INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Supervisory Board of ČEZ, a. s.:

We have audited the accompanying financial statements of ČEZ, a. s., which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on ČEZ, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s. as at December 31, 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

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

Josef Pivoňka
Auditor, License No. 1963

February 25, 2008
Prague, Czech Republic

BALANCE SHEET
in accordance with IFRS
December 31, 2007
(in CZK Millions)

ČEZ, a. s.
Duhová 2/1444
Praha 4
IČ: **452 74 649**

	Note	current year	prior year *)
ASSETS		**312,654**	**303,124**
Fixed assets		**280,667**	**268,127**
Property, plant and equipment		**171,494**	**169,581**
Plant in service		293,914	293,238
Less accumulated provision for depreciation		149,989	142,016
Net plant in service	4.	143,925	151,222
Nuclear fuel, at amortized cost		6,955	7,343
Construction work in progress		20,614	11,016
Other non-current assets		**109,173**	**98,546**
Investments and other financial assets, net	5.	108,169	97,661
Intangible assets, net	6.	1,004	885
Current assets		**31,987**	**34,997**
Cash and cash equivalents	7.	1,844	15,551
Receivables, net	8.	15,273	9,670
Materials and supplies, net		2,705	2,611
Fossil fuel stock		543	865
Emission rights	9.	2	7
Other financial assets, net	10.	7,999	5,524
Other current assets	11.	3,621	769
EQUITY AND LIABILITIES		**312,654**	**303,124**
Equity	12.	**149,448**	**182,236**
Stated capital		59,221	59,221
Treasury shares		-55,972	-1,943
Retained earnings and other reserves		146,199	124,958
Long-term liabilities		**91,319**	**72,650**
Long-term debt, net of current portion	13.	51,839	36,051
Accumulated provision for nuclear decommissioning and fuel storage	16.	38,997	36,503
Other long-term liabilities		483	96
Deferred tax liability	24.	**11,557**	**13,471**
Current liabilities		**60,330**	**34,767**
Short-term loans		11,821	
Current portion of long-term debt		3,235	5,820
Trade and other payables	17.	38,398	21,059
Income tax payable		3,683	4,193
Accrued liabilities	18.	3,193	3,695

*) Comparative information has been restated due to the merger of ČEZ, a. s. and regional distribution companies (see Note 3).

Date:	Signature of accounting unit´s statutory body:	Person responsible for accounting:	Person responsible for financial statements:
25.2.2008		Martin Novák	Ivan Viktora

STATEMENT OF INCOME

in accordance with IFRS

December 31, 2007

(in CZK Millions)

ČEZ, a. s.
Duhová 2/1444
Praha 4
IČ: **452 74 649**

	Note	current period	prior year period *)
Revenues	19.	**101,155**	**88,289**
Sales of electricity		95,410	83,199
Gains and losses from electricity derivative trading, net		2,583	(134)
Heat sales and other revenues		3,162	5,224
Operating expenses		**(64,647)**	**(58,505)**
Fuel		(17,829)	(15,010)
Purchased power and related services		(17,700)	(15,510)
Repair and maintenance		(3,375)	(4,287)
Depreciation and amortization		(12,339)	(13,559)
Salaries and wages	20.	(6,007)	(5,955)
Materials and supplies		(1,704)	(2,163)
Emission rights, net	9.	794	3,078
Other operating expenses	21.	(6,487)	(5,099)
Income before other income (expenses) and income taxes		**36,508**	**29,784**
Other income (expenses)		**479**	**(1,901)**
Interest on debt, net of capitalized interest		(1,968)	(1,737)
Interest on nuclear and other provisions	16.	(1,643)	(1,606)
Interest income	22.	756	472
Foreign exchange rate gains (losses), net		(465)	1,264
Gain (loss) on sale of subsidiaries		266	272
Other income (expenses), net	23.	3,533	(566)
Income before income taxes		**36,987**	**27,883**
Income taxes	24.	**(5,715)**	**(5,932)**
Net income		**31,272**	**21,951**

*) Comparative information has been restated due to the merger of ČEZ, a. s. and regional distribution companies (see Note 3).

Date:	Signature of accounting unit´s statutory body:	Person responsible for accounting:	Person responsible for financial statements:
25.2.2008		Martin Novák	Ivan Viktora

STATEMENT OF CHANGES IN EQUITY

in accordance with IFRS

December 31, 2007

(in CZK Millions)

ČEZ, a. s.
Duhová 2/1444
Praha 4
IČ: **452 74 649**

	Stated Capital	Treasury shares	Fair Value and Other Reserves	Retained Earnings	Total Equity
December 31, 2005, as previously reported	**59,221**	**(984)**	**613**	**115,426**	**174,276**
Effect of merger (note 3)			(24)	(5,016)	(5,040)
January 1, 2006, as restated	**59,221**	**(984)**	**589**	**110,410**	**169,236**
Change in fair value of cash flow hedges recognized in equity			315		**315**
Cash flow hedges removed from equity			181		**181**
Change in fair value of available-for-sale financial assets recognized in equity			278		**278**
Available-for-sale financial assets removed from equity			32		**32**
Other movements				(2)	**(2)**
Gain and loss recorded directly to equity	**-**	**-**	**806**	**(2)**	**804**
Net income				21,951	**21,951**
Total gains and losses	**-**	**-**	**806**	**21,949**	**22,755**
Dividends declared				(8,852)	**(8,852)**
Acquisition of treasury shares		(1,273)			**(1,273)**
Sale of treasury shares		314		(179)	**135**
Transfer of exercised and forfeited share options within equity			(240)	240	**-**
Share options			235		**235**
December 31, 2006 *)	**59,221**	**(1,943)**	**1,390**	**123,568**	**182,236**
Change in fair value of cash flow hedges recognized in equity			2,239		**2,239**
Cash flow hedges removed from equity			35		**35**
Change in fair value of available-for-sale financial assets recognized in equity			(56)		**(56)**
Available-for-sale financial assets removed from equity			(270)		**(270)**
Gain and loss recorded directly to equity	**-**	**-**	**1,948**	**-**	**1,948**
Net income				31,272	**31,272**
Total gains and losses	**-**	**-**	**1,948**	**31,272**	**33,220**
Dividends declared				(11,780)	**(11,780)**
Acquisition of treasury shares		(54,397)			**(54,397)**
Sale of treasury shares		368		(244)	**124**
Transfer of exercised and forfeited share options within equity			(90)	90	**-**
Share options			45		**45**
December 31, 2007	**59,221**	**(55,972)**	**3,293**	**142,906**	**149,448**

*) Comparative information has been restated due to the merger of ČEZ, a. s. and regional distribution companies (see Note 3).

Date:	Signature of accounting unit´s statutory body:	Person responsible for accounting:	Person responsible for financial statements:
25.2.2008		Martin Novák	Ivan Viktora

CASH FLOW STATEMENT

in accordance with IFRS

December 31, 2007

(in CZK Millions)

ČEZ, a. s.
Duhová 2/1444
Praha 4
IČ: **452 74 649**

	current period	prior year period *)
Operating activities:		
Income before income taxes	**36,987**	**27,883**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	12,376	13,578
Amortization of nuclear fuel	2,930	3,151
(Gain) loss on fixed assets retirements, net	(584)	(485)
Foreign exchange rate losses (gains), net	465	(1,264)
Interest expense, interest income and dividends income, net	(2,121)	(364)
Provision for nuclear decommissioning and fuel storage	683	97
Valuation allowances, other provisions and other adjustments	(35)	1,864
Changes in assets and liabilities:		
Receivables	(5,851)	(2,146)
Materials and supplies	(126)	128
Fossil fuel stocks	321	(135)
Other current assets	(5,394)	(2,627)
Trade and other payables	13,758	1,527
Accrued liabilities	(144)	505
Cash generated from operations	**53,265**	**41,712**
Income taxes paid	(8,612)	(1,365)
Interest paid, net of capitalized interest	(1,496)	(1,530)
Interest received	726	406
Dividends received	3,412	1,550
Net cash provided by operating activities	**47,295**	**40,773**
Investing activities:		
Acquisition of subsidiaries and associates	(2,651)	(21,291)
Proceeds from disposal of subsidiaries and associates	1,600	3,342
Additions to property, plant and equipment and other non-current assets	(16,869)	(10,767)
Loans made	(6,711)	(511)
Proceeds from sales of fixed assets	927	1,390
Repayments of loans	1,009	160
Change in decommissioning and other restricted funds	(3,291)	(324)
Total cash used in investing activities	**(25,986)**	**(28,001)**

	current period	prior year period *)
<u>**Financing activities:**</u>		
Proceeds from borrowings	59,479	43,083
Payments of borrowings	(33,490)	(37,247)
Payments of other long-term liabilities	(96)	(97)
Change in payables/receivables from group cashpooling	5,325	7,948
Dividends paid	(11,694)	(8,836)
(Acquisition) sale of treasury shares	(54,443)	(5,750)
Total cash provided by (used in) financing activities	**(34,919)**	**(899)**
Net effect of currency translation in cash	(97)	(506)
Net increase (decrease) in cash and cash equivalents	**(13,707)**	**11,367**
Cash and cash equivalents at beginning of period	15,551	4,184
Cash and cash equivalents at end of period	1,844	15,551

*) Comparative information has been restated due to the merger of ČEZ, a. s. and regional distribution companies (see Note 3).

Supplementary cash flow information:		
Total cash paid for interest	2,219	2,057

Date: 25.2.2008	Signature of accounting unit´s statutory body:	Person responsible for accounting: Martin Novák	Person responsible for financial statements: Ivan Viktora

Č E Z , a. s.

NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007

1. Description of the Company

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

As at December 31, 2007, the organizational structure of the Company comprised eight divisions as follows: Chief Executive Officer's Division, Chief Operating Officer´s Division, Finance Division, Administration Division, HR Division, Distribution Division, Sale and Trading Division, and Production Division. The Production Division supervises 13 organizational units, namely ten fossil fuel plants (Mělník, Tisová, Poříčí, Dětmarovice, Chvaletice, Ledvice, Tušimice, Počerady, Hodonín, Prunéřov), one organizational unit operating impoundment, run-off-river and pumped storage hydro plants, and two nuclear power plants (Dukovany and Temelín).

The Ministry of Finance of the Czech Republic was the only shareholder who held a 20% or greater interest in the Company's share capital as at December 31, 2007; its interest amounted to 66.0% of the Company's share capital.

