

The logo consists of a large white 'S' and a smaller white 'u' on a red square background.

S^u

SOKOLOVSKÁ UHELNÁ

Performance Report
2006

The Medard Project
changing mined-out
landscape into a center
for tourism and culture

www.suas.cz

Sokolovská uhelná, is made up of **people**

The principal business of Sokolovská uhelná is mining and sale of brown coal and, to a lesser extent, other minerals, coal processing and conversion into value-added energy products, and dealing in the resulting by-products, which are gaining in importance by the year.



The Medard Project is a comprehensive reclamation of the land occupied by the decommissioned mines Medard – Libík, Lítov – Boden, and Gustav. It will transform this devastated area into an attractive destination for tourism and cultural activities.

The project envisions the building of a 500-hectare man-made lake and the revitalization of 44 km² of surrounding landscape.

who not only **work** in the region, but also **live** in it and with it,...



having a **personal relationship**





to its **nature and culture.**





Together, they are creating **better living conditions**



for all its

residents.



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This Performance Report gives the reader a comprehensive look at Sokolovská uhelná, právní nástupce, a.s. (the "Company" or "Sokolovská uhelná"), including an overview of its performance and business activities over the past several years. For this reason, this Performance Report includes information on past accounting periods which also contain information on the company Sokolovská uhelná, a.s., all of whose capital was taken over in 2005 by Sokolovská těžební, a.s., which was subsequently renamed to Sokolovská uhelná, právní nástupce, a.s.

Results at a Glance

Production	Units	2006	2005	2004
Coal extracted	kt	10,329.2	10,307.1	10,081.1
Overburden extracted	m³ thousands	29,230.6	32,684.0	32,191.0
Electricity – heat/power plant	GWh	1,607.3	1,698.2	1,633.2
Electricity – combined cycle power plant	GWh	1,821.4	1,899.7	1,791.0
Coal gas	m³ millions	1,198.8	1,187.9	1,141.3

Sales

Coal	kt	6,107.3	6,153.2	6,068.6
– of which, e.g.: sorted	kt	274.1	240.1	258.4
Briquettes	kt	328.8	286.8	285.7
Electricity – heat/power plant	GWh	1,018.8	1,007.8	839.5
Electricity – combined cycle power plant	GWh	1,838.1	1,891.9	1,797.6
Heat	TJ	2,216.6	2,251.5	2,298.8
Coal gas	m³ millions	0.0	0.0	3.2

Financial indicators

Revenues	CZK millions	8,373.8	7,437.0	7,172.2
Net income	CZK millions	1,168.6	533.3	551.4
Capital expenditure	CZK millions	685.3	555.8	808.0
Average number of employees	persons	4,739	4,888	5,194
Average monthly wage	CZK	23,472	21,125	20,000

Important Moments of 2006–2007

2006

January

- Division Energetika and Division Tlaková plynárna merged into Division Zpracování (Processing Division)

February

- Fire on Division Jiří belt conveyor, including drive station
- Company obtains equity stake in EMULZ a.s. by participating in a share capital increase

March

- Extraordinary General Meeting
- Auditors issue an unqualified opinion on the Company's 2005 financial statements

April

- New subsidiary, FK Baník Sokolov, recorded in Commercial Register and subsequently purchases Second League football license

May

- Lower supplies of coal to Mělník III Power Station due to technical faults on the customer's side

June

- Annual General Meeting

August

- Overhaul of combined cycle power plant generating unit no. 2 successfully completed

December

- Collective Agreement for 2007 signed

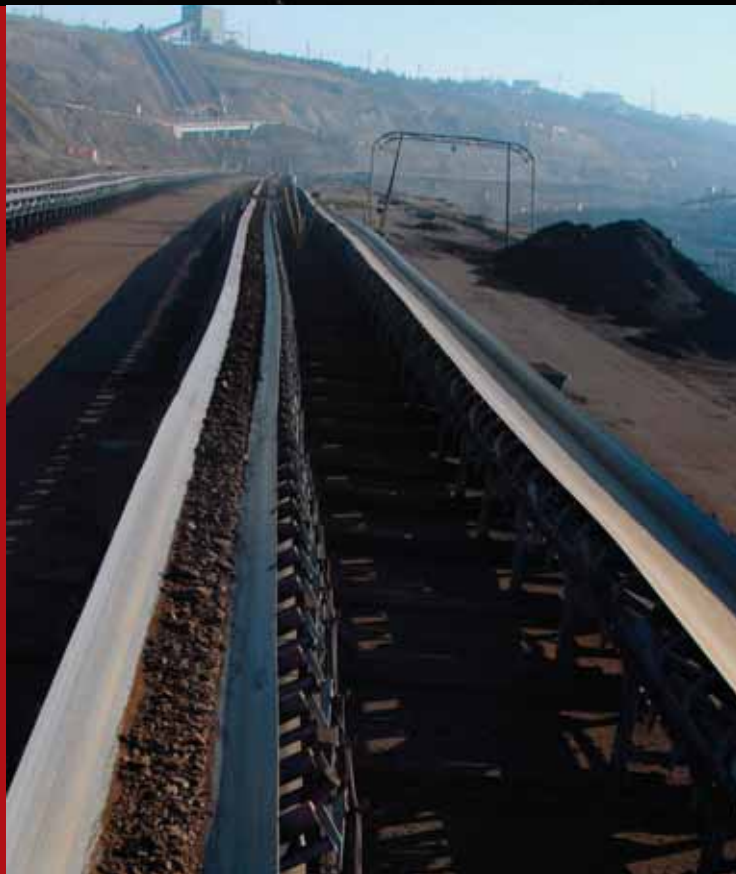
2007

January

- Coal sales fall due to record-high winter temperatures

March

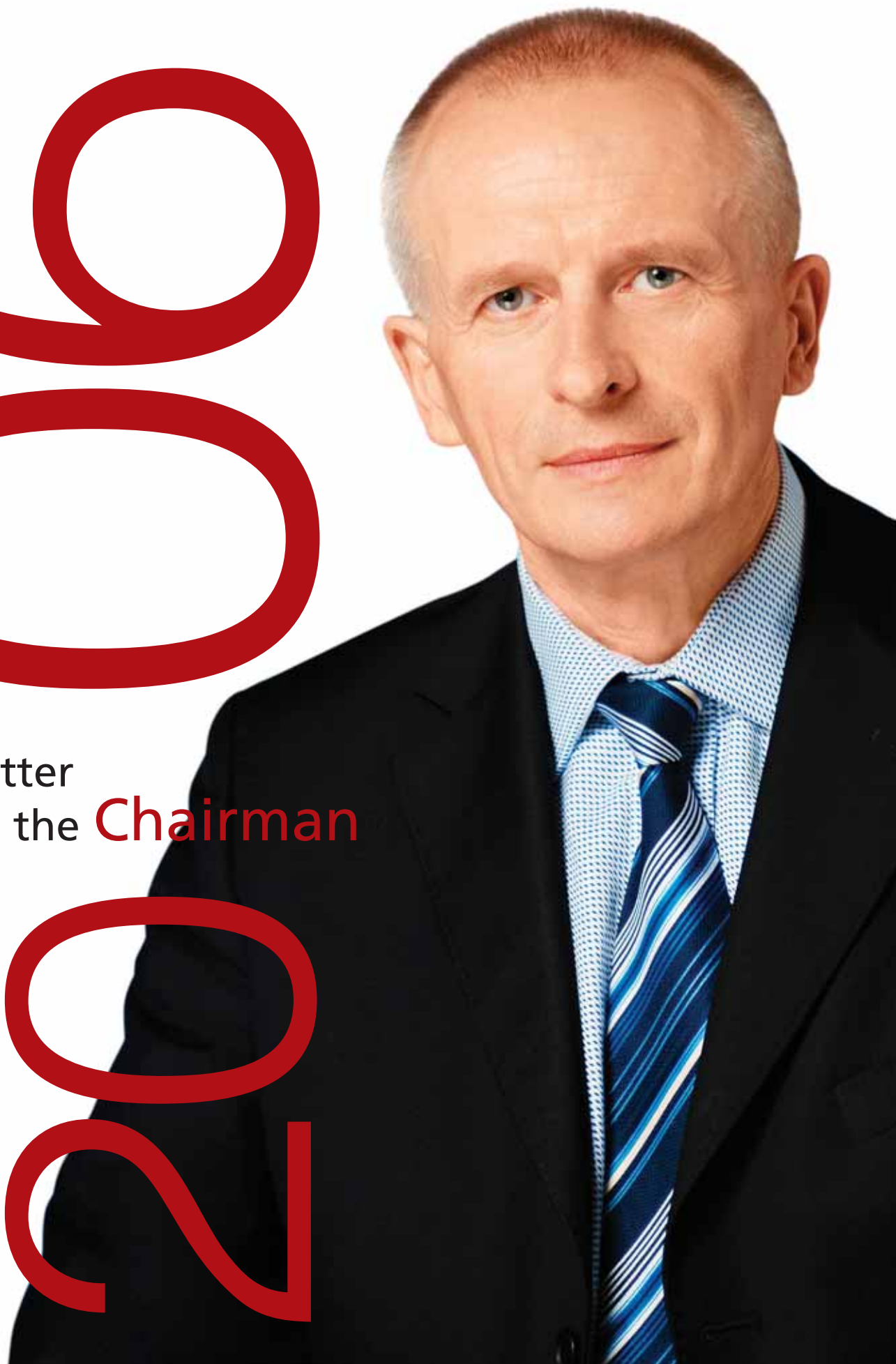
- Auditors issue an unqualified opinion on the Company's 2006 financial statements
- Extraordinary General Meeting



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Letter
from the **Chairman**

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“I see Sokolovská uhelná as a modern energy enterprise that, while growing dynamically, is also effective, environmentally acceptable, and accountable toward labor and society at large.”



Dear business partners and co-workers:

2006 was the thirteenth year since the Company was organized in its contemporary form and the third year under the new ownership arrangement. It was also a year in which we achieved excellent performance results. We successfully navigated dynamic changes in our local area as well as changes in the relatively complex conditions of the national, European, and global levels. All this had one very important positive aspect: the continued application of our strategic vision of the Company as a modern energy enterprise that, while growing dynamically, is also effective, environmentally acceptable, and accountable toward labor and society at large.

The substance of our vision is Sokolovská uhelná's energy business. This also proved to be the right choice for the future, especially with regard to crucial discussions currently taking place in the Czech Republic and the European Union that are leading towards a realistic assessment of the power industry. The key issues, as we see them, are the location of generation facilities, dependence on them, logistical issues of how to supply them with fuel and how to transmit the energy they generate, and the development of energy commodities markets.

A fundamental factor in, and satisfying contribution to, our role in these conditions is our own base of energy-bearing raw materials together with recently codified territorial and environmental limits. This puts us in the best possible position for pursuing the Company's long-term vision and strategic plans, although these are subject to the coal reserves in the Sokolov brown-coal belt, which

are limited. Thus, the dual imperative of economical completion of mining operations on the coal seam and amassing of funds sufficient to decommission and clean-up after the mining operation ends is becoming extremely important and forms the cornerstone of the region's future development.

In these conditions in 2006, we achieved an extraordinarily favorable earnings result of CZK 1.169 billion, after tax.

This is the best earnings result yet in Company history, yet it is by no means a unique or chance event. It is the culmination of positive Company performance and long-term development over all the years of our existence, in a free market and through many changes in the market for the key commodities that drive our earnings, i.e. electricity and solid fuels. This is good news not just for our employees, but for the whole region as well.

The targets we set in the 2006 business plan were fulfilled and, in some cases, exceeded. This was the result of high-quality, responsible Company management coupled with ambitious creation of conditions for long-term prosperity. Part of this process is responding correctly to anticipated and potential impacts of existing and emerging risks that are unavoidable in the mining and energy businesses.

Not all of the Company's activities were as successful as planned or expected. The burner generator project was not completed as planned. For this reason the new facility could not enter trial operation and it was not

possible to verify the technological, economic, or environmental conditions of its operation.

One very positive achievement last year was that we maintained a high standard of work safety and continued to cultivate good working relations with the labor union and government agencies at the local, regional, and national levels. All this contributed to the ongoing preservation of labor peace, which is a necessary pre-condition for the Company to achieve good performance and positive developments in the social arena.

The past year saw ongoing systemic addressing of the environmental aspects of our Company's operation as well as clean-up of the Company's past operations in the Sokolov brown coal belt. Reclamation work continued to transform mined-out land into forests, farmland, and man-made lakes. In this area, the State government also fulfilled its obligations to remedy legacy damage caused by the mining operator prior to establishment of the Company.

