ČEZ, A. S., AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2007

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

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 CEZ Group which comprise the consolidated balance sheet as at December 31, 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 consolidated financial statements present fairly, in all material respects, the financial position of CEZ Group 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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2007

in CZK Millions

	2007	2006
Assets		
Property, plant and equipment:		
Plant in service	479,091	464,776
Less accumulated provision for depreciation	234,297	219,073
Net plant in service (Note 3)	244,794	245,703
Nuclear fuel, at amortized cost	6,983	7,376
Construction work in progress	25,388	16,684
Total property, plant and equipment	277,165	269,763
Other non-current assets:		
Investment in associates	248	430
Investments and other financial assets, net (Note 4)	16,126	13,277
Intangible assets, net (Note 5)	19,060	17,820
Deferred tax assets (Note 27)	482	699
Total other non-current assets	35,916	32,226
Total non-current assets	313,081	301,989
Current assets:		
Cash and cash equivalents (Note 8)	12,429	30,932
Receivables, net (Note 9)	23,880	16,334
Income tax receivable	79	152
Materials and supplies, net	4,484	4,308
Fossil fuel stocks	857	1,195
Emission rights (Note 10)	355	2,224
Other financial assets, net (Note 11)	10,585	8,952
Other current assets (Note 12)	5,192	2,569
Total current assets	57,861	66,666
Total assets	370,942	368,655

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2007

continued

	2007	2006
Equity and liabilities		
Equity attributable to equity holders of the parent:		
Stated capital	59,221	59,221
Treasury shares	(55,972)	(1,943)
Retained earnings and other reserves	168,103	137,659
Total equity attributable to equity holders of the parent (Note 13)	171,352	194,937
Minority interests	12,874	12,716
Total equity	184,226	207,653
Long-term liabilities:		
Long-term debt, net of current portion (Note 14)	51,984	41,956
Accumulated provision for nuclear decommissioning and fuel storage (Note 17)	39,191	36,683
Other long-term liabilities (Note 18)	16,369	15,543
Total long-term liabilities	107,544	94,182
Deferred tax liability (Note 27)	17,153	20,017
Current liabilities:		
Short-term loans (Note 19)	18,048	121
Current portion of long-term debt (Note 14)	3,226	6,365
Trade and other payables (Note 20)	25,738	22,905
Income taxes payable	5,969	6,222
Accrued liabilities (Note 21)	9,038	11,190
Total current liabilities	62,019	46,803
Total equity and liabilities	370,942	368,655

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007

in CZK Millions

	2007	2006
Revenues:		
Sales of electricity	160,046	138,157
Gains and losses from electricity derivative trading, net	2,690	(308)
Heat sales and other revenues	11,827	11,285
Total revenues (Note 22)	174,563	149,134
Operating expenses:		
Fuel	(16,883)	(11,637)
Purchased power and related services	(46,328)	(43,001)
Repairs and maintenance	(4,881)	(5,487)
Depreciation and amortization	(22,123)	(24,280)
Salaries and wages (Note 23)	(16,900)	(15,084)
Materials and supplies	(6,066)	(4,981)
Emission rights, net (Note 10)	1,058	3,077
Other operating expenses (Note 24)	(9,237)	(7,677)
Total expenses	(121,360)	(109,070)
Income before other income (expenses) and income taxes	53,203	40,064
Other income (expenses):		
Interest on debt, net of capitalized interest (Note 2.8)	(1,954)	(2,236)
Interest on nuclear and other provisions (Note 2.24, 17 and 18)	(1,937)	(1,891)
Interest income (Note 25)	1,163	922
Foreign exchange rate gains, net	22	1,204
Gain (loss) on sale of subsidiaries and associates	129	(228)
Other income (expenses), net (Note 26)	485	(201)
Income from associates (Note 2.2)	40	74
Total other income (expenses)	(2,052)	(2,356)
Income before income taxes	51,151	37,708
Income taxes (Note 27)	(8,387)	(8,952)
Net income	42,764	28,756
Net income attributable to:		
Equity holders of the parent	41,555	27,697
Minority interests	1,209	1,059
Net income per share attributable to equity holders of the parent (CZK per share) (Note 30)		
Basic	72.9	47.0
Diluted	72.7	46.8
Average number of shares outstanding (000s) (Notes 13 and 30)		
Basic	569,981	589,329
Diluted	571,914	592,211