Members of the statutory and supervisory bodies at December 31, 2007 were as follows:

Board of Directors		Supervisory Board	
Chair	Martin Roman	Chair	Martin Kocourek
Vice-chair	Daniel Beneš	Vice-chair	Tomáš Hüner
Vice-chair	Jiří Borovec	Vice-chair	Zdeněk Židlický
Member	Zdeněk Pasák	Member	Jan Demjanovič
Member	Tomáš Pleskač	Member	Ivan Fuksa
		Member	Zdeněk Hrubý
		Member	Josef Janeček
		Member	Jiří Jedlička
		Member	Petr Kalaš
		Member	Jan Ševr
		Member	Drahoslav Šimek
		Member	Zdeněk Trojan

2. Summary of Significant Accounting Policies

2.1. Basis of Presentation of the Financial Statements

Pursuant to the Accounting Law, the accompanying separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. IFRS as adopted by the EU which are relevant to and used by the Company do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

Data pertaining to 2006 or as at December 31, 2006 are presented in the format required for 2007. Certain prior year financial statement items have been reclassified to conform to the current year presentation. Since 2007 the Company changed the presentation of revenues and expenses related to electricity trading (see Note 2.18). In the income statement and the related notes expenses or losses are presented as negative balances and revenues or gains are presented as positive balances.

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period. The consolidated financial statements were authorized for issue on February 25, 2008.

2.2. Presentation Currency

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

2.3. Revenue Recognition

The Company recognizes revenue from supplies of electricity and related services based on contract terms. Differences between contracted amounts and actual supplies are settled through the market operator.

Revenues are recognized, when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured. Sales are recognized net of value added tax and discounts, if any.

Revenue from sale of goods is recognized when the goods are delivered and significant risks and rewards of ownership of the goods have passed to the buyer.

Revenue from services is recognized when the services are rendered.

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

2.4. Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Explanation of key assumptions is included in relevant sections of notes where significant estimates are being described.

2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 2,930 million and CZK 3,151 million for the years ended December 31, 2007 and 2006, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel (see Note 16). Such charges amounted to CZK 317 million and CZK 182 million in 2007 and 2006, respectively.

2.6. Interest

The Company capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 723 million and CZK 527 million, which was equivalent to an interest capitalization rate of 5.0% and 5.9% in 2007 and 2006, respectively.

2.7. Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and valuation allowances. Cost of plant in service includes materials, labor, payroll-related costs and the cost of debt financing used during construction. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Government grants received for construction of certain items of property, plant and equipment decrease the acquisition cost of the respective items.

Internally developed property, plant and equipment are recorded at their accumulated cost. The costs of completed technical improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are derecognized from balance sheet. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment and impairment reversals are recognized directly in profit or loss in the line item of Other operating expenses. At each reporting date an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item of Other operating expenses.

Depreciation is calculated according to a depreciation plan, based on the acquisition cost and the estimated useful life of related asset. The estimated useful lives used for property, plant and equipment are as follows:

	Lives
Buildings and structures	25 – 50
Machinery and equipment	4 – 25
Vehicles	4 – 20
Furniture and fixtures	8 – 15

Average depreciable lives based on the functional use of property, plant and equipment are as follows:

	Average Life
Hydro plants	
Buildings and structures	44
Machinery and equipment	16
Fossil fuel plants	
Buildings and structures	32
Machinery and equipment	14
Nuclear power plant	
Buildings and structures	32
Machinery and equipment	17

Depreciation of plant in service was CZK 12,166 million and CZK 13,392 million for the years ended December 31, 2007 and 2006, which was equivalent to a composite depreciation rate of 4.3% and 4.7%, respectively. The tangible asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.8. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization. Amortization of fuel in the reactor is based on the amount of heat generated (in GJ) and on a consumption coefficient (CZK per GJ) reflecting the cost of fuel elements located in the reactor, their scheduled life in the reactor and scheduled heat generation.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.21). As at December 31, 2007 and 2006 capitalized costs at net book value amounted to CZK 455 million and CZK 580 million, respectively.

2.9. Intangible Assets

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 15 years. The intangible asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. The costs of completed technical improvements are capitalized.

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses. At each reporting date an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item of Other operating expenses.

2.10. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plan in 2007 and 2006 the Company was granted emission rights free of charge.

The Company is responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person. On April, 30 of the following year, at latest, the Company is required to remit a number of certificates representing the number of tones of CO_2 actually emitted. Should the Company not fulfill this requirement and remit necessary number of emission rights, it would have to pay a penalty of EUR 40 per 1 ton of CO_2.

In the financial statements, the emission rights, which were granted free of charge, are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost. If the granted allowances are not sufficient to cover actual emissions, the Company recognizes a provision, which is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date.

The Company also holds emission rights for trading purposes. The portfolio of emission rights held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss.

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

2.11. Investments

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

Held-to-maturity investments and loans and receivables are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale investments that do not have a quoted market price in an active market are measured at cost. The carrying amounts of such investments are reviewed at each balance sheet date for impairment.

Changes in the fair value of available-for-sale financial assets are recognized directly in equity. Gains or losses on measurement to fair value of available-for-sale investments are recognized directly in equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

Changes in the fair values of trading investments are included in Other income (expenses), net.

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

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

Mergers with subsidiaries which are entities under common control are recorded using a method similar to pooling of interests.

The assets and liabilities of the merged subsidiaries are included in separate financial statements of the Company at their book values. Financial statements of the Company report results of operations for the period in which the merger occurs as though the merger had occurred at the beginning of the period. Results of operations for that period thus comprise those of the previously separate entities from the beginning of the period to the effective date of the merger and those of the combined operations from that date to the end of the period. Financial statements and financial information presented for prior years is restated to furnish comparative information on the same basis. The difference between the cost of investment in subsidiaries and net assets merged from entities under common control is recorded directly in equity.

2.12. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 7). Foreign currency deposits are translated using the exchange rates published as at the balance sheet date.

2.13. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown under non-current financial assets as restricted funds (see Note 5.2), relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Company. As at December 31, 2007 and 2006, restricted financial assets totaled CZK 6,409 million and CZK 3,118 million, respectively.

2.14. Receivables, Payables and Accruals

Receivables are carried at their nominal value. Ceded receivables are valued at cost. Doubtful receivables are adjusted for uncollectible amounts through a provision account. Additions to the provision account are charged to income. At December 31, 2007 and 2006 the allowance for uncollectible receivables amounted to CZK 404 million and CZK 360 million, respectively.

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

2.15. Material and Supplies

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

2.16. Fossil Fuel Stock

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

2.17. Derivative Financial Instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. In the attached balance sheet such derivatives are presented as part of Other financial assets, net and Trade and other payables.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge:

Gain or loss from re-measuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to profit or loss over the remaining term to maturity.

Cash flow hedge:

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in equity and are presented as part of Retained earnings and other reserves. The gain or loss relating to the ineffective portion is recognized in the income statement in the line item Other expenses/income, net.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recorded to the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Other derivatives:

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2.18. Commodity Derivative Instruments

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

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

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

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

Commodity contracts, which fall under the scope of IAS 39, are carried at fair value with changes in the fair value recognized in the income statement. Since 2007 the Company started to present revenues and expenses related to electricity trading net in the line Gains and losses from electricity derivative trading, net. Prior year financial information has been restated to conform to the current year presentation. The reclassification decreased sales of electricity by CZK 7,211 million and purchased power and related services by CZK 7,149 million for the year ended December 31, 2006.

2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation, etc.). Income tax due is provided at a rate of 24% for the years ended December 31, 2007 and 2006, respectively, after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate for 2008, 2009 and 2010 will be 21%, 20% and 19%, respectively.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is calculated as the product of the tax rate that is expected to apply to the year when the asset is realised or the liability is settled and temporary differences between book and tax accounting.

Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Change in the carrying amount of deferred tax assets and liabilties due to change in tax rate is recognized in the income statement, except to the extent that it relates to items previously charged or credited to equity.

2.20. Long-term Debt

Borrowings are initially recognized at the amount of the proceeds received, net of transaction costs. They are subsequently carried at amortized cost using the effective interest rate method, the difference between net proceeds and redemption value is being recognized in the net income over the life of the borrowings as interest expense.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges.

The carrying amount of long-term debt, which is hedged against the changes in its fair value, is adjusted by the changes in the fair value attributable to the hedged risk. The changes in the fair value of the hedged long-term debt are recognized in profit or loss and are included in the income statement line Other income (expenses), net. The adjustment to the carrying amount of the hedged long-term debt in a fair value hedge is subsequently amortized to profit and loss using the effective interest rate method.

2.21. Nuclear Provisions

The Company has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors.

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is approximately 2%; the effect of interest rate is estimated 2.5%.The decommissioning process is expected to continue for approximately a sixty-year period subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Company has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Company's current estimates.

Changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period.

2.22. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of equity as a reduction of equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as an addition to equity.

2.23. Share Options

Board of Directors, members of Executive Committee (advisory body of Chief Executive Officer) and the Supervisory Board members have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. In case of options, which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options, which will ultimately vest. In 2007 and 2006 the expense recognized in respect of the share option plan amounted to CZK 45 million and CZK 235 million, respectively.

2.24. Translation of Foreign Currencies

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns using the exchange rate prevailing at the date of the transaction, as published by the Czech National Bank. In the accompanying financial statements, assets and liabilities are translated at the rate of exchange ruling at December 31. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Translation differences on available-for-sale equity securities are included in equity.

Exchange rates used as at December 31, 2007 and 2006 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2007	2006
1 EUR	26.620	27.495
1 USD	18.078	20.876
1 PLN	7.412	7.177
100 SKK	79.179	79.858
1 BGN	13.610	14.059
1 RON	7.443	8.127

2.25. Adoption of New IFRS Standards in 2007

In 2007 the Company adopted the following new and amended International Financial Reporting Standards and IFRIC Interpretations, which were relevant for the Company:

- IFRS 7 Financial Instruments: Disclosures
- IFRIC Interpretation 8 Scope of IFRS 2
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives
- IFRIC Interpretation 10 Interim Financial Reporting and Impairment
- IAS 1 Presentation of Financial Statements (Amendment)

Adoption of the new or revised IFRS standards and interpretations did not have any effect on the opening balance of equity as at January 1, 2007 and 2006, respectively. They did however give rise to additional disclosures.

The principal effects of these changes on the Company are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements (Amendment)

This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 12.

2.26. New IFRS Standards and Interpretations not yet Effective

The Company is currently assessing the potential impacts of the new and revised standards that will be effective from January 1, 2008 or later. Most relevant to the Company's activities are IFRS 3 Business Combinations (Revised), IFRS 8 Operating Segments, IAS 23 Borrowing Costs (Revised), IAS 27 Consolidated and Separate Financial Statements (Revised), IFRIC Interpretation 11 Group and Treasury Share Transactions, IFRIC Interpretation 12 Service Concession Arrangements. The Company currently does not expect that the new standards and interpretations will have a significant effect on the Company's results and financial position, although they may expand the disclosures in certain areas.