I would like to thank everyone who played a part in the excellent performance of 2006 and I am confident that they will contribute the same dedication, hard work, and expertise toward accomplishing the objectives contained in the business plan for 2007.

František Štěpánek
Chairman of the Board of Directors

People in the Management of Sokolovská uhelná

Board of Directors



František Štěpánek

**Chairman of the Board of Directors
and Chief Executive Officer**

Member of the Boards of Directors
of Kinotechnika Praha, a.s., Sokolovská
obchodní, a.s., Golf Sokolov a.s.
Member of the Supervisory Board of Coal
Energy, a.s.

Graduate of Ostrava Mining University,
Born in 1953,
27 years' mining experience;
Production Director in 1994–1999,
and Member of the Board and CEO
of Sokolovská uhelná, a.s. since 1999,
Chairman of the Board of Sokolovská
těžební, a.s. in 2002–2005, Chairman
of the Board of Directors of Sokolovská
uhelná, a.s. in 2004–2005, Chairman
of the Board of Directors of Sokolovská
uhelná, právní nástupce, a.s. since 2005.



Jaroslav Rokos

**Vice Chairman of the Board of Directors
and Finance Director**

Statutory representative of Malé Versailles, s.r.o.
Member of the Supervisory Boards of Golf
Sokolov a.s., SATER-CHODOV spol. s r.o.,
PRODECO a.s., FK Baník Sokolov a.s.

Graduate of University of Economics,
Prague, and Prague International Business
School,
Born in 1963,
22 years' mining experience;
Finance Director of Sokolovská uhelná, a.s.
since 1995, Chairman of the Supervisory
Board of Sokolovská těžební, a.s. in
2002–2005, Vice Chairman of the Board
of Directors of Sokolovská uhelná, a.s. in
2004–2005, Vice Chairman of the Board
of Directors of Sokolovská uhelná, právní
nástupce, a.s. since 2005.



Jiří Pöpperl

**Member of the Board of Directors
and Technology Director**

Member of the Board of Directors
of Golf Sokolov a.s.
Member of the Sokolov Municipal
Assembly

Graduate of Ostrava Mining University,
Born in 1956,
27 years' mining experience;
Technology Director of Sokolovská
uhelná, a.s. since October 2004,
Member of the Board of Directors
of Sokolovská uhelná, právní
nástupce, a.s. since 2005.



Jiří Peterka

**Member of the Board of Directors
and Production Director**

Graduate of Ostrava Mining University,
Born in 1949,
32 years' mining experience;
Production Director of Sokolovská
uhelná, a.s. since 1999. Member of the
Supervisory Board of Sokolovská uhelná,
a.s. elected by the employees in
1994–2001. Member of the Board
of Directors of Sokolovská uhelná, a.s.
in 2004–2005, Member of the Board
of Directors of Sokolovská uhelná, právní
nástupce, a.s. since 2005.

Jiří Radosta

**Member of the Board of Directors
and Personnel Director**

Member of the Board of Directors of the Ohře
River Valley Regional Economic Chamber

Graduate of Žilina Mining University,
Born in 1948,
34 years' mining experience;
Personnel Director of Sokolovská uhelná, a.s.
since 1994, Member of the Board
of Directors of Sokolovská uhelná, a.s.
in 2004 – 2005, Member of the Board
of Directors of Sokolovská uhelná, právní
nástupce, a.s. since 2005.

Supervisory Board

Miroslav Soural

Chairman of the Supervisory Board

Sales Director of Sokolovská uhelná,
právní nástupce, a.s.
Born in 1947

Jan Smolka

Vice Chairman of the Supervisory Board

Member of the Supervisory Board
elected by the employees
Chairman of the Association of Labor
Organizations of Sokolovská uhelná,
právní nástupce, a.s.
Born in 1949

Members of the Supervisory Board

Otokar Sojka

Private entrepreneur
Born in 1947

Jan Birke

Private entrepreneur
Representative of the Ministry of Finance
(under the terms of the privatization
of Sokolovská uhelná, a.s.)
Born in 1969

Josef Michalský

Head of the Office of the CEO of
Sokolovská uhelná, právní nástupce, a.s.
Born in 1948

Jiří Selvička

Head of the Legal Section of Sokolovská
uhelná, právní nástupce, a.s.
Born in 1948

Zbyšek Klapka

Head of the Accounting Section of
Sokolovská uhelná, právní nástupce, a.s.
Born in 1964

Jiří Blažek

Member of the Supervisory Board
elected by the employees
Chairman of the Družba labor
organization Sokolovská uhelná, právní
nástupce, a.s.
Born in 1967

Radovan Třešňák

Member of the Supervisory Board
elected by the employees
Chairman of the Zpracování labor
organization Sokolovská uhelná, právní
nástupce, a.s.
Born in 1954



Senior Management

František Štěpánek

Chief Executive Officer

Jaroslav Rokos

Finance Director

Jiří Pöpperl

Technology Director

Jiří Peterka

Production Director

Miroslav Sural

Sales Director

Jiří Radosta

Personnel Director

Alojz Neveděl

Director, Division Jiří

František Kastl

Director, Division Družba

Pavel Homola

Director, Division Zpracování

Jan Smolka

Director, Division Služby

The organization structure is shown
on page 60 of this report.



Company Profile

Sokolovská uhelná is the smallest brown coal mining company in the Czech Republic. Even though it is the largest business entity in the Karlovy Vary Region, at the European level it is a rather small company. It mines and processes Sokolov coal from deposits in the western portion of the Podkrušnohorská area, which lies along the border with Germany.

Sokolovská uhelná, a.s. was established by the National Property Fund and first recorded in the Commercial Register on 1 January 1994. Privatization of the Company was completed in 2004 with the sale of the State's equity share. Today, the successor company – Sokolovská uhelná, právní nástupce, a.s. – is fully privately owned.

The Company's core products are electricity and heat, sorted and power generation coal, brown coal briquettes, and carbochemical products from the gasification of coal.

The Company reclaims land affected by surface mining activity, and processes and disposes of waste generated by industrial operations.



Sokolovská uhelná is the smallest brown coal mining company in the Czech Republic. Even though it is the largest business entity in the Karlovy Vary Region, at the European level it is a rather small company. It mines and processes Sokolov coal from deposits in the western portion of the Podkrušnohorská area, which lies along the border with Germany.

The Company extracts approximately 10 million tons of brown coal per year. Of this amount, 6 million tons is sold in the Czech Republic and abroad. The rest is processed in the Company's own power plants to generate 3,500 GWh of electricity. The briquette plant produces 300 thousand ton (kt) of briquettes. The Company supplies heat (2,300 TJ/year) to nearby industrial complexes and residential areas. Since the Company expanded its production facilities to include a 620 MW_e combined cycle power plant, it has been a major electricity producer as well. Sales of electricity and heat account for over one half of the Company's total revenues.



Thanks to our environmentally friendly technology process for transforming coal into energy and fuel, the Company is seen in a positive light in both Europe and across the globe. The mining operations are located roughly in the center of a triangle delineated by the three largest spas in West Bohemia. This fact is given the utmost respect in view of the danger that our operations could impact the thermal springs in these spas, especially Karlovy Vary's, and is taken into account in clean-up and reclamation planning.

For a long time now, the Company has been investing in upgrading its extraction processes and processing technologies to make them more environmentally friendly. Our accomplishments to date in this area have been recognized by regional, state, and international institutions.





Description of the Divisions

Extraction Section

Division Jiří

Coal is extracted using surface-mining techniques from the youngest Sokolov brown coal seam, the "Antonín", which has an average thickness of 40 meters in the Jiří mine area. Since 1960, the mining operation has been moving in a westward direction from the village of Vintřov toward the road that connects the City of Sokolov with the village of Lomnice, where the Jiří mine is to terminate its operation in or around the year 2027, when, given the current rate of coal extraction, the deposit will be mined out. The mining operation moves forward at a rate of 90–120 meters per year. Currently the coal cut is in a portion of the seam that historically had been worked by the now-defunct underground mines Marie in Královské Poříčí and Jiří in Lomnice. Thus, the coal seam has already been partially mined in legacy "long-wall" operations. This makes the mining operation more difficult, as it is necessary to extract coal selectively, extinguish spontaneous fires that arise in the seam, and dismantle and remove foreign matter such as rails, mine cars, timbering, concrete and masonry structures, and reinforcements. The mine is equipped with five KU 300 bucket-wheel excavators and a 1,400 mm-gauge trunk belt conveyor. Extracted coal matter is crushed to the required grade and subsequently shipped to outside customers, to the Processing Section in Vřesová, and through the Tisová processing and sorting facility in Citice to the Tisová Power Station (ČEZ, a. s.). Overburden is extracted using two TC-2 machinery complexes, each consisting of a KU 800 bucket-wheel extractor, a 1,800 mm-gauge trunk belt conveyor, and a ZP 6600 re-loading track vehicle. Two smaller TC-1 machinery complexes are also in use, each consisting of a KU 300 bucket-wheel extractor, 1,400 mm- and 1,600 mm-gauge belt conveyors, and a ZP 2500 re-loading track vehicle. All overburden matter is dumped on Jiří in-mine spoilbanks. Division Jiří also operates the Horní Rozmyšl Rock Quarry. In 2006 this operation extracted 823 kt of granite, which is used mostly to build roads, railways, and drain fields.



Division Družba

At present, this division is involved in extracting coal and overburden at the Družba mine. In addition, it operates all rail infrastructure and manages all rolling stock at Sokolovská uhelná.

The Družba mine extracts coal in the Nové Sedlo extraction area. Coal reserves in this extraction area will last until approximately 2036. The Družba mine is located in the protective zone of the Karlovy Vary spa natural curative springs. A number of Government ordinances are in effect to protect these springs and this restricts how mining processes can be effected on the north banks of the Družba mine. In 2008 the mine will reach its deepest location of 250.0 meters above sea level. The highest overburden cut, which is in the southern side of the mine, is 480.0 meters above sea level. Thus, at its lowest point the mine is 230 meters deep. For extraction of overburden and coal, the Družba mine is equipped with two K 800 bucket-wheel excavators, five KU 300 bucket-wheel excavators, and three E 2.5 shovel excavators. Extracted

materials are conveyed using 1,435 mm-gauge rail and 1,200 mm- and 1,400 mm-gauge belt conveyors. Almost all overburden is conveyed by rail. Due to the geological location of the coal seam and the limited capacity of Družba mine's internal spoilbank, various combinations of technologies are used to convey extracted materials. All overburden and debris from the coal seam is dumped at one of four

locations: the internal spoilbank of the former Medard – Libík mine using one Z 1650 re-loading vehicle and one E 2.5 shovel excavator, the internal spoilbank of the Družba mine using one Z 1650 re-loading vehicle, the Smolnice external spoilbank using one ZD 2100 re-loading vehicle and one E 2.5 shovel excavator, and the eastern portion of the Jiří mine internal spoilbank using one ZD 2100 re-loading vehicle.





The Division also includes the Kolejová doprava (Rail Transport) Section and the Vlečka (Rail Freight) Section. The former is in charge of transporting coal by rail to the Processing Section within Sokolovská uhelná (from the Jiří and Družba mines). It uses its own 1,435 mm-gauge rail infrastructure and rolling stock for this purpose.

The Vlečka (Rail Freight) Section operates throughout the Karlovy Vary Region to ship coal from the loading stations of both surface mines.

The Division also includes the Rekultivace (Reclamation) Section which focuses on reclaiming land affected by mining equipment using both technical and biological reclamation techniques. Agricultural and forestry production has

become a supplemental part of the Company's production operations, and within it our Charolais cattle breeding program is significant. Our reclamation operations have resulted in the construction and subsequent expansion of the Michal reservoir and a golf course near Dolní Rychnov. The Division is also in charge of the Erika Sand Quarry, which is currently operated only from time to time, as needed by the Company.



Processing Section

Division Zpracování

The Processing Section in Vřesová is an energy complex housing industrial processes for converting brown coal into value-added forms of energy. The principle is to prepare and treat base raw materials in a series of steps – steam generation, brown coal gasification, purification of coal gas generated, processing and purification of by-products and waste and, finally, utilization of purified coal gas to generate electricity and heat.

