

### 4.9. Provisions

**(TCZK)**

| | Provision for guarantees | Other provisions | Total provisions |
|---|---|---|---|
| Balance as of 31 Dec 2003 | 289,654 | 0 | 289,654 |
| Additions | 35,559 | 0 | 35,559 |
| Reversals | 110,163 | 0 | 110,163 |
| Balance as of 31 Dec 2004 | 215,050 | 0 | 215,050 |
| Additions | 8,169 | 15,768 | 23,937 |
| Reversals | 132,803 | 0 | 132,803 |
| Balance as of 31 Dec 2005 | 90,416 | 15,768 | 106,184 |

The provision for risks related to capital projects was TCZK 90,416, and of this amount CZK 54,151 was for guarantees and guarantee-related risks relating to the construction of Temelín Nuclear Power Station and TCZK 18,451 was for technical risks, business risks, and hidden defects in the Shen Tou power heating plant project in China.

Other provisions include a provision for 2005 management bonuses, a provision for 2005 vacations not taken, and a provision for potential obligations arising from litigation where the Company is respondent/defendant.

### 4.10. Liabilities

4.10.1. Long-term liabilities
Long-term liabilities resulted from retention monies which are returned when defects are corrected and/or unfinished work is completed. The maturity of these liabilities does not exceed five years.

### 4.11. Current liabilities

4.11.1. Age structure of current trade payables

**(TCZK)**

| Year | Category | Not yet overdue | Overdue 0–90 days | 91–180 days | 181–360 days | 1–2 years | 2 and more years | Total overdue | Total |
|---|---|---|---|---|---|---|---|---|---|
| 2005 | Short-term | 107,281 | 8,682 | 14,612 | 11,716 | 7,794 | 6,117 | 48,921 | 156,202 |
| 2004 | Short-term | 114,724 | 29,334 | 6,194 | 0 | 1,529 | 5,618 | 42,675 | 157,399 |

4.11.2. Liabilities vis-à-vis group companies

**(TCZK)**

| Company name | Balance as of 31 Dec 2005 | Balance as of 31 Dec 2004 |
|---|---|---|
| Current liabilities | | |
| – trade payables | 3,980 | 8,704 |
| I & C Energo a.s. | 3,801 | 8,652 |
| Energetické opravny, a.s. | 14 | 28 |
| ČEZ Správa majetku, s.r.o. | 11 | 0 |
| ČEZ Prodej, s.r.o. | 148 | 0 |
| ČEZnet, a.s. | 6 | 24 |
| – controlling entity | 190 | 664 |
| ČEZ, a. s. | 190 | 315 |
| EGI, a.s. | 0 | 349 |
| Total current liabilities vis-à-vis group companies | 4,170 | 9,368 |
| Current liabilities external to group | 334,598 | 437,796 |
| Total current liabilities | 338,768 | 447,164 |

All the liabilities vis-à-vis group companies are trade payables.

### 4.12. Current advances received

The Company receives current advances mainly in conjunction with capital projects. As of 31 December 2005 and 31 December 2004, current advances can be broken down as follows:

**(TCZK)**

| | Balance as of 31 Dec 2005 | Balance as of 31 Dec 2004 |
|---|---|---|
| Advances relating to construction of Temelín Nuclear Power Station | 8,491 | 145,802 |
| Advances relating to construction of Shen Tou power heating plant | 6,120 | 13,488 |
| Other | 1,943 | 15,263 |
| Total current advances received | 16,554 | 174,553 |

### 4.13. Derivative financial instruments

For accounting purposes, the Company treats derivatives as financial derivatives held for trading.

The fair value of financial derivatives is recorded in other receivables if it is positive for the Company, or in other liabilities if it is negative.

**Derivatives held for trading (TCZK)**

| | | 31 Dec 2005 | |
|---|---|---|---|
| | Positive fair value | Negative fair value | Par value |
| Derivatives held for trading | 7,446 | 0 | 296,689 |
| Total | 7,446 | 0 | 296,689 |

### 4.14. Deferred tax

The deferred-tax receivable can be broken down as follows:

**Deferred tax breakdown (TCZK)**

| | Balance as of 31 Dec 2005 | Balance as of 31 Dec 2004 |
|---|---|---|
| Difference between fixed asset carrying amounts | 569 | (9,538) |
| Allowance on fixed assets | 408 | 0 |
| Allowance on inventories | 738 | 23,047 |
| Allowance on receivables | 34,489 | 29,790 |
| Provisions | 25,484 | 51,670 |
| Losses carried forward for tax purposes | 65,528 | 60,499 |
| Total | 127,215 | 155,468 |