3. Merger of ČEZ, a. s. with Regional Distribution Companies

ČEZ, a. s. merged with 5 former regional distribution companies: Středočeská energetická a.s., Západočeská energetika, a.s., Severočeská energetika, a.s., Východočeská energetika, a.s., and Severomoravská energetika, a. s. (together "REAS"). The effective date of the merger was January 1, 2007. The legal succeeding company is ČEZ, a. s.

At the time of the transaction the Company was the majority shareholder of REAS. This transaction between entities under common control was therefore accounted for using a method similar to pooling of interests. Prior year financial information was restated to furnish comparative information on the same basis as in the current period (see Note 2.11).

The following table summarizes the impact of retrospective accounting using the method similar to the pooling of interests method on the previously reported statement of income of ČEZ, a. s. for the year ended December 31, 2006 (in CZK millions):

Statement of income for the year ended December 31, 2006	As previously reported	Results of REAS	Eliminations	As restated
Total revenues	85,780	2,660	(151)	88,289
Operating expenses:				
Fuel	(15,010)	-	-	(15,010)
Purchased power and related services	(15,494)	(89)	73	(15,510)
Repairs and maintenance	(4,033)	(254)	-	(4,287)
Depreciation and amortization	(13,345)	(214)	-	(13,559)
Salaries and wages	(4,928)	(1,028)	1	(5,955)
Materials and supplies	(1,910)	(253)	-	(2,163)
Emission rights, net	3,091	(13)	-	3,078
Other operating expenses	(4,473)	(705)	79	(5,099)
Total expenses	(56,102)	(2,556)	153	(58,505)
Income before other expenses (income) and income taxes	29,678	104	2	29,784
Other income (expenses), net	2,793	(776)	(3,918)	(1,901)
Income before income taxes	32,471	(672)	(3,916)	27,883
Income taxes	(6,668)	736	-	(5,932)
Net income	25,803	64	(3,916)	21,951

The following table summarizes the impact of retrospective accounting using the method similar to the pooling of interests method on the previously reported balance sheet of ČEZ, a. s. as of December 31, 2006 (in CZK millions):

Balance sheet as of December 31, 2006	As previously reported	REAS	Eliminations	As restated
Non-current assets:				
Property, plant and equipment, net	168,845	736	-	169,581
Investments and other financial assets, net	108,156	36,276	(46,771)	97,661
Intangible assets, net	885	-	-	885
Total non-current assets	277,886	37,012	(46,771)	268,127
Current assets:				
Cash and cash equivalents	15,014	537	-	15,551
Receivables, net	9,446	650	(426)	9,670
Other current assets, net	9,031	843	(98)	9,776
Total current assets	33,491	2,030	(524)	34,997
Total assets	311,377	39,042	(47,295)	303,124
Equity:				
Stated capital	59,221	14,031	(14,031)	59,221
Treasury shares	(1,943)	-	-	(1,943)
Retained earnings and other reserves	133,544	24,340	(32,926)	124,958
Total equity	190,822	38,371	(46,957)	182,236
Long-term liabilities:				
Long-term debt, net of current portion	36,051	-	-	36,051
Accumulated provision for nuclear decommissioning and fuel storage	36,503	-	-	36,503
Other long-term liabilities	82	14	-	96
Total long-term liabilities	72,636	14	-	72,650
Deferred tax liability	13,389	82	-	13,471
Current liabilities:				
Current portion of long-term debt	5,820	-	-	5,820
Trade and other payables	21,050	224	(215)	21,059
Income tax payable	4,291	-	(98)	4,193
Accrued liabilities	3,369	351	(25)	3,695
Current liabilities	34,530	575	(338)	34,767
Total equity and liabilities	311,377	39,042	(47,295)	303,124

4. Net Plant in Service

Net Plant in Service at December 31, 2007 and 2006 were as follows (in CZK millions):

	Buildings	Plant and Equipment	Land and Other	Total 2007	Total 2006
Cost – opening balance	80,653	211,728	857	293,238	291,100
Effect of merger (see Note 3)	-	-	-	-	25,838
Additions	715	4,855	6	5,576	4,478
Disposals	(264)	(3,261)	(12)	(3,537)	(1,928)
Non-monetary contribution and other (see Note 5.1)	(570)	(772)	(21)	(1,363)	(26,250)
Cost – closing balance	80,534	212,550	830	293,914	293,238
Accumulated depreciation and impairment – opening balance	(34,809)	(107,207)	-	(142,016)	(130,368)
Effect of merger (see Note 3)	-	-	-	-	(12,240)
Depreciation	(2,020)	(10,146)	-	(12,166)	(13,392)
Net book value of assets disposed	(129)	(81)	-	(210)	(394)
Non-monetary contribution and other (see Note 5.1)	34	567	-	601	11,604
Disposals	264	3,261	-	3,525	1,909
Impairment losses recognized	(250)	-	-	(250)	(113)
Impairment losses reversed	509	18	-	527	978
Accumulated depreciation and impairment – closing balance	(36,401)	(113,588)	-	(149,989)	(142,016)
Property, plant and equipment, net	44,133	98,962	830	143,925	151,222

At December 31, 2007 and 2006, machinery and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2007	2006
Cost	21,967	20,505
Accumulated depreciation	(4,802)	(4,312)
Net book value	17,165	16,193

No property, plant and equipment were pledged as security at December 31, 2007.

5. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2007 and 2006 consist of the following (in CZK millions):

	2007	2006
Restricted debt securities available-for-sale	3,233	-
Restricted debt securities held to maturity	996	-
Restricted cash	2,180	3,118
Total restricted financial assets	6,409	3,118
Equity securities and interests, net	93,635	91,156
Loans granted	6,561	1,112
Other long-term receivables, including prepayments	1,310	2,076
Financial assets in progress, net	254	199
Total	108,169	97,661

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

Movements in impairment provisions (in CZK millions):

	2007			2006		
	Subsidiaries and associates at cost	Financial assets in progress	Long-term receivables	Subsidiaries and associates at cost	Financial assets in progress	Long-term receivables
Opening balance	2,346	-	13	566	89	13
Effect of merger (see Note 3)	-	-	-	122	-	-
Additions	-	-	-	1,669	-	-
Reversals	(102)	-	(13)	(11)	(89)	-
Closing balance	2,244	-	-	2,346	-	13

In 2006, the Company created provision against the share in ČEZ Správa majetku, s.r.o. at the amount of the difference between book value of the share and expert valuation of the assets contributed (see Note 5.1). As at December 31, 2007 and 2006, the provision totaled CZK 1,473 million and CZK 1,514 million, respectively.

In previous years, the Company maintained a provision against the shares of ŠKODA PRAHA a.s., covering the difference between the market price of the shares at the Prague Stock Exchange and their carrying value. As at December 31, 2007 and 2006, the provision totaled CZK 566 million.

In 2006, the Company created provision against the share in CEZData, s.r.o. in the total amount of CZK 155 million. This provision relates to the difference between book value of the share and expert valuation of the assets contributed (see Note 5.1). As at December 31, 2007 and 2006, the provision totaled CZK 155 million.

Loans granted and other long-term receivables at December 31, 2007 and 2006 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	2007		2006	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Due in 1 – 2 years	439	1,295	75	766
Due in 2 – 3 years	508	11	4	1,287
Due in 3 – 4 years	1,385	-	2	8
Due in 4 – 5 years	401	-	952	3
Due in more than 5 years	3,828	4	92	12
Total	6,561	1,310	1,125	2,076
Provision	-	-	(13)	-
Total, net	6,561	1,310	1,112	2,076

Loans granted and other long-term receivables at December 31, 2007 and 2006 have following effective interest rate structure (in CZK millions):

	2007		2006	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Less than 3.0%	-	1,310	13	2,076
From 2.0% to 3.0%	-	-	10	-
From 3.0% to 4.0%	850	-	1,018	-
From 4.0% to 5.0%	165	-	1	-
Over 5.0%	5,546	-	83	-
Total	6,561	1,310	1,125	2,076
Provision	-	-	(13)	-
Total, net	6,561	1,310	1,112	2,076

5.1. Investments in Subsidiaries and Associates

In 2006, the Company contributed administrative asset management and distribution services businesses of 4 former distribution companies (merged with ČEZ, a. s. in 2007, see Note 3) to ČEZ Správa majetku, s.r.o. and ČEZ Distribuční služby, s.r.o., respectively. In addition, the Company contributed its IT business into ČEZData, s.r.o., which was followed by the contribution of telecommunication assets into the registered capital of ČEZnet, a.s. The Company also increased the registered capital of CEZ Trade Bulgaria EAD (by a cash contribution of CZK 3 million) and CEZ Hungary Ltd. (by a cash contribution of CZK 29 million). In 2007, the Company contributed remaining administrative asset management and distribution services businesses of Severočeská energetika, a.s. (merged with ČEZ, a. s. in 2007, see Note 3) to ČEZ Správa majetku, s.r.o. and ČEZ Distribuční služby, s.r.o., respectively.

As a result of the merger (see Note 3) the ownership shares in ČEZ Prodej, s.r.o., ČEZ Správa majetku, s.r.o., ČEZ Distribuční služby, s.r.o. and ČEZ Obnovitelné zdroje, s.r.o. were increased to 100%.

In April 2007, the Company acquired 100% share in heat selling and producing company Teplárenská, a.s.

In 2007, the Company established several subsidiaries in order to support the existing as well as future activities in different regions and also because of restructuring changes in several countries and resulting demerger of activities: CEZ Trade Romania S.R.L. (99,99 %) and CEZ Servicii S.A. (51%) in Romania, CEZ Slovensko, s.r.o. (100%) in Slovakia, and CEZ Ciepło Polska sp. z o.o. (100 %) and CEZ Trade Polska sp. z o.o. (100%) in Poland.

At 2007 year-end, the Company also established two Dutch subsidiaries Transenergo International N.V. (100%) and CEZ MH B.V. (100%).

In March 2007, the Romanian distribution company Electrica Oltenia S.A. was renamed to CEZ Distributie S.A. and a new electricity selling company CEZ Vanzare S.A. was stablished by demerger.

At 2007, year-end Bulgarian distribution companies Elektrorazpredelenie Pleven AD and Elektrorazpredelenie Sofia Oblast AD have been deregistered and merged with Elektrorazpredelenie Stolichno AD which was then renamed to CEZ Razpredelenie Bulgaria AD.

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

By a squeeze out of minority shareholders exercised in 2006 the Company increased its ownership interest in Severočeské doly a.s. from 93.1% to 100%.

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

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

At 2006 year-end, the Company established subsidiaries CEZ Polska sp. z o.o. (100%), Poland, CEZ Ukraine CJSC (100%), Ukraine and NERS d.o.o. (51%), Bosnia and Herzegovina.

The following table summarizes investments in subsidiaries and associates at December 31, 2007 and 2006. The financial information about these companies was obtained mainly from the companies' individual unaudited financial statements compiled for the year ended December 31, 2007 and audited financial statements compiled for the year ended December 31, 2006.