The processing facilities in Vřesová were commissioned in the years 1962–1969. A gasworks, which is part of an extensive complex of production facilities designed to convert brown coal from the Company's own mines into coal gas, has been in operation since 1969. In addition to the gasworks, the complex includes a heat/power plant, a briquette plant, a wastewater treatment facility, and equipment to purify gaseous emissions. The gasworks in Vřesová is equipped with 26 LURGI sliding-bed generators and leading-edge flue gas desulfurization and nitrogen oxide neutralization equipment. At a rate of 125 tons per hour, the gasworks produces coal gas, i.e. coal with medium heat content. This gas is supplied to the combined cycle power plant.

The construction of the combined cycle power plant in 1996 represented a fundamental diversification of the Company's production program. Revenues are now balanced between coal and electricity, making the Company more resistant to market volatility.

The Processing Section's production program consists in particular of the generation of electricity and heat from coal gas obtained from brown coal via gasification. The combination of coal gasification with the production of electricity in the combined cycle power plant in Vřesová is an interesting example of how a conventional coal technology can be wed with a modern power generation technology. The result is an efficient unit that generates environmentally friendly electricity from brown coal, with features that make it a useful tool for managing the power grid. Advanced purification processes are in widespread use here to mitigate the environmental impacts of gas generation and power plant operation.

The Processing Section in Vřesová underwent a major reorganization in 2006. The former Divisions Energetika and Tlaková plynárna were merged into a single division – Division Zpracování. The Company's Processing Section is comprised of the following three main production processes.

Coal Processing Plant

The Coal Processing Plant pulverizes, dries, and sorts coal to prepare it for gasification and for combustion in a conventional heat/power plant. It includes a briquette plant where low-sulfur coal is pressed into briquettes without the use of adhesives. Wastewater from the coal pulverizing, coal drying, and briquette production processes is recovered, treated, and reused. The rougher coal sludges from the treatment process are dried and used as fuel, while the finer sludges resulting from flocculation are landfilled.

Coal Gasification

Coal gas is produced from coal in a gasification process using generators. The resulting raw gas passes through a Rectisol selective scrubbing process, which includes thermic liqudation of poor expansion gases and desulfurization of rich expansion gases. Wastewater is treated to remove phenols and ammonia before undergoing secondary biological treatment. Currently we are adding a unit for gasification of carbochemical by-products (phenols and tars) from the primary coal gasification process in the LURGI generators. The new unit will remove a significant negative impact on the environment in areas both nearby and farther away from the plant.

Coal Gasification Process

Brown coal extracted from the Company's own mines is pulverized, pre-dried, and sorted. The conventional heat/power plant, commissioned in 1966, fires the finer grains of coal that fall through the sorting mesh. The rougher component is used as coal charge in the gasworks. Pressurized to 2.7 MPa, the coal is gasified using a mixture of oxygen and steam in sliding-bed generators (LURGI). The resulting raw gas is purified by a Rectisol processing using cooled-methanol scrubbing. The purified gas – called coal gas – serves as the primary fuel for the combined cycle power plant; compared to town gas it has a lower combustibles content, lower heat content, and a lower Wobbe number.







Gas Purification Process

The raw gas produced from coal by gasification is composed of hydrogen, methane, and CO (combustibles); water and carbon dioxide (inert components); and hydrogen sulfide, carbon disulfide, ammonia, benzines, tars, and phenols. The last group are all corrosive, poisonous or otherwise hazardous substances that are removed in the purification processes. The water and tar components condense following primary cooling. The tars are sold as a raw material for further chemical processing, and some of the tars are utilized as fuel in several heat/power plants.

From the water phase, ammonia is obtained by distilling, phenols are obtained by extraction via butyl acetate, and wastewater is treated biologically by oxygen activation in two stages.

Treated water is either reused in the process or further purified (via clarification) and used to top off the cooling circuits. Benzines, all hydrogen sulfide, certain organic compounds, and residual ash matter (which could have an abrasive effect later in the process) are removed in a Rectisol selective scrubbing process. Because the coal gas produced by the process is used to fuel a gas turbine, most carbon dioxide is left in the gas as it does mechanical work in the turbine and, as an inert gas, it has a positive effect on the creation of nitrogen oxides during combustion in the gas turbine.

Desulfurization in the selective scrubbing process removes expansion gases and yields sulfuric acid (95% concentration). The desulfurization process is based on catalytic oxidation of hydrogen sulfide into sulfur trioxide and subsequent condensation to form sulfuric acid.

As the gas passing through the purification equipment is at a pressure of 2.1–2.5 MPa, it can be used in the gas turbine without further compression. After purification, the gas is practically sulfur-free and contains no nitrogen-bearing substances. This makes it very suitable as an environmentally-friendly fuel for firing in the power plant.





Power Plants

Electricity and process steam for use elsewhere in the Processing Section are generated in two power plants. The conventional heat/power plant fires the finer grains of coal that fall through the sorting mesh used to prepare coal charge for the gasworks. The combined cycle power plant generates clean power from coal gas obtained from coal via gasification. Some of the electricity is used in-house, but most is supplied to the public grid. Heat is used both in the Processing Section's industrial processes and supplied to the local district heat network to heat homes. Since 2002, the heat/power plant has been equipped with flue gas desulfurization (FGD) technology based on wet limestone scrubbing. This FGD process yields synthetic gypsum, which is used to produce construction materials.

Power Generation in the Combined Cycle Power Plant

The Vřesová combined cycle power plant consists of two identical generating units, each composed of a gas turbine, a waste heat boiler, a steam turbine, electrical equipment, a control system, and ancillary and shared equipment.

The base fuel for the combined cycle power plant is coal gas. Natural gas, which allows for rapid change in generating unit output, is a back-up fuel. Natural gas is brought to the Vřesová power plant via a spur from the primary transit gas pipeline through which natural gas is supplied to the Czech Republic from Russia.

The steam component of the plant's operation is closely interconnected with the conventional heat/power plant in Vřesová. The combination of the two technologies creates a resilient, operationally reliable whole. Air emissions are minimized by the fuels used as well as by special-purpose technologies.

Division Zpracování also includes an extensive water management system for supplying and treating utility, cooling, float, and potable water. The division is also in charge of wastewater discharge and landfilling of coal processing solid waste products.



Support Section

Division Služby

This division includes centralized maintenance of equipment from both the Extraction Section and the Processing Section, as well as certain ancillary function such as centralized truck transport, stocking, telecommunications (including maintenance of telecommunications equipment), the Company fire and rescue brigade, and some other functions such as management of the Company's real property.

Central maintenance provides repair and maintenance services for production plant and equipment and all process technologies in both the Extraction Section and the Processing Section. This includes machinery complexes, trunk belt conveyors, diesel and electric locomotives, mine rolling stock, and ancillary mechanization, as well as coal gas generation equipment and power generation equipment at both the heat/power plant and the combined cycle power plant.

Truck transport is a special-purpose organizational unit for the Company's wheeled transport capacities. In addition to shifting materials and goods within the framework of industrial processes, the unit also transports staff to and from the mine areas. The unit includes truck maintenance facilities, a truck wash, and an in-house tire repair shop. In a significant change from past years, a portion of the industrial wheeled transport service switched to 24-hour operation. This measure brought a substantial increase in the capacity of our in-house trucking service.

The stocking function is charged with providing logistical service within the Company, to both production and non-production functions. This service includes warehousing, managing inventories of materials, and operating the Company's in-house gas stations.

The Telecommunications unit operates and manages the Company's telecommunications network and provides related telecommunications services.

Property Management sees to all aspects of managing, maintaining, repairing, and cleaning the Company's buildings. It also operates boarding houses, waiting-list apartments, and all remaining Company apartments.

The Measurement & Regulation (M&R) unit sees to the operation, maintenance, and repair of all M&R devices and equipment, as well as operation of control systems in the Processing Section and the like.





Corporate

All white-collar activities of the Company take place in the various sections of Corporate which report to the Company's specialized directors.

In addition to its own affairs, the CEO's section looks after Company legal matters, oversees property management, IT management, and the organization & management section.

The Technology Director's section is primarily involved in developing the production base, mine development, environmental issues, public tenders, and capital construction projects.

The Production Director's section coordinates production preparation and maintenance of plant and equipment. It's purview also includes measurement, geology, operation of laboratories,

occupational health and safety, fire safety, and management of energy flows.

The Finance Director's section is responsible for all financial aspects of Company operation. This includes bookkeeping, management of financial assets, obtaining financing when necessary, property insurance, operating the Company savings bank, and financial planning.

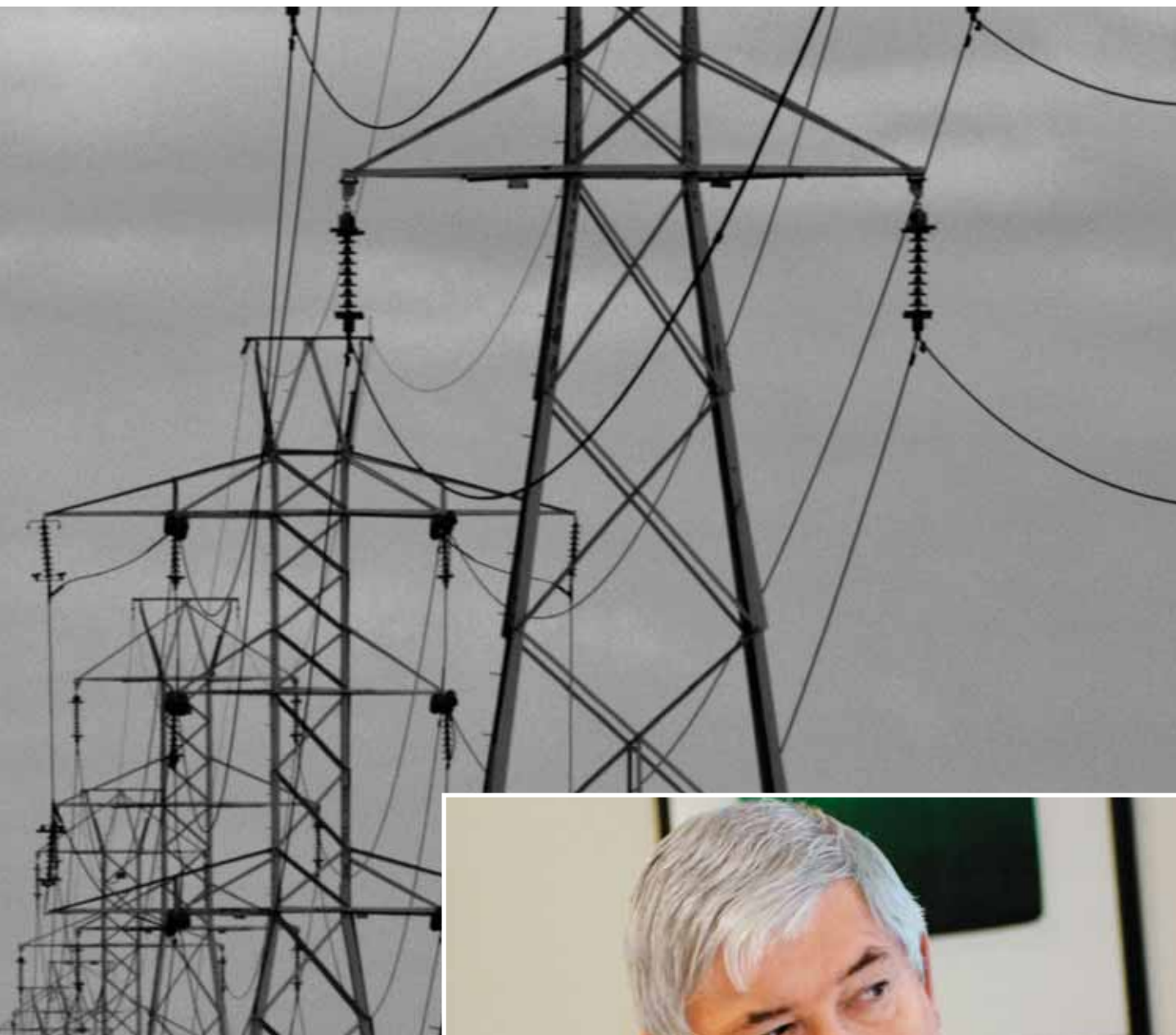
The Personnel Director's section manages personnel-related activities such as training, payroll, and labor economy.

The Sales Director's section sells solid fuels, energy, and chemical products, as well as dealing with marketing and promotion.



Business Environment

In 2006, Sokolovská uhelná maintained its position in the solid fuels market with a market share of 21.29%.