**Tax losses (TCZK)**

| Year tax losses incurred | Total amount of losses | Portion deducted in previous tax periods | Portion eligible for deduction in future tax periods | Last tax period in which tax losses may be deducted |
|---|---|---|---|---|
| 2000 | 109,302 | 107,543 | 1,759 | 2007 |
| 2003 | 255,854 | 0 | 255,854 | 2010 |
| 2004 | 8,420 | 0 | 8,420 | 2009 |
| 2005 | 6,999 | 0 | 6,999 | 2010 |
| Total | 380,575 | 107,543 | 273,032 | |

As of 31 December 2005, the Company carried out an analysis of the recoverability of individual components of the deferred tax asset based, among other factors, on the tax bases the Company anticipates will be available in future years against which to set it off. In the opinion of Company management, the entire deferred tax asset amount is recoverable.

### 4.15. Income tax on ordinary and extraordinary activities

Because the 2005 result for tax purposes is a loss, the Company has no income tax liability.

### 4.16. Operating revenues by principal businesses

Revenues are from the Company's core business, i.e. comprehensive engineering and construction of capital projects.

**(TCZK)**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Goods | Services | Goods | Services |
| Domestic | 780,277 | 87,069 | 718,401 | 132,565 |
| Foreign | 126,785 | 1,180 | 1,177,668 | 939 |
| Total revenues | 907,062 | 88,249 | 1,896,069 | 133,504 |

### 4.17. Revenues and purchases vis-à-vis related entities

4.17.1. Revenues

**2005 (TCZK)**

| Entity | Goods | Services | Total |
|---|---|---|---|
| EGI, a.s. | 62 | 0 | 62 |
| ČEZ, a. s. | 667,809 | 47,153 | 714,962 |
| Total | 667,871 | 47,153 | 715,024 |

**2004 (TCZK)**

| Entity | Goods | Services | Total |
|---|---|---|---|
| EGI, a.s. | 0 | 57 | 57 |
| EGI machine, s.r.o. | 0 | 23 | 23 |
| ČEZ, a. s. | 594,772 | 86,652 | 681,424 |
| Total | 594,772 | 86,732 | 681,504 |

4.17.2. Purchases

**2005 (TCZK)**

| Entity | Goods | Services | Other expenses | Total |
|---|---|---|---|---|
| EGI, a.s. | 0 | 737 | 0 | 737 |
| ČEZ, a. s. | 0 | 4,765 | 0 | 4,765 |
| Total | 0 | 5,502 | 0 | 5,502 |

**2004 (TCZK)**

| Entity | Goods | Services | Other expenses | Total |
|---|---|---|---|---|
| EGI, a.s. | 0 | 390 | | 390 |
| ČEZ, a. s. | 527,328 | 8,282 | 490 | 536,100 |
| Total | 527,328 | 8,672 | 490 | 536,490 |

## 5. Employees, executives and statutory and supervisory boards

### 5.1. Personnel expenses and number of employees

**Average adjusted number of Company employees and executives in 2005 and 2004**

| | 2005 | 2004 |
|---|---|---|
| Average adjusted number of employees | 373 | 393 |
| of which, e.g.: executives | 10 | 12 |
| Total wages and salaries (TCZK) | 170,165 | 179,891 |
| of which, e.g.: executives (TCZK) | 17,447 | 28,604 |
| Remuneration of members of statutory and supervisory boards (TCZK) | 3,703 | 3,773 |

### 5.2. Loans, credits and other consideration provided

Statutory and supervisory board members and executives did not receive any loans, cash or otherwise. Some were provided cars by the Company for business and personal use.

As other consideration, executives received CZK 16,200 per person for Supplemental Pension Insurance in 2005 (2004: CZK 8,400).

## 6. Off balance-sheet liabilities

### 6.1. Material potential losses

The accounting unit is not aware of any material potential losses for which provision was not made in the accounting, the realization of which depends on the occurrence of one or more uncertain future events.

### 6.2. Guarantee notes issued

As of 31 December 2005, the Company had issued an outstanding note in the amount of TCZK 3,716 to the order of CAC LEASING, a.s., a bianco note for the benefit of ING Bank N. V. (pursuant to the agreement, the maximum note amount, if used, is EUR 5 million), and a note issued for the benefit of ŠKODA JS a.s./Ústav jaderného výzkumu Řež a.s., the maximum amount of which, if used, is one third of BGL 5 million.

**6.3. Litigation – brief description of pending litigation with material impact on the Company**
ŠKODA PRAHA a.s. is being sued in the following material litigation cases:

Královdvorské železárny ENERGO s.r.o.
Plaintiff filed suit seeking payment of approximately CZK 51 million. In the course of the dispute, the amount sought was reduced to CZK 48.931 million. Because the Company considers the claim baseless, no provisions for this dispute were made.