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007

in CZK Millions

	Attributable to equity holders of the parent							
	Stated capital	Treasury shares	Translation difference	Fair value and other reserves	Retained earnings	Total	Minority interests	Total equity
December 31, 2005	59,221	(984)	(789)	588	118,637	176,673	14,616	191,289
Change in fair value of available-for-sale financial assets recognized in equity	-	-	-	285	-	285	2	287
Available-for-sale financial assets removed from equity	-	-	-	36	-	36	1	37
Change in fair value of cash flow hedges recognized in equity	-	-	-	316	-	316	-	316
Cash flow hedges removed from equity	-	-	-	181	-	181	-	181
Translation differences	-	-	(512)	-	-	(512)	(2)	(514)
Share on equity movements of associates	-	-	-	-	21	21	-	21
Other movements	-	-	-	(20)	15	(5)	(1)	(6)
Gain and loss recorded directly to equity	-	-	(512)	798	36	322	-	322
Net income	-	-	-	-	27,697	27,697	1,059	28,756
Total gains and losses for the year	-	-	(512)	798	27,733	28,019	1,059	29,078
Acquisition of treasury shares	-	(1,273)	-	-	-	(1,273)	-	(1,273)
Sale of treasury shares	-	314	-	-	(179)	135	-	135
Dividends	-	-	-	-	(8,852)	(8,852)	-	(8,852)
Share options	-	-	-	235	-	235	-	235
Transfer of exercised and forfeited share options within equity	-	-	-	(240)	240	-	-	-
Change in minority due to acquisitions	-	-	-	-	-	-	(2,959)	(2,959)
December 31, 2006	59,221	(1,943)	(1,301)	1,381	137,579	194,937	12,716	207,653

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007

continued

	Attributable to equity holders of the parent							
	Stated capital	Treasury shares	Translation difference	Fair value and other reserves	Retained earnings	Total	Minority interests	Total equity
December 31, 2006	59,221	(1,943)	(1,301)	1,381	137,579	194,937	12,716	207,653
Change in fair value of available-for-sale financial assets recognized in equity	-	-	-	(113)	-	(113)	-	(113)
Available-for-sale financial assets removed from equity	-	-	-	(269)	-	(269)	-	(269)
Change in fair value of cash flow hedges recognized in equity	-	-	-	2,236	-	2,236	-	2,236
Cash flow hedges removed from equity	-	-	-	35	-	35	-	35
Translation differences	-	-	(995)	-	-	(995)	(759)	(1,754)
Share on equity movements of associates	-	-	-	-	(21)	(21)	-	(21)
Other movements	-	-	-	-	(5)	(5)	(3)	(8)
Gain and loss recorded directly to equity	-	-	(995)	1,889	(26)	868	(762)	106
Net income	-	-			41,555	41,555	1,209	42,764
Total gains and losses for the year	-	-	(995)	1,889	41,529	42,423	447	42,870
Acquisition of treasury shares	-	(54,397)	-	-	-	(54,397)	-	(54,397)
Sale of treasury shares	-	368	-	-	(244)	124	-	124
Dividends	-	-	-	-	(11,780)	(11,780)	(3)	(11,783)
Share options	-	-	-	45	-	45	-	45
Transfer of exercised and forfeited share options within equity	-	-	-	(90)	90	-	-	-
Change in minority due to acquisitions	-	-	-	-	-	-	(286)	(286)
December 31, 2007	59,221	(55,972)	(2,296)	3,225	167,174	171,352	12,874	184,226