At December 31, 2007

Company	Interest in CZK millions	% interest	Number of Shares	Nominal Value in CZK	Dividends in CZK millions	Equity in CZK millions	Profit/ Loss in CZK millions
ČEZ Distribuce, a. s.	30,872	100.00	63,578,396	778	-	53,447	3,704
Severočeské doly a.s.	14,112	100.00	9,080,631	1,000	1,544	17,146	2,925
TEC Varna EAD	8,804	100.00	850,550	10 [1]	-	6,599	311
Elektrorazpredelenie Stolichno AD	8,689	67.00	129,176	10 [1]	-	6,931	766
CEZ Silesia B.V.	5,774	100.00	-	-	-	1,074	(57)
CEZ Poland Distribution B.V.	5,156	100.00	-	-	-	1,156	(1)
ČEZ Správa majetku, s.r.o.	4,934	100.00	-	-	-	3,888	342
CEZ Distributie S.A.	4,784	51.01	36,481,415	9.44 [2]	-	13,560	1,187
Teplárenská, a.s.	2,416	100.00	19,129,322	9	-	1,715	82
ČEZnet, a.s.	2,288	100.00	1,895	1,000,000	320	2,672	426
ČEZData, s.r.o.	2,103	100.00	-	-	-	1,870	114
ČEZ Prodej, s.r.o.	1,100	100.00	-	-	677	7,850	2,045
ŠKODA PRAHA a.s.	987	100.00	1,257,524	1,000	-	111	(475)
ČEZ Obnovitelné zdroje, s.r.o.	792	100.00	-	-	-	2,016	111
ČEZ Distribuční služby, s.r.o.	728	100.00	-	-	-	6,295	790
Energetika Vítkovice, a.s.	407	100.00	20,100 1	20,000 32,100,000	20	807	165
CEZ Vanzare S.A.	284	51.01	36,481,415	0.56 [2]	-	251	(53)
ČEZ Měření, s.r.o.	217	100.00	-	-	161	518	269
ČEZ Logistika, s.r.o.	200	100.00	-	-	294	620	383
Ústav jaderného výzkumu Řež a.s.	185	52.46	274,963	1,000	-	967	114
PPC Úžín, a.s.	170	100.00	1,100	100,000	-	109	-
LOMY MOŘINA spol. s r.o.	169	51.05	-	-	6	362	2
NERS d.o.o.	102	51.00	-	-	-	(19)	(32)
Energetické opravny, a.s.	75	100.00	5,500	10,000	-	53	(34)
I & C Energo a.s.	56	100.00	15,000	10,000	15	353	77
CEZ FINANCE B.V.	53	100.00	-	-	-	71	9
CEZ Deutschland GmbH	47	100.00	-	-	-	45	(2)
STE - obchodní služby spol. s r.o. v likv.	47	100.00	-	-	-	(11)	8
CITELUM, a.s.	43	48.00	432	100,000	7	135	27
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	42	32.00	4,200	10,000	-	169	(3)
CEZ Hungary Ltd.	35	100.00	-	-	-	23	1
CEZ Servicii S.A.	27	51.00	3,111,000	1 [2]	-	26	(22)
ČEZ Zákaznické služby, s.r.o.	20	100.00	-	-	135	408	265
CEZ Srbija d.o.o.	20	100.00	-	-	-	11	(4)
Other	141	-	-	-	15	-	-
Total	95,879						
Provision	(2,244)						
Total, net	93,635						

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

At December 31, 2006

Company	Interest in CZK millions	% interest	Number of Shares	Nominal Value in CZK	Dividends in CZK millions	Equity in CZK millions	Profit/ Loss in CZK millions
ČEZ Distribuce, a. s.	30,873	100.00	63,578,396	778	-	49,602	362
Severočeské doly a.s.	14,112	100.00	9,080,631	1,000	999	17,527	2,656
TEC Varna EAD	8,804	100.00	850,550	10 [1)]	-	6,508	97
Elektrorazpredelenie Stolichno AD	5,827	67.00	129,176	10 [1)]	-	4,155	835
CEZ Silesia B.V.	5,774	100.00	-	-	-	2,946	424
CEZ Poland Distribution B.V.	5,156	100.00	-	-	-	2,516	225
Electrica Oltenia S.A.	5,068	51.01	36,481,412	10 [2)]	-	13,771	767
ČEZ Správa majetku, s.r.o.	4,570	100.00	-	-	-	3,115	119
ČEZnet, a.s.	2,288	100.00	1,895	1,000,000	-	2,568	413
ČEZData, s.r.o.	2,103	100.00	-	-	-	1,755	(207)
Elektrorazpredelenie Pleven AD	1,760	67.00	80,802	10 [1)]	-	1,275	71
Elektrorazpredelenie Sofia Oblast AD	1,102	67.00	143,983	10 [1)]	-	2,026	70
ČEZ Prodej, s.r.o.	1,100	100.00	-	-	-	6,482	935
ŠKODA PRAHA a.s.	987	100.00	1,257,524	1,000	-	588	(251)
ČEZ Distribuční služby, s.r.o.	599	100.00	-	-	-	4,431	174
ČEZ Obnovitelné zdroje, s.r.o.	558	100.00	-	-	-	1,415	(12)
Energetika Vítkovice, a.s.	402	100.00	20,100	20,000	150	620	107
MSEM, a.s.	257	100.00	1,549	100,000	266	373	36
ČEZ Měření, s.r.o.	217	100.00	-	-	90	410	179
ČEZ Logistika, s.r.o.	200	100.00	-	-	-	531	327
KNAUF POČERADY, spol. s r.o.	200	40.00	-	-	19	459	42
Ústav jaderného výzkumu Řež a.s.	185	52.46	274,962	1,000	-	852	39
PPC Úžín, a.s.	170	100.00	1,100	100,000	-	109	(1)
LOMY MOŘINA spol. s r.o.	169	51.05	-	-	-	372	2
SEG s.r.o.	87	100.00	-	-	-	178	31
Elektrovod Holding, a.s.	84	50.00	160,569	755 [3)]	-	296	60
Energetické opravny, a.s.	75	100.00	5,500	10,000	-	87	8
ENERGETICKÉ CENTRUM Kladno, spol. s r.o.	61	10.99	-	-	-	-	-
I & C Energo a.s.	55	100.00	15,000	10,000	-	303	31
CEZ FINANCE B.V.	53	100.00	-	-	9	64	9
NERS d.o.o.	50	51.00	-	-	-	11	-
CEZ Deutschland GmbH	47	100.00	-	-	-	49	-
VČE – transformátory, s.r.o.	47	100.00	-	-	3	58	9
STE - obchodní služby spol. s r.o. v likvidaci	47	100.00	-	-	-	(19)	-
CITELUM, a.s.	43	48.00	432	100,000	7	125	22
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	42	32.00	4,200	10,000	-	172	-
VČE - montáže, a.s.	36	100.00	780	100,000	13	133	20
Other	294	-	-	-	73	-	-
Total	93,502						
Provision	(2,346)						
Total, net	91,156						

[1)] Nominal value of shares presented in BGN
[2)] Nominal value of shares presented in RON
[3)] Nominal value of shares presented in SKK

5.2. Restricted Financial Assets

At December 31, 2007 and 2006, restricted balances of financial assets totaled CZK 6,409 million and CZK 3,118 million, respectively, and represented accumulated provision for the decommissioning, reclamation and maintenance of waste storages after they are put out of services, escrow accounts securing the Company's liquidity (pursuant to contracts entered into with the respective banks) from significant financial market volatility affecting market prices of designated hedging transactions, and accumulated provision for nuclear decommissioning in compliance with the Nuclear Law. Since 2007 restricted financial assets comprise not only restricted cash balances, but also term deposits and government bonds.

At December 31, 2007 and 2006, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 465 million and CZK 460 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 5,522 million and CZK 2,272 million, respectively.

5.3. Loans Granted

Loans granted at December 31, 2007 and 2006 were as follows (in CZK millions):

	2007	2006
Elektrociepłownia Chorzów ELCHO sp. z o.o.	5,392	-
ČEZData, s.r.o.	1,000	1,300
Elektrownia Skawina S.A.	267	-
NERS d.o.o.	107	-
Other	43	174
Current portion	(248)	(362)
Long-term portion of loans granted	6,561	1,112

In 2007 the loans granted to Elektrociepłownia Chorzów ELCHO sp. z o.o. were ceded to the Company from banks. Current portion of loans granted is presented as part of short-term receivables.

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

At December 31, 2007 and 2006, long-term receivables from the disposal of non-current assets were CZK 1,277 million and CZK 2,012 million, respectively, and represent mainly the balance of a receivable from the Ministry of Finance of the Czech Republic arising from the sale of the shares of ČEPS, a.s., in 2004. The Ministry of Finance of the Czech Republic paid CZK 842 million and CZK 2,817 million in 2007 and 2006, respectively. In addition, an amount due within one year, i.e. CZK 742 million and CZK 842 million, respectively, was reclassified from long-term to short-term trade receivables in 2007 and 2006.

The total balance of the receivable arising from the sale of the shares of ČEPS, a.s., including the current portion, was CZK 2,012 million and CZK 2,854 million at December 31, 2007 and 2006, respectively.

6. Intangible Assets, Net

Intangible assets, net, at December 31, 2007 and 2006 are as follows (in CZK millions):

	Software	Rights and Other	Total 2007	Total 2006
Cost at January 1	851	798	1,649	3,427
Effect of merger (see Note 3)	-	-	-	79
Additions	41	121	162	393
Disposals	(3)	(1)	(4)	(83)
Non-monetary contribution (see Note 5.1)	-	-	-	(2,167)
Cost at December 31	889	918	1,807	1,649
Accumulated amortization at January 1	(742)	(143)	(885)	(2,289)
Effect of merger (see Note 3)				(66)
Amortization	(65)	(108)	(173)	(167)
Net book value of assets disposed	-	-	-	(6)
Non-monetary contribution (see Note 5.1)	-	-	-	1,558
Disposals	3	1	4	83
Reversal of impairment provision	-	-	-	2
Accumulated amortization at December 31	(804)	(250)	(1,054)	(885)
Intangible assets, net	85	668	753	764

At December 31, 2007 and 2006, intangible assets presented in the balance sheet included intangible assets in progress in the amount of CZK 251 million and CZK 121 million, respectively.

7. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2007 and 2006 were as follows (in CZK millions):

	2007	2006
Cash on hand and current accounts with banks	787	3,146
Deposit notes	-	2,969
Term deposits	1,057	9,436
Total	1,844	15,551

At December 31, 2007 and 2006, cash and cash equivalents included foreign currency deposits of CZK 1,341 million and CZK 12,862 million, respectively.