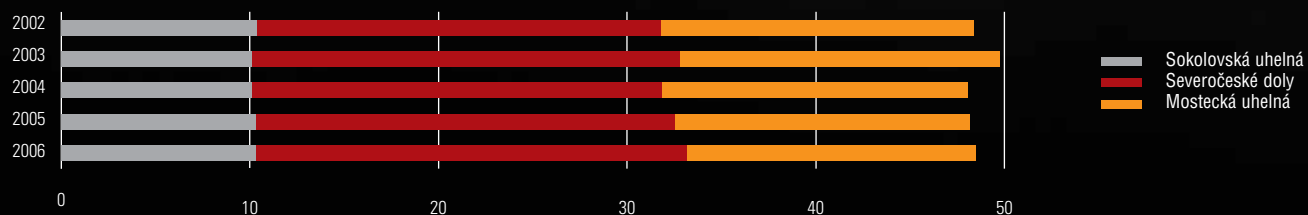
As of 2006, supply and demand in the coal market are beginning to even out. This phenomenon had an impact on some aspects of contract negotiations for 2007. We continued to pursue an individualized approach to our major contractual partners in setting contract prices.


Miroslav Soural
Sales Director

Business Environment in the Coal Industry

In 2006, Czech Republic brown coal extraction for sale increased to 48.52 million tons from 48.19 million tons (not including lignite) in 2005.

Czech Republic Brown Coal Extraction (millions of tons)





In 2006, Sokolovská uhelná maintained its position in the solid fuels market with a market share of 21.29% (22.43% in pulverized coal, 7.42% in sorted coal).

ČEZ, a.s., which purchased 2.14 million tons of brown coal during the year, continued to be our largest customer.

As of 2006, supply and demand in the coal market began to gradually even out and this phenomenon impacted some aspects of contract negotiations for 2007. We continued to pursue an individualized approach to our major contractual partners in setting contract prices, based mainly on volumes purchased and long-term contracts.

Brown coal from the Sokolov Basin has unique characteristics that, in addition to straightforward combustion, enable it to be converted into briquettes and multipowder. Sokolovská uhelná is the only producer of these added-value commodities in the Czech Republic. Firing of Sokolov coal in boilers, furnaces, stoves, etc. of all power categories helps to reduce air emissions in the region and thereby improve the environment of the Czech Republic as a whole.

Sokolovská uhelná plays an important role in electric power generation and production of rough-grade solid fuels. In 2006 it once again proved to be a significant market player in the region and further afield as well.

The Company exports brown coal products to Hungary, Germany, Poland, and Slovakia. In the past few years, the strength of the Czech Koruna, especially against the Euro, has had a substantial negative impact on selling prices achieved in export markets.

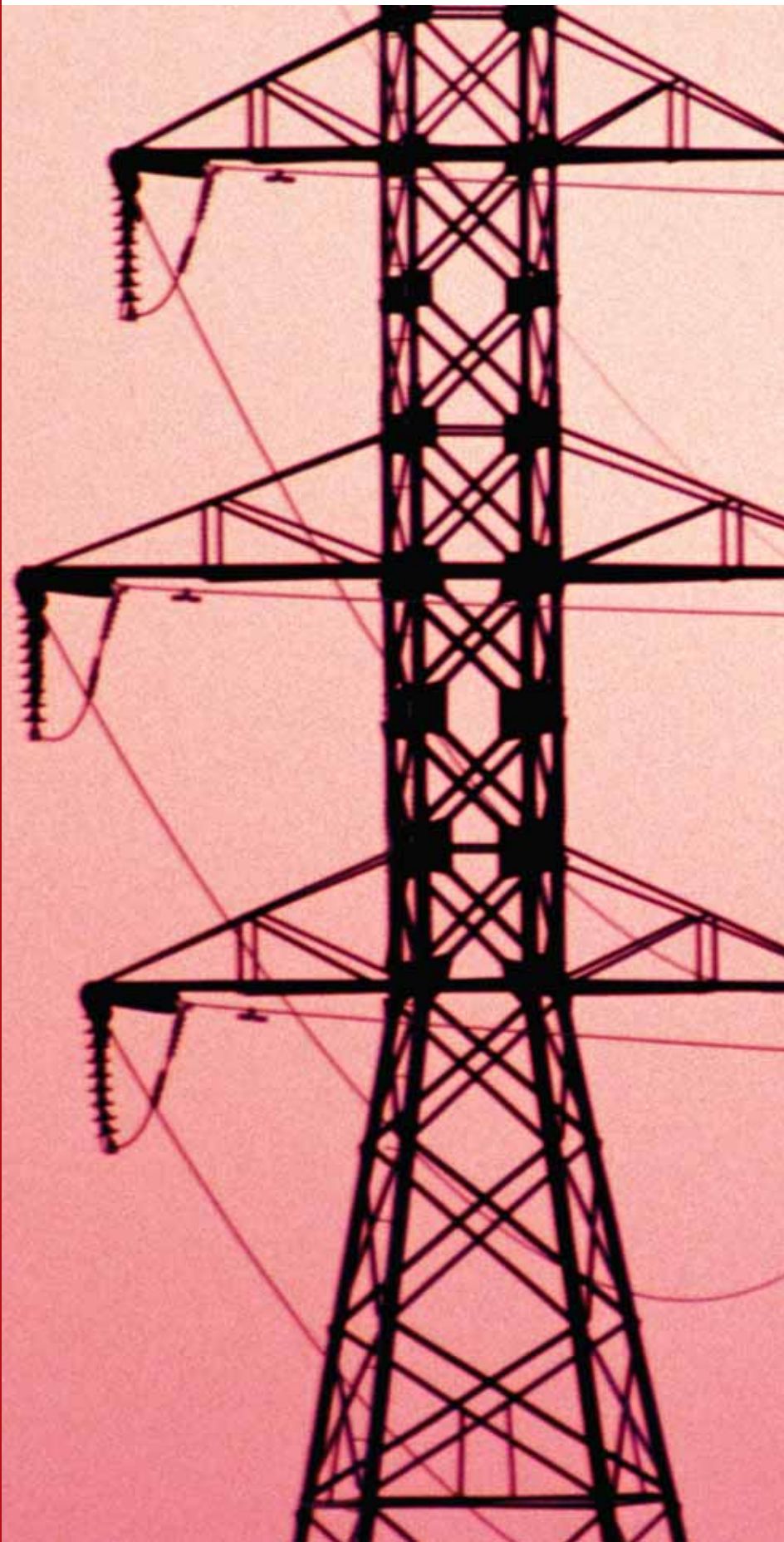
Prices of raw materials and fuels for generating heat are on the rise, yet brown coal continues to be one of the least expensive alternatives. Throughout the entire year 2006, the price of coal for heat and power generation remained far below natural gas and oil. As a result, customers who in the past had switched to other fuels to meet their heating needs have been returning to solid fuels. In the future, movements in the price of Czech coal will be heavily influenced by electricity prices.

Business Environment in the Power Industry

2006 was the first year that the Czech electric power market was fully liberalized. As of 1 January 2006, all customers, including households, had the right to choose their electricity supplier. Only a very small fraction of them exercised it. Competition between electricity suppliers focuses on a small number of key customers and has little or no influence on prices. Instead, prices are influenced by the German power market (the largest in Europe) and increased demand for import of electricity to Slovakia (due to a reduction in Slovak power plants' available capacity in the fourth quarter of 2006). In general, the EU electricity market is considered not as competitive as it could be. Key players have divided it into spheres of influence and do not compete amongst one another. The emergence of a market for greenhouse gas emission permits had practically no impact on the price of electricity, due to a huge surplus of these permits.

Electricity distribution continues to be regulated by the government and prices of distribution services were permitted to rise only by inflation, as a result of which the overall price of electricity for end customers did not rise as much as did the price of the electric power itself.

Generation and distribution of heat is also government-regulated, as heat distribution constitutes a natural monopoly with very limited potential for forming a market environment.

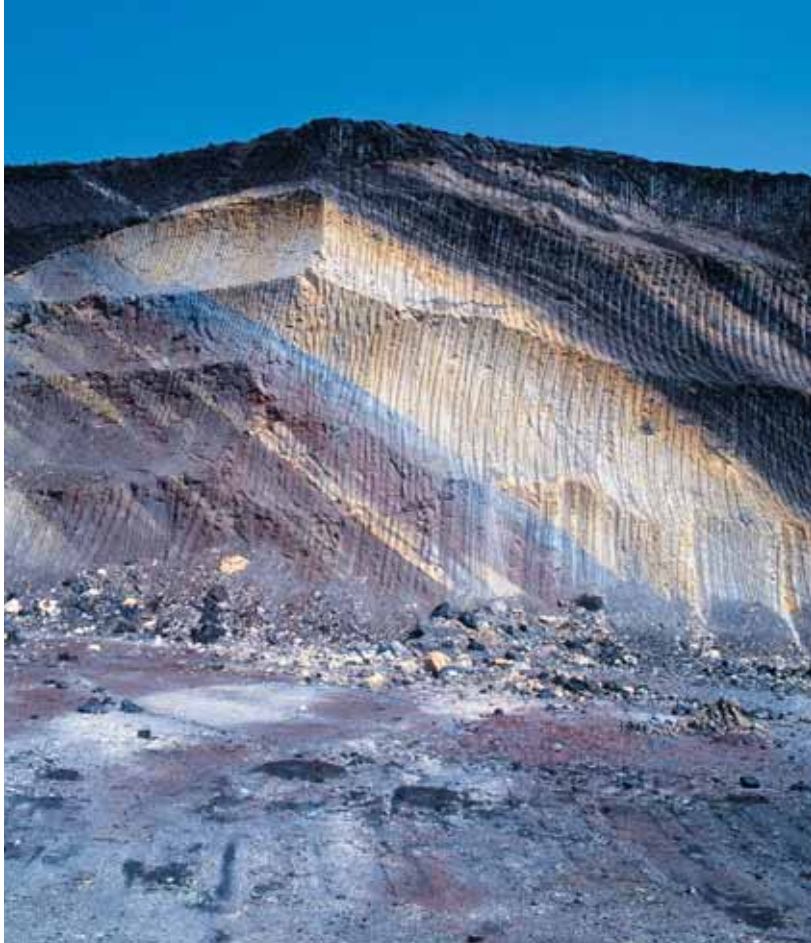




Business Environment – Chemical Products

Our carbochemical products arise in the process of brown coal gasification to make coal gas and, subsequently, generate electricity. In terms of their origin and composition, these products are unique in both the internal Czech Republic market and the wider European market. Elsewhere, similar products are made exclusively on the basis of black coal and crude oil. These products include phenol concentrate, which is supplied primarily to Germany as a raw material for producing pure phenolic substances, and brown coal generator tar, which sells well in the Czech Republic, mainly for use as fuel in heat plants.

Sokolovská uhelná also produces sulfuric acid and ammonia, both in relatively small volumes. Thanks to their very high qualitative parameters, these products have held up under heavy competitive pressure from domestic and foreign producers alike.



Production and Sales

In 2006 Sokolovská uhelná extracted over 10 million tons of coal. Division Jiří accounted for 81% of this amount. The remaining 19% was mined by Division Družba.



Each year, Sokolovská uhelná processes over 3.5 million tons of coal in its own power plants, generating 3,500 GWh of power.

We also supply heat to nearby industrial enterprises and communities.

The commissioning of the combined cycle power plant (620 MW_e), made Sokolovská uhelná a major power producer.

**Jiří Peterka
Production Director**



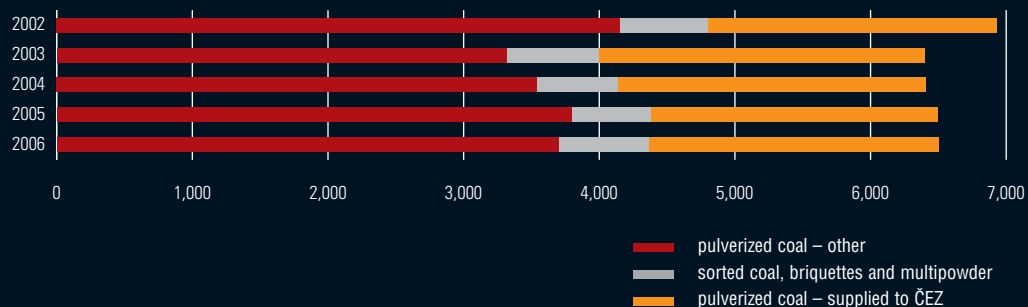
Situation in the Solid Fuels Market

In the past year, Sokolovská uhelná extracted 10,329 kilotons of coal. This amount is comparable with the amount extracted in 2005. Division Jiří accounted for 81% of extraction volume, while the remaining 19% is attributable to Division Družba.