KV-TRADE s.r.o. (formerly CHEMONT, a.s.)
The company is being sued for CZK 5.712 million plus interest. No hearings have been scheduled yet.

JUDr. Jaroslava Vaňková
The company is being sued for CZK 4.613 million plus interest. The company has filed a countersuit seeking payment of CZK 20.898 million and at the same time requesting that the court reject Jaroslava Vaňková's suit. In January 2006, the court issued an interim judgment on the legal grounds for Jaroslava Vaňková's suit, deciding that the claim is admissible under law.

M A D E S, spol. s r.o.
On 23 September 2003, a suit was filed asking for the court to declare null and void a resolution of the General Meeting dated 30 June 2003. On 9 December 2003, a suit was filed asking for the court to declare null and void a resolution of the General Meeting dated 10 September 2003. Court proceedings in both matters are in the fact-finding stage.

ČKD PRAHA DIZ, a.s.
In a CZK 16.025 million suit filed by the company, ČKD PRAHA DIZ, a.s. filed a countersuit seeking CZK 12.395 million. Currently proceedings have been suspended for the purpose of negotiating a settlement.

**6.4. Guarantee declarations and co-accepted notes**
In 2005, the Company did not declare any guarantees nor did it co-accept any notes.

**6.5. Guarantees**
As of 31 December 2005, the volume of outstanding bank guarantees issued at the Company's request for the benefit of third parties totaled TCZK 306,413 (USD 3.142 million, EUR 7.561 million, CZK 9.826 million) and these guarantees are secured by cash balances on Company bank accounts totaling TCZK 241,330 (USD 9.321 million, EUR 39,801, and CZK 10.990 million).

**6.6. Company property used as collateral to secure third-party liabilities**
As of 31 December 2005 none of the Company's property was used as collateral.

## 7. Post balance-sheet events

On 15 January 2006, Mr. Jiří Smola resigned as General Manager and Chairman of the Board of Directors of ŠKODA PRAHA a.s. Currently he is Director of the Sales Section and, at the same time, a member of the Board of Directors. The new General Manager, Mr. Radek Benčík, was appointed on 16 January 2006 and also became the new Chairman of the Company's Board of Directors. Another new member of the Board of Directors is Mr. Tomáš Vachtl, who works for ŠKODA PRAHA a.s. as Director of the Procurement Section (he joined the Board of Directors after an amendment of the Articles of Association on 10 January 2006 increased the number of board members to six).

In 2006, the Company plans to wind up its subsidiary, EGI, a.s., through absorption of its capital by the sole shareholder under a decision taken by the Board of Directors in 2005.