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007

in CZK Millions

	2007	2006
Operating activities:		
Income before income taxes	51,151	37,708
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	22,166	24,352
Amortization of nuclear fuel	2,936	3,156
(Gain) loss on fixed asset retirements, net	(637)	21
Foreign exchange rate losses (gains), net	(22)	(1,204)
Interest expense, interest income and dividend income, net	697	1,232
Provision for nuclear decommissioning and fuel storage	695	105
Valuation allowances, other provisions and other adjustments	(193)	2,239
Income from associates	(40)	(74)
Changes in assets and liabilities:		
Receivables	(8,724)	(2,859)
Materials and supplies	(612)	(375)
Fossil fuel stocks	345	(16)
Other current assets	(2,934)	(2,680)
Trade and other payables	5,111	4,596
Accrued liabilities	1,457	(19)
Cash generated from operations	71,396	66,182
Income taxes paid	(11,920)	(2,237)
Interest paid, net of capitalized interest	(1,552)	(2,012)
Interest received	1,186	844
Dividends received	109	131
Net cash provided by operating activities	59,219	62,908
Investing activities:		
Acquisition of subsidiaries and associates, net of cash acquired (Note 6)	(2,462)	(21,925)
Proceeds from disposal of a subsidiaries and associates, net of cash disposed of	1,416	3,278
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.9)	(34,066)	(23,745)
Loans made	(2)	(174)
Proceeds from sale of fixed assets	1,216	1,330
Change in decommissioning and other restricted funds	(3,312)	(2,287)
Repayment of loans	177	229
Total cash used in investing activities	(37,033)	(43,294)

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007

continued

	2007	2006
Financing activities:		
Proceeds from borrowings	83,051	43,506
Payments of borrowings	(56,803)	(38,081)
Proceeds from other long-term liabilities	289	385
Payments of other long-term liabilities	(542)	(456)
Dividends paid to Company's shareholders	(11,694)	(8,838)
Dividends paid to minority interests / Contributions received from minority interests, net	22	(44)
(Acquisition) sale of treasury shares	(54,443)	(1,139)
Total cash used in financing activities	(40,120)	(4,667)
Net effect of currency translation in cash	(569)	(806)
Net increase in cash and cash equivalents	(18,503)	14,141
Cash and cash equivalents at beginning of period	30,932	16,791
Cash and cash equivalents at end of period	12,429	30,932

Supplementary cash flow information

Total cash paid for interest	2,284	2,539

These financial statements have been authorized for issue on February 25, 2008:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Tomáš Pleskač
Vice-chairman of Board of Directors
Director of Division International

Martin Novák
Chief Financial Officer

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

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 66.0% at December 31, 2007 by the Ministry of Finance of the Czech Republic. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The Company is a parent company of the CEZ Group ("the Group"), which is primarily engaged in the business of production, distribution and sale of electricity (see Notes 2.2 and 7). ČEZ is an electricity generation company, which produced in 2007 approximately 74.2% of the electricity and a portion of the district heating in the Czech Republic. In the Czech Republic the Company operates ten fossil fuel plants, sixteen hydroelectric plants and two nuclear plants. The Company also operates through its subsidiaries several hydroelectric, fossil fuel and gas fired power plants in the Czech Republic, two fossil fuel plants in Poland and one in Bulgaria. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria and Romania. The average number of employees of the Company and its consolidated subsidiaries was 30,565 and 30,231, for the year 2007 and 2006, respectively.

Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade (the "Ministry"), the Energy Regulatory Office and the State Energy Inspection Board.

The Ministry, as the central public administration body for the energy sector, issues state approval to construct new energy facilities in accordance with specified conditions, develops the energy policy of the state and ensures fulfillment of obligations resulting from international treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office was established as the administrative office to exercise regulation in the energy sector of the Czech Republic, to support economic competition and to protect consumers' interests in sectors where competition is not possible. The Energy Regulatory Office decides on the granting of a license, imposition of the supply obligation beyond the scope of the license, imposition of the obligation to let another license holder use energy facilities in cases of emergency, to exercise the supply obligation beyond the scope of the license and price regulation based on special legal regulations. The State Energy Inspection Board is the inspection body supervising the activities in the energy sector.

Third-party access started to be introduced gradually from 2002. From 2006 all customers can select their suppliers of electricity.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The accompanying consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. IFRS as adopted by the EU which are relevant to and used by the Group 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 Group changed the presentation of revenues and expenses related to electricity trading (see Note 2.21). In the income statement and the related notes expenses or losses are presented as negative balances and revenues or gains are presented as positive balances.