In order to extract that much coal, it was necessary to extract 29,231,000 m³ of overburden. Division Jiří extracted 69% of this amount and Division Družba's share was 31%. Compared to 2005, overburden extraction fell by 11%.

This was due to two factors, both at the Jiří mine. First, there was an increase in the proportion of coal matter in mixed cuts, at the expense of overburden. Second, in the direction the mining operation is proceeding, subsoil is rising while the level of the original terrain is falling.

Solid Fuel Sales (kt)



Some of the coal extracted is converted into briquettes. In 2006, a total of 345 kt of briquettes was produced, up nearly 15% from the previous year. Of this amount, packaged briquettes, which are still very popular, accounted for 11%.

Although business plan targets for solid fuel sales were met, we must mention one negative factor that impacted sales of solid fuels in 2006. That factor was extremely extensive works activity on Czech Rail tracks in the southwest region, which affected Sokolovská uhelná (due to our geographic location in the Czech Republic) and brought about delays in obtaining empty train cars and imposed time limits on the operation of tracks leading out of the Sokolov Basin. This situation disrupted sales and contractual supplies of solid fuels to certain customers, primarily in the period when customers are preparing their heating appliances (furnaces, boilers) for the winter.

Paradoxically, the growth we saw in sales of our sorted coal products in 2006 was due to the competition. Neither the long, hard winter nor traditional second quarter discounts increased demand for Sokolov sorted coal as much as did the competition's price increase, which took effect on 1 September 2006.

In January – July, the sales plan was exceeded by 2 kt, but in August alone, it was exceeded by 10 kt. The Company went on to raise its sorted coal prices by 8% effective October 1st. This price increase appears to be sustainable, since sales continued to rise year-on-year and exceed plan targets up until year end.

In terms of demand and regularity of sales, briquettes were the least problematic commodity in 2006. In the first half, the sales plan was exceeded due to weather factors. As a result, purchase contracts were fulfilled before the September – November period, which is traditionally strong in terms of sales. In addition, briquette sales were not as heavily impacted by the Czech Rail situation, since approximately 90% of briquette sales are trucked to customers. Another factor in the rise in demand was the competition's decision to increase its sorted coal price up to a level comparable with the price of briquettes. Price being equal, most end customers will choose briquettes. In the end, plan figures for both production and sale of briquettes were surpassed by a wide margin.

In recent years, demand for multipowder has been increasing continually. This is because it makes economic sense to use multipowder as an alternative fuel in various industrial processes. In 2006, multipowder sales volume exceeded 60 kt for the first time ever.

In response to the upward trend in domestic and international demand for supplies of multipowder from Vřesová, the Company is implementing a project to increase multipowder production capacity. The project, which will increase the Company's annual production capacity of multipowder to 80 kt, is slated for completion in 2007.

A total of 6,503 kt of solid fuels was sold in 2006. Nearly 90% of this amount was pulverized coal. The remainder consisted of briquettes (5%), sorted coal (4%), and multipowder (1%).



Production of Electricity

The heat/power plant generated 1,607 GWh of electric power in 2006, which is 95% of the 2005 production figure. Production was impacted most by in-house consumption, which was down substantially compared to the previous year.

The combined cycle power plant (CCPP) generated a total of 1,821 GWh in 2006. Compared to 2005 this is a decrease of 4%.

Supplies of Electricity

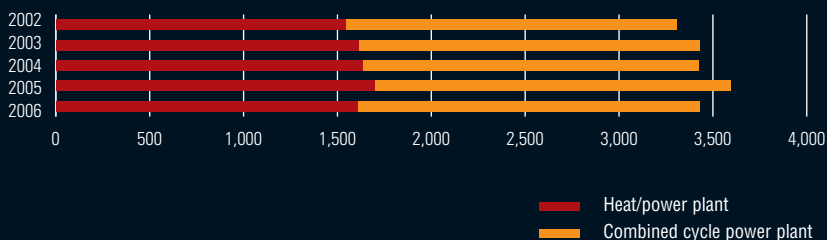
Supplies of electric power at the wholesale level in 2006 were realized as a single settlement entity regardless of the origin of the power (i.e. regardless of whether the electricity was generated by the Company in the heat/power plant or CCPP, or purchased from other market participants).

This approach increased our effectiveness at eliminating faults and our ability to respond more flexibly to changes in market demand for various electricity commodities (regulation services and electric power). It also allowed us to react quickly to changes in external fuel costs. The Company managed its electricity supply profile with an emphasis on reducing external fuel costs.

A total of 2,976 GWh of electricity was supplied to outside customers in 2006. Of this amount, 2,857 GWh was generated in-house. The Company also provided reserved services in the framework of purchasing of ancillary services by ČEPS.



Production of Electricity (GWh)



Production and Sale of Heat

Production of heat totaled 28,987 TJ. Thermal energy arises as a by-product of electricity generation. 2,217 TJ of heat was supplied to neighboring industrial enterprises and district heat networks.

Major heat customers include, in particular, the cities of Karlovy Vary, Chodov, Nejdek, and Nové Sedlo.



Coal Gas and Carbochemical Products

Carbochemical production volume is dependent on coal gas output, which totaled 1,198.8 million m³ in 2006. This is 10.9 million m³ more than was produced in 2005, and fully covered the combined cycle power plant's electricity generation and sale requirements.

Sales plan figures for all chemical products were met in 2006.

Brown coal generator tar – 99 kt was shipped to customers, up 14 kt from 2005. This considerable increase was due primarily to release of tar that had been stored for use in the new burner generator, which did not come on-line as planned. Another factor was an increase in production driven by higher electricity generation.

Phenol concentrate – 14 kt was produced and supplied to customers in 2006. All product was shipped, the bulk – roughly 11 kt – to Germany and Spain. The remainder was sold in the Czech Republic.

Liquid ammonia – compared to 2005, sales were up slightly, to 7 kt. Most of this quantity was sold in the domestic market. Like phenol concentrate, the level of production corresponds to the higher output of coal gas.

Sulfuric acid – sales were lower than in 2005; the total was 17 kt. Production of this commodity is not directly linked to coal gas output, but rather to the sulfur content in coal gasified in the generators. A failure of a gasworks desulfurization boiler late in the year had a negative impact on sales of this product.



Earnings Analysis

In 2006, Sokolovská uhelná posted net earnings in excess of CZK 1.1 billion. This is the highest profit figure in Company history.



Sales of electricity and heat account for over one half of total sales. The Company's revenues are diversified into two relatively independent streams and the Company is succeeding in its objective of converting a substantial portion of its coal into value-added forms of energy, at or near the extraction sites.

Jaroslav Rokos
Finance Director

Sokolovská uhelná, právní nástupce, a.s. posted net earnings of CZK 1.169 billion in 2006. This is the highest net earnings figure in Company history to-date. The before-tax earnings figure was CZK 1.549 billion. Income tax payable for 2006 is CZK 343 million and deferred tax totaled CZK 37 million.

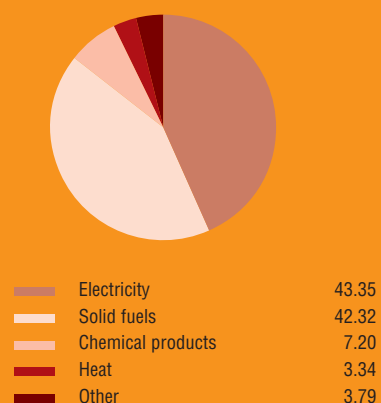
The above net earnings result was achieved on revenues of CZK 13 billion and costs of CZK 11.8 billion.

Revenues

Revenues from sale of own products and services accounted for over 64% of total revenues and totaled CZK 8.4 billion, up from CZK 7.4 billion in 2005. The most significant components in sales revenues were sales of energy (CZK 3.6 billion) and sales of solid fuels, including shipping fees (CZK 3.6 billion). In this manner, revenues are diversified into two relatively independent streams and the Company is succeeding in its objective of converting a substantial portion of its coal into value-added forms of energy, at or near the extraction sites. Revenues from sale of merchandise totaled CZK 0.1 billion.



Sales of Own Products and Services, 2006 (%)



Sales of electricity and heat were as follows. Sales of electricity totaled CZK 3.6 billion (up from CZK 3.1 billion in the previous year) and sales of heat were CZK 0.3 billion. The combined cycle power plant accounted for 70.2% of electricity revenues, and the remaining 29.8% was attributable to the heat/power plant.

The most significant components in solid fuel sales were coal (CZK 2.5 billion) and briquettes (CZK 0.5 billion). Compared to the previous year, solid fuel sales rose by 10.4%.

The Company's other sales revenues included CZK 0.6 billion from chemical products and CZK 70 million from other products (such as agricultural products). In the previous year, the Company posted CZK 53 million in other sales revenues.

Service revenues (not including ancillary services) consist in particular of solid fuels haulage, cafeteria services, clean-up of tar sludge dump sites, and hazardous waste disposal services totaling CZK 0.7 billion. The level was the same in 2005.

Capitalization of materials and fixed assets totaled CZK 0.1 billion. Capitalization of refurbished spare parts accounted for a substantial portion.

Revenues from sales of assets and materials totaled CZK 0.2 billion and yielded a realized gain of CZK 0.1 billion. The Company continued to sell of excess property, plant and equipment.

Other operating revenues totaled CZK 3.5 billion. Here the main component, at CZK 3.2 billion, was settlement of CO₂ emission permits.

Financial revenues totaling CZK 0.8 billion were composed of revenues from sales of securities, interest on deposits, and revenues from short-term financial assets.

Costs

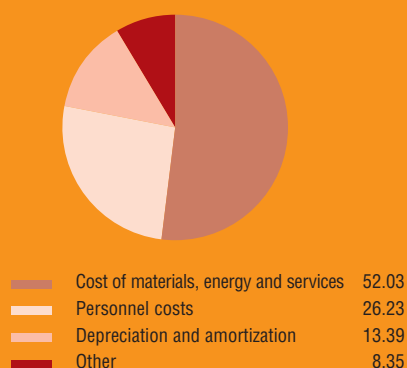
The principal cost components are: costs of materials, energy, and externally purchased services (CZK 3.9 billion), personnel costs (CZK 1.9 billion), and depreciation and amortization (CZK 1.0 billion).

Consumption of materials totaled CZK 1 billion, up CZK 0.3 billion year-over-year. This significant difference was given by increased consumption of materials in repairs (in particular that of CCPP Unit 2 and generators at Division Zpracování). The bulk of materials consumption consists of equipment parts and materials used in equipment operation.

Consumption of electric power and gases in 2006 came to CZK 0.4 billion. The components in this amount included consumption of natural gas (CZK 0.2 billion), consumption of other gases (oxygen, nitrogen, and air: CZK 0.1 billion). CZK 0.1 billion was expended to purchase electricity for resale.

The Company spent CZK 0.7 billion for repairs in 2006. In particular, these included repairs of excavators at Division Jiří, the repair of CCPP Unit 2, and repairs of generators and Redler conveyors at Division Zpracování.

Operating Costs, 2006 (%)



Shipping costs totaled CZK 1 billion. Solid fuels shipping costs accounted for the bulk of this figure.

Sokolovská uhelná, právní nástupce, a.s. expended CZK 0.8 billion for other services in 2006. Here the most significant components were costs of services related to purchase of gases, rent, cafeteria expenses, promotional expenses, advertising, and security guard expenses.

The Company expended over CZK 1.9 billion in personnel costs. Of this amount, wages accounted for CZK 1.4 billion and related social security and health insurance costs were CZK 0.5 billion.

Taxes and fees reached CZK 0.1 billion. These include primarily amounts paid on minerals extracted and mining areas used, real property tax and fees for water and air pollution.

Other operating costs totaled CZK 3.5 billion in the year. The most significant component was the cost of CO₂ emission permits (CZK 3.2 billion) which is simultaneously recognized as a revenue. Another significant component is insurance premiums (CZK 0.1 billion).

The Company's costs included depreciation and amortization totaling CZK 1 billion.

Creation of provisions and impairment allowances in 2006 exceeded use/reversal thereof by CZK 0.1 billion. The most important items here are creation and use of provisions for repairs and provisions for decommissioning and reclamation. Another item is creation and reversal of impairment charges on assets.