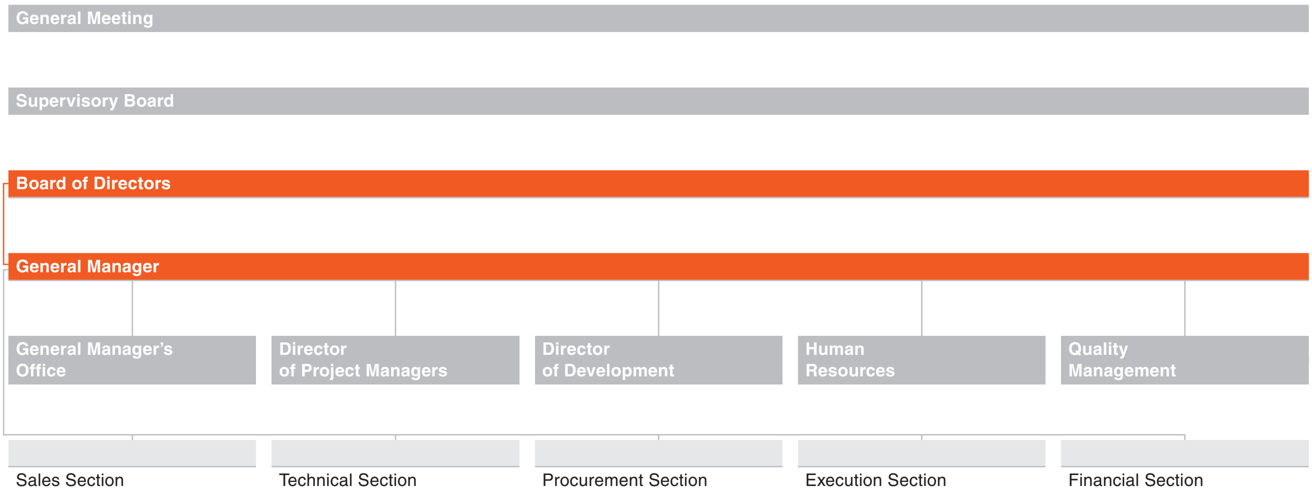
Prague, 3 March 2006

Radek Benčík
Chairman of the Board of Directors
General Manager

Jan Postolka
Member of the Board of Directors
Director of the Financial Section

# ORGANIZATION CHART

## AS OF 18 APRIL 2006



# METHOD USED TO CALCULATE KEY INDICATORS

| Indicator | Calculation |
|---|---|
| Assets turnover | Operating revenues / Average assets |
| Coverage of fixed assets | (Equity + Long-term liabilities) / (Tangible and intangible fixed assets + Long-term investments) |
| Current ratio | Current assets / Current liabilities |
| Debt / equity | Debt (loans, credits) / Equity |
| EBIT margin | EBIT / (Revenues from sale of goods + Revenues from sale of own goods and services) |
| EBITDA margin | (EBIT + Depreciation and amortization) / (Revenues from sale of goods + Revenues from sale of own goods and services) |
| Extent of depreciation | -1 * Accumulated depreciation and allowances on tangible and intangible fixed assets in use / Acquisition cost of tangible and intangible fixed assets in use |
| Liabilities-to-equity ratio | Liabilities / Equity |
| Long-term indebtedness | (Long-term liabilities + Long-term bank loans and advances + Debentures) / Total equity and liabilities |
| Operating cash flow-to-liabilities ratio | Operating cash flow / (Liabilities + Accrued expenses and deferred income) |
| Overall liabilities turnover | (Average current liabilities + Average long-term liabilities) * 365 / Revenues from sale of own goods and services |
| Overall receivables turnover | (Average current receivables + Average long-term receivables) * 365 / Revenues from sale of own goods and services |
| Return on Assets (ROA), net | Net income / Average assets |
| Return on Equity (ROE), net | Net income / Average equity |
| Return on Invested Capital (ROIC) | (EBIT + Net change in provisions and allowances relating to operations) * (1 - income tax rate) / (Average tangible and intangible fixed assets + Average net working capital) |
| Return on Sales (ROS) | Net income / Revenues from sale of own goods and services |
| Total indebtedness (provisions excluded) | (Long-term liabilities + Current liabilities + Bank loans and advances) / Total equity and liabilities |

# INFORMATION
## FOR SHAREHOLDERS AND INVESTORS

During 2005, when for most of the year the shares of ŠKODA PRAHA a.s. were listed on the Prague Stock Exchange, the company was required to comply with various disclosure requirements and it did so via the following in particular:
- publishing of the 2004 Annual Report within the statutory time frame and filing with the register court (for deposit in the Collection of Documents), the Securities Commission, and the Prague Stock Exchange,
- publishing of a securities issuer half-year report for the 1st half of 2005 within the statutory time frame and filing it with the Securities Commission and the Prague Stock Exchange,
- publishing of quarterly financial performance reports and filing them with the Prague Stock Exchange,
- publishing important information on the company's website, www.skodapraha.cz and on the www.finweb.cz information portal,
- publishing information, when required by law, in *Hospodářské noviny* and *Obchodní věstník*,
- issuing press releases to inform of important events.

In view of the fact that the shares of ŠKODA PRAHA a.s. were withdrawn from trading and the company has only one shareholder as of 5 November 2005, the company's public disclosure mechanisms in 2006 will focus, in particular, on the following:
- publishing the 2005 Annual Report, both in print and electronically via the company's website,
- issuing press releases to inform of important events,
- providing financial performance figures to the corporate parent, ČEZ, a. s., for consolidation purposes, at stipulated quarterly intervals.

The decision of the sole shareholder acting with the powers of the General Meeting (in particular for the purpose of approving the 2005 financial statements and decision on distribution of 2005 net income) is expected to be made in the first half of 2006.

# STATEMENT OF PERSONS
## RESPONSIBLE FOR THE ANNUAL REPORT

Statutory Declaration

The information presented in the 2005 Annual Report of ŠKODA PRAHA a.s. is factual and no material circumstances that could influence a precise and accurate evaluation of ŠKODA PRAHA a.s. have been omitted or distorted.

Prague, 18 April 2006

Radek Benčík
Chairman of the Board of Directors
General Manager

Jindřich Pechan
Vice Chairman of the Board of Directors
Director of Project Managers
Acting Director of Execution Section

ŠKODA PRAHA a.s.
Milady Horákové č. or. 109, č. p. 116
160 41 Prague 6
Czech Republic

Registered in the Commercial Register maintained
by the Prague Municipal Court, Part B, Entry 372

Year of inception: 1990
Legal form: joint stock company
ID No.: 00128201
Tax ID No.: CZ00128201
Bankers: Komerční banka, a.s., Prague 1, account no.: 35706-011/0100
Telephone: +420 224 396 444
Fax: +420 224 396 447
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