2.2. Group Accounting

a. Group Structure

The financial statements include the accounts of ČEZ, a. s., its subsidiaries and associates, which are shown in the Note 7.

b. Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has a power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the Group's interest in the fair value of acquiree's net assets exceeds the cost of business combination ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss. In case of subsequent acquisition of a minority interest in a subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the minority interest acquired.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

c. Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of other post-acquisition movements in equity of associates is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the company’s interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group’s investment in associates includes goodwill (net of accumulated impairment losses) on acquisition. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

d. Transactions involving entities under common control

Acquisitions of subsidiaries from entities under common control are recorded using a method similar to pooling of interests.

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

Net gain on sale of a subsidiary or an associated company to an entity controlled by the Group’s majority shareholder is recognized directly in equity.

2.3. Change in Accounting Policies

a. New IFRS standards

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

- 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 attributable to the Company’s shareholders as at January 1, 2007 and 2006, respectively. They did however give rise to additional disclosures.

The principal effects of these changes on the Group 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 Group'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 Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 13.

b. New IFRS Standards and Interpretations not yet effective

The Group is currently assessing the potential impacts of the new and revised standards that will be effective from January 1, 2008 or later. Most relevant to the Group’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 Group currently does not expect that the new standards and interpretations will have a significant effect on the Group’s results and financial position, although they may expand the disclosures in certain areas.

The principal expected effects on the Group will be as follows:

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine business and geographical reporting segments of the Group. The Group determined that the operating segments were the same as the segments previously identified under IAS 14 Segment Reporting. Additional disclosures required by new standard will be included in the notes.

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. Revenues

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

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

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

Revenue from services is recognized when the services are rendered.

Connection fees received from customers are deferred and recognized in income over the expected term of the customer relationship, which is currently estimated to be 20 years.

2.6. Unbilled Electricity

Electricity supplied to customers, which is not yet billed, is recognized in revenues at estimated amounts. The estimate of monthly change in unbilled electricity is derived from the measured delivery of electricity after deduction of invoiced consumption and estimated grid losses. The estimate of total unbilled electricity balance is also supported by extrapolation of consumption in the last measured period for individual locations. The ending balance of unbilled electricity is disclosed net in the balance sheet after deduction of advances received from customers and is included either in the line item of Receivables, net or Trade and other payables.

2.7. 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 2,936 million and CZK 3,156 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 to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 17). Such charges amounted to CZK 317 million and CZK 182 million in 2007 and 2006, respectively.

2.8. Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 732 million and CZK 527 million, which was equivalent to an interest capitalization rate of 5.0% and 5.9% in 2007 and 2006, respectively.

2.9. Property, Plant and Equipment

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

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment and impairment reversals are recognized directly in profit or loss in the line item of Other operating expenses.

An assessment is made at each reporting date 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 Group 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.

<u>Depreciation</u>

The Group depreciates the original cost of property, plant and equipment less its residual value by using the straight-line method over the estimated economic lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciable lives used for property, plant and equipment are as follows:

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation of plant in service was CZK 20,675 million and CZK 22,612 million for the years ended December 31, 2007 and 2006, which was equivalent to a composite depreciation rate of 4.4% and 5.0%, respectively.

2.10. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization. Amortization of fuel in the reactor is based on the amount of power generated.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.24). At December 31, 2007 and 2006 capitalized costs at net book value amounted to CZK 455 million and CZK 580 million, respectively.

2.11. Intangible Assets, Net

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

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.

For assets excluding goodwill an assessment is made at each reporting date 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 Group 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.

2.12. 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 certain companies of the Group have been granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

On April, 30 of the following year, at latest, these companies are required to remit a number of certificates representing the number of tones of CO_2 actually emitted. If a company does not fulfill this requirement and does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 40 per 1 ton of 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. Emission rights acquired in a business combination are initially recognized at their fair value at the date of acquisition and subsequently treated similarly to purchased emission rights. If the granted allowances are not sufficient to cover actual emissions, the Group recognizes a provision, which is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date.

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

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

2.13. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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

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

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 without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale and trading investments that do not have a quoted market price in an active market are measured at cost. The carrying amounts of such investments are reviewed at each balance sheet date for impairment.

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

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

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

2.15. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 8). Foreign currency deposits are translated at December 31, 2007 and 2006 exchange rates, respectively.

2.16. 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 4), relate to mining reclamation and damages, deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to swap transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Group.