Financial costs of the Company totaled CZK 0.8 billion. These consisted in particular of the acquisition cost of securities sold, and interest paid.



Structure of Assets and Sources of Financing

Profit brought forward totaled CZK 5.5 billion. Earnings for the accounting period reached nearly CZK 1.2 billion.



Assets as of 31 December 2006 (CZK billions)

Fixed assets	10.1
Current assets, prepayments and accruals	5.4
Total	15.5

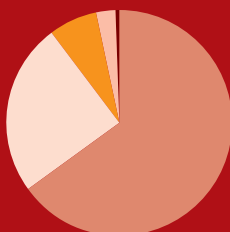
Fixed Assets

Fixed assets consist primarily of tangible fixed assets with a book value of CZK 9.4 billion. The most significant components of tangible fixed assets are machinery and equipment (CZK 4.4 billion), buildings and structures (CZK 3.9 billion), capital projects in course of construction, including advance payments (CZK 0.7 billion), and land (CZK 0.4 billion).

The Company holds CZK 0.4 billion in long-term financial investments, including seven subsidiaries and five associates.

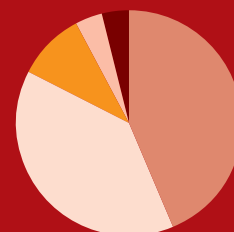
Structure of Assets as of 31 December 2006 (%)

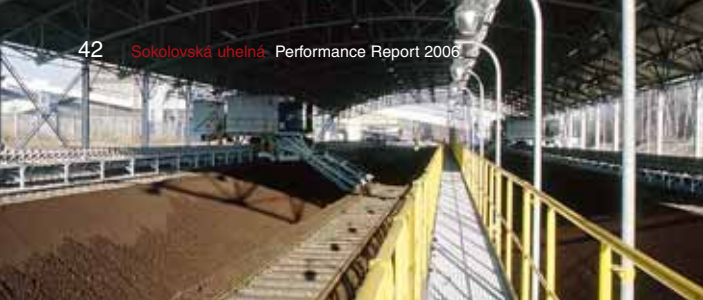
Fixed assets	65.02
Financial assets	24.95
Receivables	6.97
Inventories	2.74
Prepayments and accruals	0.32



Structure of Fixed Assets as of 31 December 2006 (%)

Movables	43.80
Buildings and structures	38.94
Other assets	9.61
Land	3.78
Long-term financial investments	3.87





Current Assets

Current assets consist of inventories, receivables, and short-term financial assets.

Inventories, at CZK 0.4 billion, consisted primarily of materials and spare parts necessary to keep mining and production plant and equipment in good working order, as well as inventories of the Company's own products (in particular, coal and rock dumps and agricultural products stored pending sale).

Receivables (gross) as of 31 December 2006 totaled CZK 1.3 billion. These were subject to impairment allowances of CZK 0.2 billion, or 14.4% of the receivables' total face value. In particular, these are older receivables for coal sales before the year 2000, receivables from companies in bankruptcy, and receivables being collected on through court proceedings.

Short-term financial assets as of 31 December 2006 were valued at CZK 3.9 billion and during 2006 they served to finance the Company's operational and capital construction needs and to meet its financial obligations.

Prepayments and Accruals

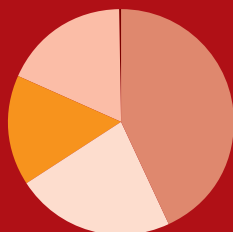
These consist mainly of estimated items and accruals used to implement the revenue recognition principle.

Equity and Liabilities as of 31 December 2006 (CZK billions)

Equity	6.7
Liabilities, accruals and deferred income	8.8
Total	15.5

Structure of Equity and Liabilities as of 31 December 2006 (%)

Equity	43.29
Provisions	22.80
Liabilities	15.77
Bank loans	18.06
Accruals and deferred income	0.08



Equity

As of 31 December 2006, the Company's share capital of CZK 2 million consisted of 20 registered shares in documentary form, each with a face value of CZK 100,000. The shares are fully paid in. In accordance with Article 8 of the Articles of Association, the shares are transferable only with the prior consent of the Board of Directors. Share transferability is further limited in that the Company's other shareholders have the right of first refusal.

A statutory reserve fund has been set up and is maintained in accordance with the Articles of Association. As of 31 December 2006, it showed a balance of CZK 0.4 million. The social fund had a balance of CZK 5 million. Each year, the Company adds CZK 25 million to the social fund and employees utilize it to help defray costs of meals at Company cafeterias, recreational sojourns, healthcare devices not covered by health insurance, children's camps, and cultural and social events.

Profit brought forward totaled CZK 5.5 billion. Earnings for the current accounting period reached nearly CZK 1.2 billion.



Liabilities

Liabilities totaled CZK 8.8 billion.

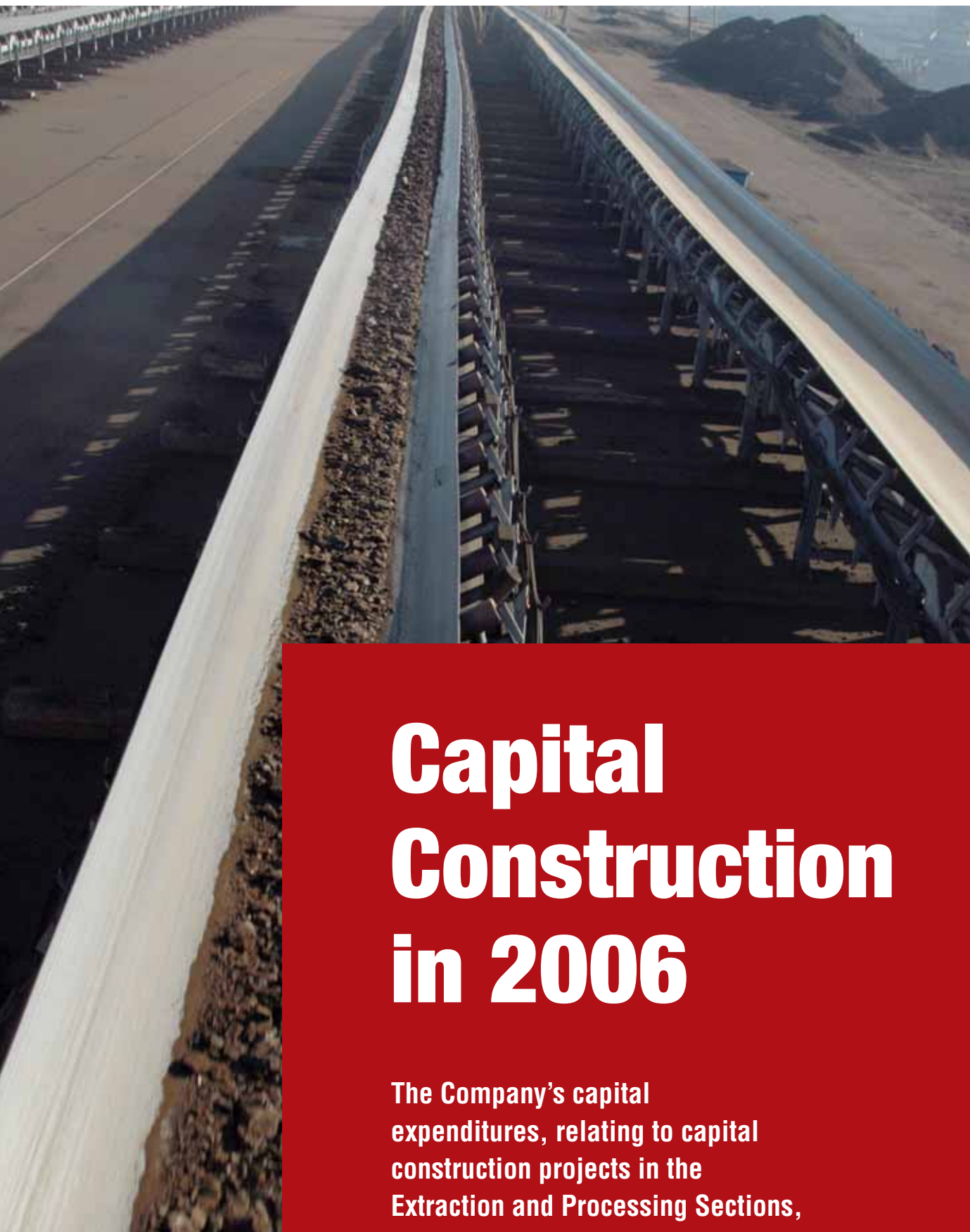
As of 31 December 2006, the Company had created provisions in a total amount of CZK 3.5 billion. The bulk of these (CZK 3.3 billion) are statutory provisions for clean-up and reclamation of land affected by mining activity and provisions for repairs of plant and equipment that are extensive enough that, should this provision not be made, they would have a material impact on the Company's earnings in the year they are effected.

Payables of the Company are classified as either long-term (non-current) or short-term (current). Long-term payables totaled CZK 0.8 billion, nearly all of which was comprised of deferred tax liability. Short-term payables reached a level of CZK 1.6 billion. They consisted in particular of trade payables (CZK 0.9 billion). The Company is not in default on any trade payables. Other material components include taxes payable to the State and subsidies (in particular, CO₂ emission permits not used up), amounts payable to employees for December wages and related social security and health insurance payable, and employees' deposits in the Company savings bank.



Throughout 2006, Sokolovská uhelná met all its obligations toward the State, banks, employees, and business partners on time and in full.

Bank loans at 31 December 2006 had an aggregate balance of CZK 2.8 billion. They consisted of a restructuring loan which matures at the end of 2013. No new loans were drawn during the year.



Capital Construction in 2006

The Company's capital expenditures, relating to capital construction projects in the Extraction and Processing Sections, totaled CZK 0.7 billion in 2006.

In 2006, a number of development projects were implemented in accordance with the assets renewal plan in both the Processing Section and the Extraction Section. Capital expenditures totaled CZK 0.7 billion.

The most significant project in the Processing Section is entitled Utilization of Gasworks Liquid By-products. The project's core technology is a new "fission reactor" which will break down liquid by-products from the current process of coal gasification in sliding-bed generators. When the project is completed and the liquid by-products are utilized, production of coal gas will be increased and the process will be more resilient with regard to changes in quality of coal charge. It will also eliminate risks associated with future sales of these by-products.



A number of capital construction projects were implemented in 2006 to mitigate or eliminate the negative environmental impacts of coal extraction and processing.

Jiří Pöpperl
Technology Director





Installation of the equipment was completed and extensive operational testing began in late 2005. This testing continued until March 2006. Unfortunately, the contractor was not able to commission the equipment. Currently, the status of the project is as follows: Sokolovská uhelná is withdrawing from the contract and intends to take

delivery of the incomplete project and subsequently, in 2007, to negotiate with other contractors to complete the project.

Another major initiative is a series of projects designed to address a change in the system for disposing of gasworks generator slag and power generation fly ash. These projects are





entitled Re-depositing of Generation By-products, Phases I–IV, Renovation of Dragline Stations I and II, Utilization of Fine Coal Matter from Dump, and Renovation of Return Water Pump Station. 2006 saw the commissioning of the first re-disposal cask in the project Re-depositing of Generation By-products, Phase II.

The Processing Section continued with Phase II of Upgrade of CCPP Control System and work began on M&R innovation at Division Zpracování, which is planned for completion by 2010.

Work also began on the Gas Cooling Innovation and Rectisol Intensification projects, which will continue in phases until they are completed in 2009.

The projects Intensification of Packaged Briquette Production and Intensification of Multipowder Production, Phase II were implemented. Among our ongoing environmental projects, Malodorous Gases Liquidation was completed.

In the Extraction Section, a key project in terms of both processes and finances was Additions to Extraction Plant and Equipment, which will be followed in 2007 by Additions to Extraction Plant and Equipment – KU 300/19. Also, both extraction divisions (Družba and Jiří) extended belt conveyors, power lines, track, and trolleys as they do each year.

Furthermore, the Company expended CZK 0.1 billion to replace machinery and equipment that had reached the end of its useful life.



The Work Force



During the course of 2006, Sokolovská uhelná employed a total of 4,739 people. Compared to the previous year, this number was down by 149.



The Company's strong financial performance was also reflected in employee earnings. The growth in average wages was fully covered by higher labor productivity.