Average interest rates on term deposits and bank notes at December 31, 2007 and 2006 were 4.68% and 3.90%, respectively. The weighted average interest rate for 2007 and 2006 was 3.41% and 3.04%, respectively.

8. Receivables, net

The composition of receivables, net, at December 31, 2007 and 2006 is as follows (in CZK millions):

	2007	2006
Trade receivables	11,985	9,024
Short-term loans granted	713	493
Other receivables	2,979	513
Allowance for doubtful receivables	(404)	(360)
Total	15,273	9,670

The information about receivables from related parties is included in Note 25.

At December 31, 2007 and 2006 the ageing analysis of receivables, net is as follows (in CZK millions):

	2007	2006
Not past due	14,734	9,484
Past due but not impaired [1]:		
less than 3 months	478	168
3 – 6 months	24	18
6 – 12 months	24	-
more than 12 months	13	-
Total	15,273	9,670

[1] Past due, but not impaired receivables include net receivables, for which the Company recorded an impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

Movements in allowance for doubtful receivables (in CZK millions):

	2007	2006
Opening balance	360	346
Effect of merger (see Note 3)	-	257
Additions	223	321
Reversals	(179)	(564)
Closing balance	404	360

9. Emission Rights

The following table summarizes the movements and balances of emission rights in measurement units (thousands of tons) in 2007 and 2006 and as at December 31, 2007 and 2006, respectively, and their valuation presented in the accompanying financial statements:

	2007		2006	
	in thousands tons	in millions CZK	in thousands tons	in millions CZK
Emission rights granted and purchased for own use:				
Granted emission rights at January 1	31,951	-	34,467	-
Emission rights granted	36,867	-	36,867	-
Settlement of prior year actual emissions with register	(34,305)	-	(32,750)	-
Emission rights purchased	3,854	202	-	-
Emission rights sold	-	-	(6,633)	-
Fair value adjustment	-	(200)	-	-
Granted and purchased emission rights at December 31	38,367	2	31,951	-
Emission rights held for trading:				
Emission rights held for trading at January 1	41	7	205	125
Effect of merger (see Note 3)	-	-	14	9
Emission rights purchased	5,937	539	3,680	1,916
Emission rights sold	(5,966)	(559)	(3,858)	(2,035)
Fair value adjustment	-	13	-	(8)
Emission rights held for trading at December 31	12	-	41	7

In 2007 and 2006, total emissions of greenhouse gases made by the Company amounted to an equivalent 38,310 thousand tons of CO_2 and 34,305 thousand tons of CO_2, respectively. The amount of emissions CO_2 in 2007 and 2006 was higher than the amount of emissions granted and purchased for 2007 and 2006, respectively. Because of that in 2007 and 2006 the provision of CZK 2 million and CZK 415 million, respectively, was created.

The following table shows the impact of transactions with emission rights on income for the year ended December 31, 2007 and 2006 (in CZK millions):

	2007	2006
Gain on sales of granted emission rights	-	3,481
Net gain from emission trading	568	20
Fair value adjustment	(187)	(8)
Creation of provisions for emission rights	(2)	(415)
Settlement of provisions for emission rights	415	-
Net gain related to emission rights	794	3,078

10. Other Financial Assets, net

Other financial assets, net, at December 31, 2007 and 2006 were as follows (in CZK millions):

	2007	2006
Derivatives	7,975	3,388
Securities available for sale	1	2,085
Securities held for trading	23	51
Total	7,999	5,524

Derivatives balance is mainly comprised of positive fair value of electricity trading contracts and emission right derivatives. At December 31, 2006 the equity securities available-for-sale represent mainly investments into mutual funds.

11. Other Current Assets

Other current assets at December 31, 2007 and 2006 were as follows (in CZK millions):

	2007	2006
Prepaid variation margin on “own use” electricity futures	2,992	-
Prepayments	437	519
Advances granted	192	250
Total	3,621	769

Prepaid variation margin represents the net variation margin paid to Prague Energy Exchange (PXE) in respect of the electricity futures contracts treated as own use, which will be delivered in 2008 and thereafter.

12. Equity

As at December 31, 2007, the share capital of the Company registered in the Commercial Register totaled CZK 59,221,084,300 and consisted of 592,210,843 shares with a nominal value of CZK 100 per share. All shares are bearer shares that are fully paid and listed.

The General Meeting of the Company, held on April 23, 2007, passed a resolution concerning acquisition of the Company’s own shares (“Share-Buy-Back Program”). The General Meeting approved that the Company may acquire own equity shares as from April 23, 2007 in the quantity, which does not exceed 59,221,084 shares in total. The lowest price, at which the ČEZ company is allowed to buyback its shares, is CZK 300 per share. The highest price, at which the company is allowed to acquire its shares, is CZK 2,000 per share. The period during which the Company is authorized to acquire its own shares, is 18 months as from the date of holding the General Meeting. The acquired shares may be used for the reduction of the stated capital of the Company and for fulfilling the commitments arising from the share option plan (see Note 2.23) namely within the amount of 5 million shares. The main reason for carrying out the share-buy-back program is to make the capital structure of the company more effective.

Development of the number of treasury shares in 2007 and 2006 is as follows (in pieces):

	2007	2006
Number of treasury at beginning of period	3,455,010	2,440,010
Acquisitions of treasury shares	47,570,134	1,715,000
Sales of treasury shares	(655,000)	(700,000)
Number of treasury at end of period	50,370,144	3,455,010

Treasury shares remaining at end of period are presented at cost as a deduction from equity.

In accordance with Czech regulations, joint stock companies are required to establish a non-distributable reserve fund for contingencies against possible future losses. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As at December 31, 2007 and 2006, the balance was CZK 67,817 million and CZK 13,167 million, respectively and presented as part of retained earnings. The reserve fund also includes amounts equal to the purchase price of treasury shares held by the Company. At December 31, 2007 and 2006 such balances amounted to CZK 55,972 million and CZK 1,943 million, respectively, and were recorded against distributable retained earnings.

Dividends paid per share were CZK 20.0 and CZK 15.0 in 2007 and 2006, respectively. Dividends from 2007 profit will be declared on the general meeting which will be held by the end of May 2008.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Company primarily monitors capital using the the ratio of net debt to EBITDA. The Company's goal is to keep this ratio at maximum in the range of 2.0 – 2.5. In addition, the Company also monitors capital using a net debt to equity ratio, which is total debt less cash and cash equivalents divided by total equity attributable to equity holders of the parent. The Company's policy is to keep the net debt to equity ratio below 50%. EBITDA consists of income before income taxes and other expenses/income plus depreciation and amortization. Capital includes issued shares and other reserves attributable to equity holders of the parent. The Company includes within total net debt the long-term and short-term interest bearing loans and borrowings less cash and cash equivalents. The calculation and evaluation of ratios is done using consolidated numbers.

	2007 consolidated	2006 consolidated
Total long-term debt	55,210	48,321
Total short-term loans	18,048	121
Less Cash and cash equivalents	(12,429)	(30,932)
Total Net debt	60,829	17,510
Income before income taxes and other expenses/income	53,203	40,064
Depreciation and amortization	22,123	24,280
EBITDA	75,326	64,344
Total equity attributable to the equity holders of the parent	171,352	194,937
Net debt to EBITDA ratio	0.81	0.27
Net debt to equity ratio	35.5%	9.0%

13. Long-term Debt

Long-term debt at December 31, 2007 and 2006 was as follows (in CZK millions):

	2007	2006
7.125% Notes, due 2007 (USD 178 million) [1]	-	3,765
4.625% Eurobonds, due 2011 (EUR 400 million) [1]	10,606	10,942
4.125% Eurobonds, due 2013 (EUR 500 million)	13,179	13,593
5.125% Eurobonds, due 2012 (EUR 500 million)	13,250	-
9.22% Zero Coupon Debentures, due 2009 (CZK 4,500 million)	4,147	3,843
9.22% Debentures, due 2014 (CZK 2,500 million) [2]	2,496	2,495
3.35% Debentures, due 2008 (CZK 3,000 million)	3,000	2,997
4.30% Debentures, due 2010 (CZK 7,000 million)	6,984	-
Total long term bonds and debentures	53,662	37,635
Less: Current portion	(3,000)	(3,765)
Long-term bonds, net of current portion	50,662	33,870
Long-term bank loans:		
2.00% to 2.99% p.a.	-	1,853
3.00% to 3.99% p.a.	-	200
4.00% to 4.99% p.a.	1,412	-
5.00% to 5.99% p.a.	-	1,338
6.00% to 6.99% p.a.	-	227
7.00% to 7.99% p.a.	-	618
Total long term loans	1,412	4,236
Less: Current portion	(235)	(2,055)
Long-term loans, net of current portion	1,177	2,181
Long term debt total	55,074	41,871
Less: current portion	(3,235)	(5,820)
Long-term debt, net of current portion	51,839	36,051

1) These Eurobonds and U.S. Notes have been issued through the subsidiary, CEZ FINANCE B.V. The Company was granted a loan by CEZ FINANCE B.V., corresponding to the nominal value of the bonds.

2) Floating interest rate (Czech Republic CPI + 4.20%) from 2006. The rate was 5.90% and 6.40% at December 31, 2007 and 2006, respectively.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Company. For the fair values of hedging instruments see Note 14.

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

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

	2007	2006
Current portion	3,235	5,820
Between 1 and 2 years	4,382	3,356
Between 2 and 3 years	7,219	4,202
Between 3 and 4 years	10,841	359
Between 4 and 5 years	13,485	11,301
Thereafter	15,912	16,833
Total long-term debt	55,074	41,871

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

	2007		2006	
	Foreign currency	CZK	Foreign currency	CZK
EUR	1,400	37,035	925	25,233
USD	-	-	258	5,451
CZK	-	18,039	-	11,187
Total long-term debt		55,074		41,871

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2007 and 2006 without considering interest rate hedging (in CZK millions):

	2007	2006
Floating rate long-term debt		
with interest rate fixed for 1 month	-	325
with interest rate fixed from 1 to 3 months	1,412	2,053
with interest rate fixed from 3 months to 1 year	2,496	3,072
Total floating rate long-term debt	3,908	5,450
Fixed rate long-term debt	51,166	36,421
Total long-term debt	55,074	41,871

Fixed rate long-term debt exposes the Company to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 14 and Note 15.

The Company has entered into a number of loan agreements, which contain restrictive financial covenants relating to debt service coverage, ratio of debt to total capital and current ratio. In 2007 and 2006 the Company has complied with all required covenants.

14. Fair Value of Financial Instruments

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

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

14.1. Cash and cash equivalents

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

14.2. Securities held for trading

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

14.3. Investments

The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. For equity instruments for which there are no quoted market prices the Company considered use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments are carried at cost, the carrying amount approximates the fair value of such investments.