2.17. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. At December 31, 2007 and 2006 the allowance for uncollectible receivables amounted to CZK 2,614 million and CZK 2,452 million, respectively.

Payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.18. Materials and Supplies

Materials and supplies are principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets. Cost is determined by using weighted average cost, which approximates actual cost. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. The Group records a provision for obsolete inventory as such items are identified. At December 31, 2007 and 2006 the provision for obsolescence amounted to CZK 343 million and CZK 116 million, respectively.

2.19. Fossil Fuel Stocks

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

2.20. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

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

a. Fair value hedge

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

b. Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in equity. The gain or loss relating to the ineffective portion is recognized in the income statement.

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

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

c. Other derivatives

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

2.21. Commodity Derivative Instruments

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

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

- a physical delivery takes place under such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- the contract cannot be considered as a written option as defined by the standard IAS 39. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

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

Commodity contracts, which fall under the scope of IAS 39, are carried at fair value with changes in the fair value recognized in the income statement. Since 2007 the Group 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 7,487 million and purchased power and related services by CZK 7,391 million for the year ended December 31, 2006.

2.22. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic current income taxes are provided at a rate of 24% and 24% for the year 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 determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities of Group companies are not offset in the balance sheet.

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

Change in the carrying amount of deferred tax assets and liabilities 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.

2.23. 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 or loss using the effective interest rate method.

2.24. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors (see Note 17).

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is 2.0%.

The decommissioning process is expected to continue for approximately a sixty-year period subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Group's current estimates.

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

2.25. Provisions for Decommissioning and Reclamation of Mines and Mining Damages

The Group has recognized provisions for obligations to decommission and reclaim mines at the end of their operating live (see Note 18). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is 2.0% annually.

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

2.26. Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expense when incurred.

2.27. Leases

The determination of whether an arrangements is, or contains a lease is based on the substance of the arrangement at inception data of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset. A reassessment is made after inception of the lease only if one of the following conditions applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in determination of whether fulfillment is dependant on a specified asset; or
- There is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

2.28. 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 to equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as an addition to equity.

2.29. 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.

2.30. Translation of Foreign Currencies

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

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

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements items of foreign subsidiaries are translated at average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate.

3. Net Plant in Service

Net plant in service at December 31, 2007 and 2006 is as follows (in CZK millions):

	Buildings	Plant and Equip-ment	Land and Other	Total 2007	Total 2006
Cost - opening balance	171,869	288,855	4,052	464,776	439,416
Plant additions	7,698	10,129	400	18,227	14,576
Disposals	(704)	(4,547)	(31)	(5,282)	(3,958)
Acquisition of subsidiaries	1,656	123	13	1,792	15,206
Disposal of subsidiaries	(248)	(295)	(22)	(565)	-
Change in estimate of decommissioning provisions	-	1,659	-	1,659	(36)
Reclassification and other	137	(110)	(12)	15	2
Currency translation differences	(1,232)	(278)	(21)	(1,531)	(430)
Cost - closing balance	179,176	295,536	4,379	479,091	464,776
Accumulated deprec. and impairment - opening balance	(68,747)	(149,500)	(826)	(219,073)	(199,756)
Depreciation	(5,183)	(15,471)	(21)	(20,675)	(22,612)
Net book value of assets disposed	(284)	(228)	(5)	(517)	(551)
Disposals	704	4,547	4	5,255	3,931
Disposal of subsidiaries	87	189	3	279	-
Reclassification and other	(132)	139	-	7	(20)
Impairment losses recognized	(491)	-	-	(491)	(280)
Impairment losses reversed	597	27	8	632	159
Currency translation differences	162	120	4	286	56
Accumulated deprec. and impairment – closing balance	(73,287)	(160,177)	(833)	(234,297)	(219,073)
Net plant in service - closing balance	105,889	135,359	3,546	244,794	245,703

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

	2007	2006
Cost	21,967	20,505
Accumulated depreciation	(4,803)	(4,312)
Total net book value	17,164	16,193

The carrying value of plant and equipment held under finance lease at December 31, 2007 and 2006 is CZK 39 million and CZK 106 million, respectively.