Jiří Radosta
Personnel Director

The average adjusted number of employees last year was 4,739, down by 149 from 2005. The rate of work force contraction, however, was much slower than in previous years, when the year-on-year reductions were much higher. Last year also saw a significant increase in new hires. 250 new employees joined the Company in 2006, up 116 from the previous year. Our recruiting efforts extend to new graduates – in the framework of our long-term collaboration with the Sokolov Integrated Secondary School, future employees are selected even before graduation, during their internship

period, part of which is spent at Company work sites. Due to the unique nature of mining activity, not all specialized professions can be sourced on the free labor market. In 2006, the Company addressed these specialized needs by organizing a mine rail engine operator training course. The Company also received prestigious recognition for its employee development efforts when its welding school became certified as a center for training welders with the authority to issue internationally recognized diplomas.



The Company's excellent top-line performance was also reflected in employee earnings. The average monthly wage grew by 11.1% to CZK 23,472. Even this high growth in average wages, however, was less than the growth in labor productivity (18.5%). For us, growth in labor productivity is a strategic guarantee of the Company's long-term prosperity. The Company allocated CZK 25 million to the social fund to address employees' social needs. This met and, as far as employee earnings are concerned, exceeded the Company's obligations under the Collective Agreement.

Great emphasis was placed on caring for employee health. The sickness and injury absence

rate of 5.04% of hours worked in 2006 is in line with the long-term trend towards reduced absence, and the Company's rate has been below the Republic-wide average for a long time now. Another factor favorably influencing the absence rate is active work with employees who have suffered long-term or repeated illnesses. For our truck and bus drivers, the Company pledged in 2006 to pay for the medical examinations newly required by the Road Transportation Act to verify their fitness for their chosen profession.

In late 2006, the Company's personnel function had to respond to changes in Czech labor law, the most significant is a completely rewritten Labor

Code. Also amended were other acts such as the Income Tax Act, acts dealing with health insurance and social security, regulations implementing the Labor Code, and instructions relating to the Income Tax Act. Because a labor union is active at the Company, talks on how to apply the new laws took place within the framework of collective bargaining. Following complicated negotiations, a Company-wide Collective Agreement was reached for the period up until 2010. Based on the newly expanded contractual principle, the Collective Agreement embraced the new legislation while at the same time minimizing its impact on the Company's personnel policies and procedures.



Environmental Stewardship



Since Sokolovská uhelná was established in 1994, the Company has reclaimed a total of 1,118.31 hectares. Of the total, 459.44 hectares have been transformed into farmland, 510.22 hectares into forests, 72.15 hectares into man-made lakes, and 76.50 hectares have been reclaimed for other purposes.



In 2006, the Company implemented or commenced a number of projects designed to eliminate or substantially mitigate the negative environmental impacts of mining and fuel production.

In October 2006, building authorities gave conditional approval for use of the Malodorous Gases Liquidation Project. This project assures the full combustion of all waste gases that arise in the gas production and purification processes. Following implementation of the Redepositing of Generation By-products project, disposal of ash matter at ash-matter dump sites was terminated in the first quarter.

Another positive environmental development last year was the commencement of preparations to move mine water from the Jiří – North area and the Lomnický Mine to the Svatava Mine Water Treatment Plant.

The year 2006 saw a number of amendments to environmental legislation. These included Act No. 695/2004 Sb. on conditions for trading in greenhouse gas emission permits, Decree No. 696/2004 Sb. stipulating the procedure for determining, reporting, and verifying amounts of greenhouse gas emissions, Government Directive No. 315/2005 Sb. on the National Allocation Plan of the Czech Republic for the Years 2005–2007 stipulating amounts of greenhouse gas emissions (in tons) that individual enterprises will be allowed to release each year.

Based on the above documents, the Company applied to the Ministry of the Environment for consent to release greenhouse gas (carbon dioxide) emissions, drew up a monitoring plan as an integral part of the application, and a number of other documents for determining amounts of greenhouse gas emissions. The Company obtained the emission consent and, for the first time, reported the amount of greenhouse gas emissions released in 2005 to the Ministry of the Environment. The verifier (holder of the relevant authorization from the Ministry of the Environment) gave unqualified confirmation of the Company's report and the entire procedure by which it was compiled.

Intensive mining of brown coal is one of the substantial factors that negatively impact the environment in the Sokolov region. For this reason, a Master Plan for Reclamation of Land Affected

by Coal Mining in the Sokolov District was drafted on the basis of Resolution of the Government of the Czech Republic No. 490/91 on the Sokolov District Environmental Revitalization Program. The Master Plan focuses on restoration of lakes and water management conditions in the area following coal extraction with the objective of attaining maximum diversity and aesthetic value in the reclaimed landscape.

This also forms the basis of Sokolovská uhelná's reclamation work from the beginning of mining operations until the end of 2006:

completed	3,071.99 hectares (33.18%)
in progress	2,579.32 hectares (27.85%)
planned	3,608.17 hectares (38.97%)

All told, then, the Company will reclaim a total of 9,259.48 hectares of land.

Since Sokolovská uhelná was established in 1994, 1,118.31 hectares has been reclaimed. Of the total, 459.44 hectares has been transformed into farmland, 510.22 hectares into forests, 72.15 hectares into man-made lakes, and 76.50 hectares have been reclaimed for other purposes.

Since reclamation work in the Sokolov region began in the 1950s, 3,071.99 hectares of reclamation have been completed. Of this total, 1,094.86 hectares has been transformed into farmland, 1,793.62 hectares into forests, 77.75 hectares into man-made lakes, and 105.76 hectares have been reclaimed for other purposes.

On 25 September 2006, further reclamation projects were submitted to the inter-Ministry committee organized by the Ministry of Industry and Trade, along with an application for full financing by the Ministry of Finance. The application was made on the basis of Government Directive Nos. 50/2002, 189/2002, 242/2002 and 272/2002, all dealing with environmental damage arising prior to privatization of the brown coal mining companies in the Ústí nad Labem and Karlovy Vary Regions. The application was for a total of four projects in the Medard – Libík and Podkrušnohorská Spoilbank areas and a fifth project: Clean-up of Railroad Pillar and Revitalization of Adjoining Land – Boží Požehnaní Mine near Kynšperk nad Ohří.

Ongoing Reclamation Projects



At the Lítov – Boden site situated between the towns of Chlum Sv. Máří and Lítov and the city of Habartov, reclamation work was completed in 2004 to turn the former Boden Mine into a man-made lake for recreational use by residents of the city of Habartov and the surrounding area. In 2006, the Company did forestry maintenance work in the Boden – West forest reclamation area (70.43 hectares). This work consisted of supplemental tree planting, hoeing, weeding, and treating saplings to protect their bark from being chewed off by

forest-dwelling animals. Another 97.40 hectares of forestry reclamation work funded by the Ministry of Finance continued at Lítov – North (phases II and III).

At the Medard – Libík site, located between the towns of Citice, Bukovany, Svatava and the cities of Sokolov and Habartov, preparatory work began on reinforcing the bank line of the largest man-made lake the Company has formed to-date – Lake Medard – Libík – covering an area of nearly 500 hectares. We also continued with Phase I of the agricultural

reclamation in the northern portion of the site and completed the forestry reclamation of Horizon 415 of the Medard internal spoilbank. Work also continued on reclamation projects funded by the Ministry of Finance, consisting of technical and biological reclamation of 469.16 hectares of forest land adjoining the future lake.

At the site of the former Michal Mine, southeast of the City of Sokolov, reclamation work has been ongoing since 1995. In that year, in accordance with the mine liquidation plan, the





land was filled in and shaped to prepare for clean-up and reclamation work. Forestry reclamation began in 1997 on the mine's eastern slopes. Currently, a 32.1 hectare body of water with an adjoining water park is in operation here. It opened in 2004 and serves the entire Sokolov region. In 2006, forestry work went on in the western portion of the site and a 34.68 hectare forestry and agricultural reclamation project was completed.

At the Podkrušnohorská Spoilbank site, located north of the City of Sokolov, dumping of overburden matter (brought in by belt conveyor from the Jiří Mine and by rail from the Družba Mine) was terminated in 2003. In 2006, project

documentation was drawn up for Phase XIII of forestry reclamation and a 15.00 hectare forestry reclamation project (Boučí – Horizon 490) was completed. The Ministry of Finance funded ongoing biological reclamation (forestry) on the Podkrušnohorská Spoilbank (Phases III and IV with a total area of 176.22 hectares). Also funded by the Ministry of Finance is a new project, begun in 2006, for the technical reclamation of the Podkrušnohorská Spoilbank (phases V and VI) with a total area of 225.94 hectares.

At the Smolnice Spoilbank site, reclamation work is ongoing on land between the City of Chodov and the town of Božičany, including the area

surrounding the Bílá Voda lake, which serves for recreation. In 2006, another phase of forestry reclamation work began and Phases IA and II continued, all on a total area of 110.25 hectares.

At the Velký Loket Spoilbank site located in the eastern portion of the Sokolov Basin (between the City of Chodov and the town of Hory), 2006 saw completion of Phase 5 of the forestry reclamation project (26.18 hectares).

At the Jiří site, a total of 25.79 hectares of forestry reclamation work was completed.



Sokolovská uhelná – Accountable to Society


In 2006, Sokolovská uhelná continued to maintain a responsible relationship toward communities in its nearest environs as well as toward the region as a whole.

Generation of the necessary funds enabled the Company to continue with clean-up and reclamation work on land where mining activity has been terminated. This work included extensive disassembly of plant and equipment at the Medard – Libík Mine, the Velká Podkrušnohorská Spoilbank and the Matyáš Spoilbank, and subsequent implementation of approved projects for restoring the landscape and bringing it back to life. The funds generated made it possible to go beyond mandatory clean-up and reclamation and, among other projects, complete the construction of a golf course in Dolní Rychnov and the Michal water park. This created conditions for future completion of a “rest and relaxation zone” with a zoo and a forest park that will serve not only the residents of Sokolov, but also the wider region and visitors as well.

Openness, mutual understanding, and collaboration between the Company and national and local government authorities left no room for unresolved issues and laid good foundations for conflict-free cooperation in the years to come as well. Trust in Sokolovská uhelná and the quality of its employees was also reflected in the results of municipal elections, in which 49 employees of Sokolovská uhelná were elected to city and town councils.

For the general public, however, the Company's most visible social responsibility initiative was providing financial aid, which we continued to do in 2006, thereby contributing substantially to the development of sports, culture, and social activities in the region's cities and towns.





The following quality events benefited from our support: Motocross World Championship in Loket, Loket Summer of Opera, Czech Republic Cyclotrial Championship in Březová, Sokolov City Cup in ballroom dancing, International Junior Boxing - Sokolovská uhelná Cup, Sokolov District School League, Big Bands Festival in Kraslice, and a number of other events. Assistance from Sokolovská uhelná is crucial to Extra-league Hockey in Karlovy Vary, Second League Hockey in Sokolov, and for the vast majority of football teams, from youth categories to adult, in the Sokolov District. In order to motivate team members and improve the quality of football throughout the region, Sokolovská uhelná (through its subsidiary FK Baník Sokolov a.s.) purchased a Second League license. This move was rewarded not only when the team FK Baník Sokolov finished high up in the standings at the end of the Second League's autumn season, but also, and more importantly, by the fact that the team enjoyed one of the highest attendance rates of any Second League team in the Czech Republic and it clearly made a positive contribution to the social and sports lives of people in the region. Sokolovská uhelná is still planning to be of effective assistance to the City of Sokolov in building a new football stadium, which will become the center of football for the entire Karlovy Vary Region. However, financial assistance was provided to other sports organizations as well – mainly in youth categories – such as the Baník Sokolov girls volleyball and basketball teams, which won the championships in their respective national leagues.

Our systemic education-focused activities in 2006 concentrated on targeted assistance to the pillars of secondary education in the Sokolov District: the Sokolov Gymnasium, ISŠTE in Sokolov, and the Secondary Vocational School in Kynšperk nad Ohří.

The Company offers guided tours of the Processing and Extraction Sections for the general public. This, together with articles about Sokolovská uhelná published in trade journals, contributed to expanding knowledge and awareness of the Company's operations in the Karlovy Vary Region.

It is with satisfaction that we report that, in 2006, the Company successfully proved that a mining enterprise can co-exist responsibly with a region whose long-term priorities are spa treatment and tourism.