14.4. Receivables and payables

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

14.5. Short-term loans

The carrying amount approximates fair value because of the short period to maturity of those instruments.

14.6. Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values.

14.7. Derivatives

The fair value of derivatives is based upon mark to market valuations.

Carrying amounts and the estimated fair values of financial instruments at December 31, 2007 and 2006 are as follows (in CZK millions):

		2007		2006	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Long-term financial assets:		108,169	108,093	97,661	97,536
Equity securities and interests, net	SaA	93,635	93,635	91,156	91,156
Restricted debt securities available-for-sale	AFS	3,233	3,233	-	-
Restricted debt securities held to maturity	HTM	996	996	-	-
Restricted cash	LaR	2,180	2,180	3,118	3,118
Other long-term financial assets, net	LaR	8,125	8,049	3,387	3,262
Receivables	LaR	15,273	15,273	9,670	9,670
Cash and cash equivalents	LaR	1,844	1,844	15,551	15,551
Short-term equity securities held for trading	HFT	9	9	39	39
Short-term debt securities held for trading	HFT	14	14	12	12
Short-term debt securities available-for-sale	AFS	1	1	2,085	2,085
Other current assets	LaR	3,184	3,184	250	250
Liabilities:					
Long-term debt including the current portion	AC	(55,074)	(54,630)	(41,871)	(42,889)
Short-term loans	AC	(11,821)	(11,821)	-	-
Current liabilities	AC	(31,812)	(31,812)	(15,857)	(15,857)
Derivatives:					
Cash flow hedges:					
Receivables	HFT	1,009	1,009	-	-
Payables	HFT	-	-	(701)	(701)
Total cash flow hedges		1,009	1,009	(701)	(701)
Fair value hedges:					
Receivables	HFT	-	-	-	-
Payables	HFT	-	-	(979)	(979)
Total fair value hedges		-	-	(979)	(979)
Electricity trading contracts:					
Receivables	HFT	5,385	5,385	2,687	2,687
Payables	HFT	(5,250)	(5,250)	(2,716)	(2,716)
Total electricity trading contracts		135	135	(29)	(29)
Other derivatives:					
Receivables	HFT	1,581	1,581	701	701
Payables	HFT	(1,336)	(1,336)	(806)	(806)
Total other derivatives		245	245	(105)	(105)

SaA Subsidiaries and associates at cost
LaR Loans and receivables
AFS Available-for-sale investments
HTM Held to maturity
HFT Held for trading or hedging instruments
AC Financial liabilities at amortized cost

15. Financial Risk Management

Risk management approach

An integrated risk management system is being successfully developed in order to increase the Group’s fundamental value while taking the level of risk acceptable for the shareholders. In the Group, the risk is defined as a potential difference between the actual and the expected (planned) developments and is measured by means of the extent of such difference in CZK and the likelihood with which such a difference may occur.

Since 2005 a risk capital concept has been applied within the Group. The concept allows the setting of basic caps for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every fiscal year. The proposed limit value is derived from historical volatility of profit and revenues of the Group (the top-down method). The approved value in CZK is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is the Group willing to take in order to reach the planned annual profit.

The bottom-up method is used for setting and updating the Risk frames. The Risk frames include the definition of risk and departments/units of the Group for which the frame is obligatory; definition of rules and responsibilities for risk management; permitted instruments and methods of risk management and actual risk limits, including a limit which expresses the share in the annual Profit@Risk limit.

Risk management organization

The supreme authority for risk management is the Risk Management Committee (the ČEZ, a. s. CEO’s committee). Except for approval of the aggregate risk capital limits (within the competence of the ČEZ, a. s. Board of Directors), the Risk Management Committee makes decisions on the development of an integrated system of risk management, administers the risk capital, i.e. makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including the risk capital utilization.

Overview and methods of risk management

The Group applies a unified categorization of the Group’s risks which reflects the specifics of a corporate, i.e. non-banking company, and focuses on primary causes of unexpected development. The risks are divided into four basic categories listed below.

Group risk map

1. Market risks	**2. Credit risks**	**3. Operation risks**	**4. Business risks**
1.1 Financial (FX, IR)	2.1 Counterparty default	3.1 Operating	4.1 Strategic
1.2 Commodity	2.2 Supplier default	3.2 Internal change	4.2 Political
1.3 Volumetric	2.3 Settlement	3.3 Liquidity management	4.3 Regulatory
1.4 Market liquidity		3.4 Security	4.4 Reputation

From the view of risk management, the Group activities can be divided into two basic groups:

- Activities with the unified quantification of the share of respective activity in the aggregate risk limit of the Group (i.e. using specific likelihood, it is possible to objectively determine what risk is associated with an activity/planned profit). These risks are managed by the rules and limits set by the Risk Management Committee and, concurrently, in accordance with governing documents of the respective units/processes of the Group.

- Activities whose share in the aggregate risk limit of the Group has not been quantified so far or for objective reasons. These risks are managed by the responsible owners of the relevant processes on a qualitative basis in accordance with internal governing documents of the respective units/processes of the Group.

For all risks quantified on a unified basis, a partial risk limit is set whose continuous utilization is evaluated at least once a month and is usually defined as a sum of the actually expected deviation of expected annual profit from the plan and the potential risk of loss on a 95% confidence. The Group's methodologies and data provide for a unified quantification of the following risks:

- Market risks: financial (currency and interest) risks, commodity prices (electricity, emission allowances, coal), volume (electricity distribution and heat supply)
- Credit risks: financial and business counterparty risk and electricity end-customers risk
- Operational risks: risks of nuclear and coal power plants operation

The development of the above quantified risks is reported to the Risk Management Committee every month and contains an actual share of individual risks in the aggregate annual Profit@Risk limit, i.e. on a unified 95% level.

15.1. Qualitative description of ČEZ, a. s. risks associated with financial instruments

<u>Commodity risks</u>

The development of electricity and emission allowances prices is a key risk factor of the ČEZ value. The current system of commodity risk management is focused on (i) the margin from the own electricity production sales, i.e. from trades resulting in optimizing the sales of ČEZ's production and in optimizing the emission allowances position for production (the potential risk is managed on the EaR and the VaR bases), and (ii) the margin from the proprietary trading of electricity and emission allowances (the potential risk is managed on the VaR basis).

<u>Market financial risks (currency and interest risks)</u>

The development of foreign exchange rates and interest rates is a significant risk factor of the ČEZ value. The current system of financial risk management is focused on (i) the future cash flows and (ii) financial trades which are realized for the purposes of an overall risk position management in accordance with the risk limits (the potential risk is managed on the basis of VaR and complementary position limits). Own financial instruments (i.e. active and passive financial trades and derivative trades) are realized entirely in the context of an overall contracted as well as expected cash flows (including operational and investment foreign currency flows).

<u>Credit risks</u>

Credit exposures of individual financial partners and wholesale partners are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the counterparty's credibility (in accordance with international rating and internal financial evaluation of counterparties with no international rating).

In accordance with the credit risk methodology applied to the banking sector per Basel II, every month the expected and potential losses are quantified on a 95% confidence level. It means that the share of credit risks in the aggregate annual Profit@Risk limit is quantified and evaluated.

Liquidity risks

Liquidity risk is primarily perceived as an operational risk (risk of liquidity management) and a risk factor is the internal ability to effectively manage the future cash flows planning process and to secure the adequate liquidity and effective short-term financing (the risk is managed on a qualitative basis). The fundamental liquidity risk management (i.e. liquidity risk within the meaning for banking purposes) is covered by the risk management system as a whole. In any given period, the future deviations of the expected cash flows are managed in accordance with the aggregate risk limit and in the context of the actual and the targeted debt/equity ratio of ČEZ.

15.2. Quantitative description of ČEZ, a. s. risks associated with financial instruments

Commodity risks

The required quantitative information on risks (i.e. a potential change of market value resulting from the effects of risk factors as at 31 December) was prepared based on the assumptions given below:

- the source of market prices is mainly EEX, PXE and PointCarbon
- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (these are the following commodities in the Company: electricity, emission allowances EUA and CER/ERU)
- for the calculation of volatility and, in the case of electricity, of internal correlations (between points in time series), the SMA (Simple Moving Average) method is applied to 60 daily time series while the volatilities identified for EUA are used for VaR with respect to CER/ERU commodity because ČEZ uses them as EUA

Potential impact of the above risk factors as at 31 December (in CZK millions):

	2007	2006
Monthly VaR (95%) – impact of changes in electricity market price	174	139
Monthly VaR (95%) – impact of changes in emission allowances market price	169	59 *

* Only EUA trades are included because the trades with CER/ERU were not commenced until 2007.

Currency risks

The required quantitative information on risks (i.e. a potential change of market value resulting from the effects of currency risk as at 31 December) was prepared based on the assumptions given below:

- the source of market foreign exchange rates and interest rate curves is mainly IS Reuters, IS Bloomberg and ČNB data
- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence)
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency flows from all contracted and highly probable financial and non-financial instruments (including the hedge accounting transactions of expected future cash flows under IFRS)
- the highly probable non-financial instruments include all foreign-currency operational and investment revenues and expenditures expected in 2008 and highly probable forcasted foreign-currency revenues from electricity sales in the future
- the relevant currency positions reflect all significant foreign-currency flows in the monitored basket of foreign currencies

Potential impact of the currency risk as at 31 December (in CZK millions):

	2007	2006
Monthly currency VaR (95% confidence)	93	21

Interest risks

The required quantitative information on risks (i.e. a potential change of market value resulting from the effects of interest risk as at 31 December) was prepared based on the assumptions given below:

- the source of market interest rates and interest rate curves is mainly IS Reuters, IS Bloomberg and ČNB data
- the indicator of interest risk is determined as the monthly parametric VaR (95% confidence)
- for the calculation of volatility and internal correlations of interest rate curves, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant interest position is defined as a discounted value of interest-sensitive flows from all contracted and highly probable instruments (including the fixed interest financial instruments)
- the relevant interest positions reflect all significant interest-sensitive flows

Potential impact of the interest rate risk as at 31 December (in CZK millions):

	2007	2006
Monthly VaR (95% confidence) *	570	371

* The VaR values indicate a potential change of market price of financial instruments (including the fixed-interest debt) on the defined confidence (i.e. the values cannot be interpreted as a potential increase in interest costs of ČEZ debt).

Liquidity risks

Contractual maturity profile of financial liabilities at December 31, 2007 (in CZK millions):

	Bonds and debentures	Bank loans	Derivatives *	Trade and other payables
Less than 1 year	5,609	288	93,955	31,812
Between 1 and 2 years	6,355	278	18,648	-
Between 2 and 3 years	9,181	269	8,532	-
Between 3 and 4 years	12,528	259	1,831	-
Between 4 and 5 years	14,611	250	367	-
Thereafter	16,659	240	-	-
Total	64,943	1,584	123,333	31,812

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 14.