Business Strategy



Sokolovská uhelná is one of the largest corporations in the Karlovy Vary Region. Its core business continues to be the most effective utilization of its various extraction and processing technologies, built up in previous years and designed to extract coal and convert it into value-added forms of energy, electricity and heat in particular. In the second half of

2007, we will add a new facility for utilization of liquid by-products in the Processing Section. This will be the last major innovation of the Company's plant and equipment for the near future.

Concurrently with our core production operations, Sokolovská uhelná will meet its obligations concerning cleaning up and reclaiming land affected by mining

activity. At the same time, we will continue to invest in protecting the environment. Attention will thereby be focused both on reducing the burden on the region's environment by maintaining low levels of pollution discharges into surface water and the air as well as by improving the environment through reclamation of spoilbanks and other areas impacted by the mining



operations of the Company and its predecessor organizations.

More and more, the extraction operation will be negatively impacted by worsening mining conditions at both Sokolovská uhelná mines. At the Jiří Mine in particular, the coal cuts are entering areas previously mined using underground “long wall” techniques. It is getting more and more complicated and cost-intensive to obtain high quality coal from these positions.

In the years to come, the Company will endeavor to reinforce its position as the largest independent power producer in the Czech Republic, emphasizing the provision of ancillary system services in the electricity market. At present, these services are already an integral part of our electricity revenues.

The Company's management is aware of Sokolovská uhelná's indispensable role in the region. With this in mind, all steps taken in the Company's development in the years to come will be taken in awareness that the Company is not only the largest and strongest economic entity, but also the largest employer, in the Karlovy Vary Region. However, we can only meet our obligations to the region if we are permitted to mine out all extractable coal reserves. Sokolovská uhelná's future extraction plans fully respect Government Directive No. 490/91 of 27 November 1991, which set environmental limits on brown coal mining in the Sokolov region. Unlike the brown coal mining companies in North Bohemia, then, in our case no fundamental restrictions are on the horizon, provided the already stipulated obligations are met.

On the other hand, we must realize that active coal mining the Sokolov Basin will continue only for a relatively short time. If we disregard the decline in extraction volumes immediately prior to decommissioning, Sokolovská uhelná has approximately twenty years of mining left. During this time, it will be necessary to create sufficient conditions and funds to clean up, reclaim, and revitalize the entire area affected by mining activity, as well as to reinvent the Company and refocus it on new business activities. Since all of Sokolovská uhelná's operations take place within the so-called “spa triangle”, one obvious option for future business initiatives is services related to tourism, recreation, and the spa industry. At the same time, this should entail a return to nature after a long period defined by industrial operations. Thus, Company management is already now intensifying steps that will have the potential to secure the region not only in terms of employment, but in all aspects of ensuring good quality of life for residents of and visitors to the region as well.

The basic pillar underlying these considerations is the emphasis we place on reclaiming and revitalizing the entire area affected by mining. The target strategy is based on man-made lakes such as the already completed Michal Water Park and, in particular, the Lake Medard project which is under preparation.

Thus, all Sokolovská uhelná's future steps will lead toward bringing the affected area back to life while meeting our obligations and preserving all functions the Company has, in particular toward the region's residents.

Post-Balance Sheet Events

No material events occurred after the balance sheet date that should be commented on in the enclosed report.

Balance Sheet (TCZK)

short form

ASSETS		31 December 2006		31 December 2005	
		Gross	Provisions	Net	Net
B.	Fixed assets	24,982,288	(14,898,522)	10,083,766	10,294,506
B. I.	Intangible fixed assets	449,664	(174,601)	275,063	90,788
B. II.	Tangible fixed assets	24,142,600	(14,723,921)	9,418,679	9,791,761
B. III.	Long-term financial investments	390,024	0	390,024	411,957
C.	Current assets	5,600,820	(226,851)	5,373,969	4,088,533
C. I.	Inventories	469,983	(45,521)	424,462	427,810
C. II.	Long-term receivables	35,709	0	35,709	28,146
C. III.	Short-term receivables	1,225,902	(181,330)	1,044,572	1,086,063
C. IV.	Short-term financial assets	3,869,226	0	3,869,226	2,546,514
D.	Accrued assets	50,324	0	50,324	74,204
	TOTAL ASSETS	30,633,432	(15,125,373)	15,508,059	14,457,243

EQUITY AND LIABILITIES		31 December 2006	31 December 2005
A.	Equity	6,713,772	5,653,304
A. I.	Share capital	2,000	2,000
A. II.	Capital contributions	20,949	54,121
A. III.	Reserve and other funds created from profit	5,858	5,794
A. IV.	Profit brought forward	5,516,389	5,058,086
A. V.	Earnings for the current accounting period	1,168,576	533,303
B.	Liabilities	8,781,423	8,787,178
B. I.	Provisions	3,535,236	3,241,788
B. II.	Long-term payables	821,640	782,408
B. III.	Short-term payables	1,624,547	1,486,982
B. IV.	Bank loans and advances	2,800,000	3,276,000
C. I.	Accruals and deferred income	12,864	16,761
	TOTAL EQUITY AND LIABILITIES	15,508,059	14,457,243

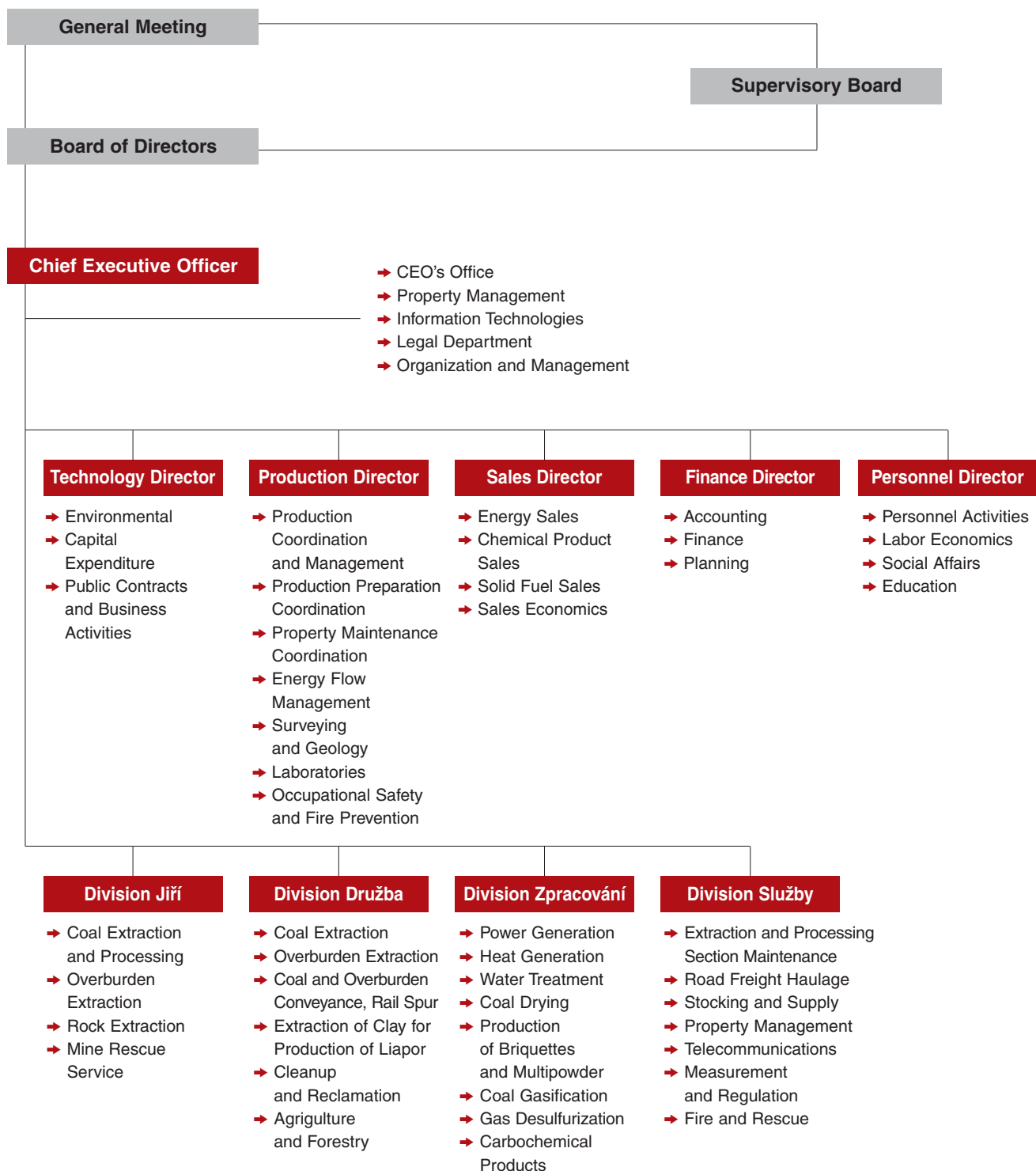
Profit and Loss Account (TCZK)

short form

		Year ended 31 December 2006
I.	Sale of merchandise	103,829
A.	Cost of merchandise sold	89,916
+	Gross profit on goods for resale	13,913
II.	Sale of own products and services	8,473,422
B.	Cost of materials, energy and external services	3,856,046
+	Value added	4,631,289
C.	Personnel costs	1,944,001
D.	Taxes and charges	100,101
E.	Depreciation and amortization	992,359
III.	Revenues from sale of fixed assets and materials	157,178
F.	Net book value of fixed assets and materials sold	49,533
G.	Increase (+) in operating provisions and impairment allowances	120,517
IV.	Other operating revenues	3,453,479
H.	Other operating costs	3,488,353
*	Operating profit	1,547,082
VI.	Income from sale of securities and interests	657,655
J.	Cost of securities and interests sold	663,896
VII.	Income from long-term financial investments	39,000
VIII.	Income from short-term financial assets	57,164
IX.	Cost on revaluation of securities and derivatives	5,802
X.	Interest received	43,734
N.	Interest paid	91,691
XI.	Other financial revenues	3,136
O.	Other financial costs	48,867
*	Profit on financing activities	2,037
Q.	Corporate income tax on ordinary activities	380,543
**	Net profit on ordinary activities	1,168,576
***	Net profit for the accounting period	1,168,576
	Profit before tax	1,549,119

Sokolovská uhelná

Organization Chart as of 1 January 2007



Contacts

Company name:	Sokolovská uhelná, právní nástupce, a.s.
Seat:	Sokolov, Staré náměstí 69, postcode 356 00
ID:	26348349
Tax ID:	CZ26348349
Commercial Register:	Plzeň Regional Court, Part B, Entry 980
Bankers:	account no.: 17331033/0300, ČSOB Praha
E-mail:	info@suas.cz
Internet:	http://www.suas.cz

Telephone and fax numbers	telephone	fax
switchboard	+420 352 461 111	
Office of the CEO	+420 352 462 103	+420 352 621 052
Office of the Technology Director	+420 352 462 113	+420 352 621 038
Office of the Production Director	+420 352 462 123	+420 352 621 038
Office of the Finance Director	+420 352 462 133	+420 352 462 132
Office of the Personnel Director	+420 352 462 153	+420 352 462 132
Office of the Sales Director	+420 352 462 143	+420 352 621 032
Office of the Director, Division Jiří	+420 352 463 001	+420 352 675 139
Office of the Director, Division Družba	+420 352 463 501	+420 352 669 457
Office of the Director, Division Zpracování	+420 352 465 001	+420 352 465 002
Office of the Director, Division Služby	+420 352 465 801	+420 352 465 802

Sales contacts	telephone	fax
Brown coal, briquettes, multipowder	+420 352 462 142	+420 352 621 032
	+420 352 462 272	+420 352 624 541
	+420 352 462 273	+420 352 462 369
Electricity, heat	+420 352 465 210	+420 352 465 212
	+420 352 462 260	
Carbochemical products and sulfuric acid	+420 352 464 480	+420 352 464 481
	+420 352 464 482	
	+420 352 464 492	
	+420 352 464 493	
Rock/gravel	+420 352 465 911	+420 352 465 910
Secondary materials (expansion clays, adsorption and zeolitic claystones, etc.)	+420 352 462 232	+420 352 462 231
Laboratory work	+420 352 465 650	+420 352 465 670
Stocking	+420 352 465 340	+420 352 465 350
Capital construction	+420 352 465 622	+420 352 465 620
Road transport	+420 352 463 207	+420 352 463 211

This report is not a full annual report in accordance with the Act on Accounting, the Commercial Code, the Securities Act and the Act on Business in the Capital Market. A full annual report is available at the company seat, and in the Collection of Documents of the Commercial Register.