Contractual maturity profile of financial liabilities at December 31, 2006 (in CZK millions):

	Bonds and debentures	Bank loans	Derivatives *	Trade and other payables
Less than 1 year	5,679	2,171	45,127	15,857
Between 1 and 2 years	4,660	412	4,346	-
Between 2 and 3 years	5,103	403	-	-
Between 3 and 4 years	1,233	393	-	-
Between 4 and 5 years	12,231	383	-	-
Thereafter	17,831	763	-	-
Total	46,737	4,525	49,473	15,857

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 14.

15.3. Hedge accounting

The Company entered into a number of derivatives transactions, mainly cross-currency and interest swaps, to hedge its long-term debt denominated in foreign currencies against the currency risk and interest rate risk. These hedges were classified as either fair value hedges or cash flow hedges and matured in 2007.

In 2007 and 2006 the remeasurement of hedged items in fair value hedges resulted in gain (loss) of CZK (14) million and CZK 457 million, respectively. In 2007 and 2006 the net gains (losses) on the related hedging derivatives in the fair value hedges were recognized in profit or loss in the amount of CZK (31) million and CZK (397) million, respectively.

In 2007 and 2006 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the line Other income (expense), net. In 2007 and 2006 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK 0 million and CZK (4) million, respectively.

The Company also enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2008 to 2011. The hedging instruments are the EUR denominated liability from the issued Eurobonds in the total amount of EUR 1,400 million and currency forward contracts.

16. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of four 440 MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000 MW units, which started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of nuclear facilities and the disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. An updated 2003 Dukovany estimate and a 2004 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 15.6 billion and CZK 13.7 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet under other non-current financial assets (see Note 5).

The Ministry of Industry and Trade established the Radioactive Waste Repository Authority (“RAWRA”) as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a “nuclear account” funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government resolution at 50 CZK per MWh produced at nuclear power plants. In 2007 and 2006, respectively, the payments to the nuclear account amounted to CZK 1,307 million and CZK 1,304 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of radioactive waste and spent fuel. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

The Company has established provisions as described in Note 2.21, to recognize its estimated liabilities for decommissioning and spent fuel storage.

The following is a summary of the provisions for the years ended December 31, 2007 and 2006 (in CZK millions).

	Accumulated provisions			
	Nuclear Decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2005	9,556	4,168	21,973	35,697
Movements during 2006:				
Effect of real interest rate	239	104	549	892
Effect of inflation	191	84	439	714
Provision charged to income statement	-	220	-	220
Effect of change in estimate credited to income statement	-	(46)	-	(46)
Effect of change in estimate added to (deducted from) fixed assets	(4)	564	(32)	528
Current cash expenditures	-	(198)	(1,304)	(1,502)
Balance at December 31, 2006	9,982	4,896	21,625	36,503
Movements during 2007:				
Effect of real interest rate	249	122	541	912
Effect of inflation	199	98	433	730
Provision charged to income statement	-	393	-	393
Effect of change in estimate charged to income statement	-	439	-	439
Effect of change in estimate added to (deducted from) fixed assets	(4)	32	1,467	1,495
Current cash expenditures	-	(168)	(1,307)	(1,475)
Balance at December 31, 2007	10,426	5,812	22,759	38,997

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

In 2007 the Company recorded the change in estimate for long-term fuel storage due to the modification of the expected output of the nuclear power plants. The changes in estimate for interim fuel storage have been caused by alterations of estimate of expected operating costs of fuel storage.

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

17. Trade and Other Payables

Trade and other payables at December 31, 2007 and 2006 were as follows (in CZK millions):

	2007	2006
Trade payables	8,926	7,369
Derivatives	6,586	5,202
Payables from Group cashpooling and similar intra-group loans	21,858	7,948
Other payables	1,028	540
Total	38,398	21,059

18. Accrued Liabilities

Accrued liabilities at December 31, 2007 and 2006 consist of the following (in CZK millions):

	2007	2006
Provisions	796	1,227
Accrued interest	916	793
Taxes and fees, except income tax	452	532
Unbilled goods and services	1,029	895
Other	-	248
Total	3,193	3,695

In addition to the nuclear provisions, the Company establishes other provisions. In 2007 and 2006, the Company, in compliance with the Law on Wastes, established a provision for future expenditures related to the decommissioning, reclamation and maintenance of waste storages after they are put out of services. The balance of the provision at December 31, 2007 and 2006 was CZK 453 million and CZK 452 million.

The Company is by law liable for damages caused by pollution and establishes a provision for environmental claims, which is based on the current estimates of its future liabilities. At December 31, 2007 and 2006, the provision totaled CZK 280 million and CZK 264 million, respectively.

In 2007 and 2006, the Company recognized provision in total amount of CZK 2 million and CZK 415 million, respectively, for insufficient amount of granted allowances to cover actual emission (see Note 9).

19. Revenues

Revenues for the year ended December 31, 2007 and 2006 were as follows (in CZK millions):

	2007	2006
Sale of electricity:		
Unregulated sales domestic [1)]	73,925	62,289
Unregulated sales foreign	15,082	13,571
Sales of ancillary and other services	6,403	7,339
Total sales of electricity	95,410	83,199
Electricity derivative trading:		
Sales of electricity	37,631	7,211
Purchases of electricity	(35,220)	(7,149)
Change in fair value of derivatives	172	(196)
Total gains and losses from electricity derivative trading, net	2,583	(134)
Sales of heat	1,470	1,504
Other	1,692	3,720
Total revenues	101,155	88,289

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

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

20. Salaries and Wages

Salaries and wages for the year ended December 31, 2007 and 2006 were as follows (in CZK millions):

2007	Total	Supervisory Board	Board of Directors	Management
Average recalculated number of employees (persons)	6,472	12 [1)]	5 [1)]	63 [2)]
Salaries and wages	(3,779)	-	-	(275)
Remuneration of board members, including royalties	(34)	(22)	(12)	-
Share options	(45)	-	-	(45)
Social security and health insurance	(1,312)	-	-	(82)
Other personnel expenses	(837)	(4)	(1)	(9)
Total personnel expenses	(6,007)	(26)	(13)	(411)

2006	Total	Supervisory Board	Board of Directors	Management
Average recalculated number of employees (persons)	7,998	12 [1)]	5 [1)]	57 [2)]
Salaries and wages	(3,935)	-	-	(224)
Remuneration of board members, including royalties	(34)	(18)	(16)	-
Share options	(235)	-	(201)	(34)
Social and health security	(1,398)	-	-	(81)
Other personnel expenses	(353)	(12)	(6)	(40)
Total personnel expenses	(5,955)	(30)	(223)	(379)

1) Eight external members of Supervisory Board and members of Board of Directors are not included in total headcount.

2) Directors with executive powers are included under both the "Board of Directors" caption and the "Management" caption.

Management includes the CEO and managers of divisions, departments, organizational units and sections.

In addition to the above personnel costs, Directors and other managers were entitled to use company cars for both business and private purposes.

If the Company terminates a contract with a Director before his/her term of office expires, the Director is entitled to a severance pay that amounts to all monthly remuneration he/she would receive until the end of the originally agreed term of office. This provision does not apply if a Director resigns.

At December 31, 2007, the aggregate number of share options granted to members of Board of Directors, Executive Committee (advisory body of Chief Executive Officer) and to Supervisory Board members was 3,175 thousand. Share options granted to the members of Board of Directors and the Executive Committee vest over a three year period after the grant date, or the date of appointment, respectively, with one third of the options vesting at each annual anniversary. The options can be exercised during the term of office of the respective employee and in a further 12 months after the end of such period. The options granted to the members of the Board of Directors before May 2006 vested 3 months after appointment of the respective member to the Board. The options granted to the members of the Executive Committee before May 2006 had a two years vesting period, with approximately one half of the options vesting after one year and the remaining options vesting after two years from date of appointment of the respective Committee member. Options granted before May 2006 could be exercised during the term of office of the respective employee and in a further 3 months after the end of such period. The exercise price for the granted options is based on the average quoted market price of the shares on the Prague stock exchange during the one month period preceding the date of appointment of the respective Board or Committee member (six months average for options granted before May 2006). Since May 2006 the option right is limited so that the profit per share option will not exceed 100% of exercise price. The share option plan for members of the Supervisory Board was canceled prospectively by the decision of the shareholders on annual meeting held in June 2005. In 2007 and 2006 the Company has recognized a compensation expense of CZK 45 million and CZK 235 million related to the granted options. The Company has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2007 and 2006 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options				Weighted average exercise price (CZK per share)
	Superviso-ry Board 000s	Board of Directors 000s	Executive Committee 000s	Total 000s	
Share options at December 31, 2005	600	1,750	975	3,325	198.47
Options granted	-	900	225	1,125	646.91
Options exercised [1]	(150)	(410)	(140)	(700)	192.26
Options forfeited	-	-	(295)	(295)	285.07
Share options at December 31, 2006 [2]	450	2,240	765	3,455	338.35
Options granted	-	-	375	375	995.65
Options exercised [1]	-	(600)	(55)	(655)	189.50
Share options at December 31, 2007 [2]	450	1,640	1,085	3,175	446.70

[1] In 2007 and 2006 the weighted average share price at the date of the exercise for the options exercised was CZK 957.10 and CZK 798.30 respectively.

[2] At December 31, 2007 and 2006 the number of exercisable options was 2,490 thousand pieces and 2,650 thousand pieces, respectively. The weighted average exercise price of the exercisable options was 304.91 CZK per share and 254.17 CZK per share at December 31, 2007 and 2006, respectively.

The fair value of the options is estimated on the date of grant using the binomial option-pricing model. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock options.

At the grant dates, the underlying assumptions and the resulting fair values per option were as follows:

	2007	2006
Weighted average assumptions:		
Dividend yield	2.8%	2.0%
Expected volatility	28.5%	30.6%
Mid-term risk-free interest rate	2.8%	2.7%
Expected life (years)	2.0	2.9
Share price (CZK per share)	1,027.3	797.6
Weighted average grant-date fair value of options (CZK per 1 option)	177.7	230.2

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

On December 31, 2007 and 2006 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2007	2006
CZK 100 – 500 per share	1,750	2,405
CZK 500 – 900 per share	1,125	1,050
CZK 900 – 1,200 per share	300	-
Total	3,175	3,455

The options granted to the members of Board of Directors and Supervisory Board, which were outstanding on December 31, 2007 and 2006, respectively, had an average remaining contractual life of 1.5 years and 2.5 years, respectively. The options granted to members of the Executive Committee can be exercised in a period ending 12 months (3 months for options granted before May 2006) after the end of the membership in the Executive Committee. The membership is not set for a definite period of time.

21. Other Operating Expenses

Other operating expenses for the year ended December 31, 2007 and 2006 consist of the following (in CZK millions):

	2007	2006
Services	(5,612)	(5,201)
Change in provisions and valuation allowances	(445)	362
Taxes and fees	(467)	(244)
Write-off of bad debts and cancelled investment	(79)	(51)
Travel expense	(95)	(103)
Gifts	(123)	(136)
Gain (loss) on sale of property, plant and equipment	(16)	173
Gain (loss) on sale of material	55	(12)
Fines, penalties and penalty interest, net	60	-
Other, net	235	113
Total	(6,487)	(5,099)

22. Interest Income

Interest income for each category of financial instruments for the year ended December 31, 2007 and 2006 is as follows (in CZK millions):

	2007	2006
Loans and receivables	114	67
Investments held-to-maturity	62	15
Available-for-sale investments	-	8
Financial assets held for trading	4	8
Bank accounts	576	374
Total	756	472

23. Other Income (Expenses), Net

Other finance income (expenses), net, for the year ended December 31, 2007 and 2006 consist of the following (in CZK millions):

	2007	2006
Dividends received	3,333	1,629
Gain on sale of available-for-sale financial assets	752	-
Gain (loss) on sale of financial assets for trading	1	(2)
Change in impairment of financial investments	115	(1,569)
Derivative gains (losses), net	(568)	(441)
Other, net	(100)	(183)
Total	3,533	(566)

24. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 24% in 2007 and 2006. The Czech corporate income tax rate for 2008, 2009 and 2010 will be 21%, 20% and 19%, respectively.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have potentially effect on reported income.

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

	2007	2006
Current income tax charge	(8,055)	(6,605)
Adjustments in respect of current income tax of previous periods	(47)	14
Deferred income taxes	2,387	659
Total	(5,715)	(5,932)

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

	2007	2006
Income before income taxes	36,987	27,883
Statutory income tax rate in Czech Republic	24%	24%
“Expected” income tax expense	(8,877)	(6,692)
Add (deduct) tax effect of:		
Change in tax rates	2,557	-
Czech/IFRS accounting differences	92	8
Non-deductible provisions, net	35	(398)
Non-deductible expenses related to shareholdings	(144)	(5)
Other non-deductible (non taxable) items, net	(131)	748
Non-taxable revenue from dividends	798	393
Tax credits	2	-
Adjustments in respect of current income tax of previous periods	(47)	14
Income taxes	(5,715)	(5,932)
Effective tax rate	15%	21%

Deferred income tax liability, net, at December 31, 2007 and 2006 was calculated as follows (in CZK millions):

	2007	2006
Accumulated provision for nuclear decommissioning and spent fuel storage	6,344	7,489
Allowances	71	115
Other temporary differences	28	50
Total deferred tax assets	6,443	7,654
Tax depreciation in excess of financial statement depreciation	16,782	20,337
Other provisions	379	436
Penalty receivables	16	3
Deferred tax recognized in equity	770	296
Other temporary differences	53	53
Total deferred tax liability	18,000	21,125
Total deferred tax liability, net	11,557	13,471

In 2007 and 2006 the Company charged deferred tax of CZK 474 million and CZK 258 million, respectively, directly to equity.

25. Related Parties

The Company purchases products from related parties in the ordinary course of business.

At December 31, 2007 and 2006, the receivables from related parties and payables to related parties are as follows (in CZK millions):

Subsidiaries and associates:

	Receivables		Payables	
Company	2007	2006	2007	2006
Direct control:				
CEZ Bulgaria EAD	200	60	-	-
CEZ Deutschland GmbH	111	83	-	-
CEZ FINANCE B.V.	-	9	10,606	14,707
CEZ Romania S.R.L.	154	46	-	-
Coal Energy, a.s.	175	394	29	2
ČEZ Distribuce, a. s.	83	87	4,646	3,499
ČEZ Distribuční služby, s.r.o.	6	81	1,788	1
ČEZ Logistika, s.r.o.	2	1	536	2
ČEZ Měření, s.r.o.	4	6	511	304
ČEZ Obnovitelné zdroje, s.r.o.	1	47	114	64
ČEZ Prodej, s.r.o.	1,260	1,200	3,471	2,820
ČEZ Správa majetku, s.r.o.	365	133	199	153
ČEZ Zákaznické služby, s.r.o.	3	5	488	257
ČEZData, s.r.o.	1,027	1,376	328	717
ČEZnet, a.s.	1	5	1,088	39
I & C Energo a.s.	1	2	97	146
NERS d.o.o.	107	-	-	-
Severočeské doly a.s.	-	10	7,449	478
ŠKODA PRAHA a.s.	-	-	412	78
Teplárenská, a.s.	-	-	174	-
Ústav jaderného výzkumu Řež a.s.	3	-	76	189
Other	167	142	76	138
Total – direct control	3,670	3,687	32,088	23,594
Indirect control:				
Elektrociepłownia Chorzów ELCHO sp. z o.o.	5,457	3	-	-
Elektrownia Skawina S.A.	301	-	59	-
ŠKODA PRAHA Invest s.r.o.	17	-	105	101
Other	-	-	13	26
Total – indirect control	5,775	3	177	127
Total	9,445	3,690	32,265	23,721

Other related parties:

Company	Receivables 2007	Receivables 2006	Payables 2007	Payables 2006
ČEPS, a.s.	164	172	18	50
České dráhy, a.s.	-	2	2	170
Ministry of Finance of the Czech Republic	2,012	2,854	-	-
Total	2,176	3,028	20	220

The following table provides the total amount of transactions (sales and purchases, including VAT), which have been entered into with related parties for the relevant financial year (in CZK millions):

Subsidiaries and associates:

Company	Sales to related parties 2007	Sales to related parties 2006	Purchases from related parties 2007	Purchases from related parties 2006
Direct control:				
CEZ Bulgaria EAD	286	112	-	-
CEZ Deutschland GmbH	1,331	844	-	-
CEZ Romania S.R.L.	125	47	-	-
Coal Energy, a.s.	2,229	4,623	465	24
ČEZ Distribuce, a. s.	652	2,451	86	99
ČEZ Distribuční služby, s.r.o.	55	294	1	4
ČEZ ENERGOSERVIS spol. s r.o.	7	8	268	248
ČEZ Logistika, s.r.o.	322	19	-	118
ČEZ Měření, s.r.o.	202	201	3	-
ČEZ Obnovitelné zdroje, s.r.o.	10	13	266	68
ČEZ Prodej, s.r.o.	46,859	44,722	1,660	3,455
ČEZ Správa majetku, s.r.o.	92	139	696	404
ČEZ Zákaznické služby, s.r.o.	160	77	7	3
ČEZData, s.r.o.	75	391	1,533	1,755
ČEZnet, a.s.	336	31	480	424
Energetické opravny, a.s.	9	19	304	501
I & C Energo a.s.	38	26	685	795
Knauf Počerady, spol. s r.o.	70	120	11	-
LOMY MOŘINA spol. s r.o.	6	-	155	151
OSC, a.s.	9	-	197	-
Severočeské doly a.s.	1,557	1,046	7,587	6,380
ŠKODA PRAHA a.s.	1	3	1,310	219
Ústav jaderného výzkumu Řež a.s.	6	1	321	370
Other	71	53	339	273
Total – direct control	54,508	55,240	16,374	15,291
Indirect control:				
Elektrociepłownia Chorzów ELCHO sp. z o.o.	6	3	125	-
Elektrownia Skawina S.A.	311	-	1,330	-
ŠKODA PRAHA Invest s.r.o.	17	-	5,051	823
Other	-	1	100	128
Total – indirect control	334	4	6,606	951
Total	54,842	55,244	22,980	16,242

Other related parties:

Company	Sales to related parties 2007	Sales to related parties 2006	Purchases from related parties 2007	Purchases from related parties 2006
ČEPS, a.s.	7,311	7,459	836	1,743
České dráhy, a.s.	1	15	1,798	1,504
Other	-	2	9	2
Total	7,312	7,476	2,643	3,249

In 2007 and 2006 the Company made non monetary contributions to several subsidiaries (see Note 5.1 for description of contributions and Notes 4 and 6 for amounts of contributed assets).

The Company granted loans to related parties (see Note 5.3).

The Company and some of its subsidiaries are included in the system of cash-pooling. The balance payable to subsidiaries under the scheme is included in Trade and other payables (see Note 17) and the individual balances in the table of payables above.

26. Segment Information

The Company is involved in the generation and sale of electricity and trading in electricity and operates mainly the European Union markets. The Company has not identified any other separate industry or geographical segments.

27. Earnings per Share

	2007	2006
Numerator (CZK millions)		
Basic and diluted:		
Net profit	31,272	21,951
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	569,981	589,329
Dilutive effect of share options	1,933	2,882
Diluted:		
Adjusted weighted average shares	571,914	592,211
Net income per share (CZK per share)		
Basic	54.9	37.2
Diluted	54.7	37.1

28. Commitment and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2007 to total CZK 108.6 billion over the next five years, as follows: CZK 21.9 billion in 2008, CZK 19.7 billion in 2009, CZK 23.4 billion in 2010, CZK 24.6 billion in 2011 and CZK 19.0 billion in 2012. These figures do not include the expected acquisitions of subsidiaries and associates, which will depend on the number of future investment opportunities, for which the Company will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2007 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

The Nuclear Act sets limits for liabilities for nuclear damages by the operator of nuclear installations/licenses. The Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 6 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 1.5 billion. The Nuclear Act also requires an operator/licensee to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 1.5 billion and up to a minimum of CZK 200 million for other activities (such as transportation). The Company has obtained all insurance policies with minimal limits as required by the law. The Company concluded mentioned insurance policies with the Czech nuclear pool, a group of insurance companies.

The Company also maintains the insurance policies covering the assets of its fossil, hydro and nuclear power plants general third party liability insurance in connection with main operations of the Company.

29. Events after the Balance Sheet Date

In January 2008 the Board of Directors of the Company approved the intentiton to merge with its subsidiary Energetika Vítkovice, a.s. with the succeeding company being ČEZ, a. s.

In January 2008 the Company acquired a 7% share in MOL. At the same moment the Company granted to MOL a call option, which enables MOL to reacquire the shares in the following 3 years for the price HUF 20,000 per share. The amount paid to MOL after deduction of option premium received was EUR 560 million. The purchase was financed through a new loan in the total amount of EUR 600 million. The transaction was carried out through its newly established Dutch subsidiary CEZ MH B.V. Within the scope of cooperation the Company together with MOL also wishes to establish 50-50% joint-ventures in order to pursue jointly business opportunities and develop projects in the business of gas-fired power and heat plants in Central and South-Eastern Europe.

Prepared on:	Signature of accounting unit´s statutory body:	Person responsible for accounting:	Person responsible for the financial statements:
February 25, 2008		Martin Novák	Ivan Viktora