Group’s plant in service pledged as security for liabilities at December 31, 2007 and 2006 is CZK 76 million and CZK 308 million, respectively.

4. Investments and Other Financial Assets, Net

Investments and other financial assets, net 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	4,160	5,088
Total restricted financial assets	8,389	5,088
Financial assets in progress, net	241	104
Debt securities held-to-maturity	765	705
Debt securities available-for-sale	4,810	4,039
Equity securities available-for-sale	525	933
Long-term receivables, net	1,396	2,408
Total	16,126	13,277

The financial assets in progress represent amounts paid in respect of planned acquisitions.

Movements in impairment provisions (in CZK millions):

	2007			2006		
	Financial assets in progress	Available-for-sale financial assets	Long-term receivables	Financial assets in progress	Available-for-sale financial assets	Long-term receivables
Opening balance	-	202	13	89	173	13
Additions	-	-	-	-	78	-
Reversals	-	(72)	(13)	(89)	(53)	-
Acquisition of subsidiaries	-	-	-	-	4	-
Closing balance	-	130	-	-	202	13

Debt securities at December 31, 2007 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	1,334	318	1,457	3,109
Due in 2 – 3 years	23	334	1,372	1,729
Due in 3 – 4 years	7	-	181	188
Due in 4 – 5 years	5	-	860	865
Due in more than 5 years	27	113	940	1,080
Total	1,396	765	4,810	6,971

Debt securities at December 31, 2006 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	919	52	1,354	2,325
Due in 2 – 3 years	1,351	325	889	2,565
Due in 3 – 4 years	16	328	1,190	1,534
Due in 4 – 5 years	9	-	183	192
Due in more than 5 years	113	-	423	536
Total	2,408	705	4,039	7,152

Debt securities at December 31, 2007 have following effective interest rate structure (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	1,371	-	1	1,372
From 2.0% to 3.0%	10	340	1,249	1,599
From 3.0% to 4.0%	-	105	2,091	2,196
From 4.0% to 5.0%	15	113	1,425	1,553
Over 5.0%	-	207	44	251
Total	1,396	765	4,810	6,971

Debt securities at December 31, 2006 have following effective interest rate structure (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	2,282	-	-	2,282
From 2.0% to 3.0%	-	343	1,988	2,331
From 3.0% to 4.0%	43	217	1,972	2,232
From 4.0% to 5.0%	-	145	32	177
Over 5.0%	83	-	47	130
Total	2,408	705	4,039	7,152

The following table analyses the debt securities at December 31, 2007 by currency (in CZK millions):

	CZK	EUR	Total
Long-term receivables	1,382	14	1,396
Debt securities held-to-maturity	765	-	765
Debt securities available-for-sale	4,810	-	4,810
Total	6,957	14	6,971

The following table analyses the debt securities at December 31, 2006 by currency (in CZK millions):

	CZK	EUR	Total
Long term receivables	2,403	5	2,408
Debt securities held-to-maturity	705	-	705
Debt securities available-for-sale	4,039	-	4,039
Total	7,147	5	7,152

5. Intangible Assets, Net

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

	Software	Rights and Other	Goodwill	Total 2007	Total 2006
Cost – opening balance	5,645	4,982	11,058	21,685	10,163
Additions	937	163	-	1,100	1,112
Disposals	(237)	(7)	-	(244)	(1,573)
Acquisition of subsidiaries	-	232	652	884	12,130
Disposal of subsidiaries	(3)	(4)	(129)	(136)	(1)
Reclassification and other	53	(58)	-	(5)	(1)
Currency translation differences	(6)	45	81	120	(145)
Cost – closing balance	6,389	5,353	11,662	23,404	21,685
Accumulated amortization – opening balance	(4,177)	(731)	-	(4,908)	(4,805)
Amortization charge for the year	(762)	(686)	-	(1,448)	(1,668)
Net book value of assets disposed	(16)	(4)	-	(20)	(16)
Disposals	237	7	-	244	1,571
Disposal of subsidiaries	3	4	-	7	-
Reclassification and other	(11)	16		5	-
Impairment losses recognized	(35)	-	-	(35)	(7)
Impairment losses reversed	-	-	-	-	5
Currency translation differences	4	(1)	-	3	12
Accumulated amortization – closing balance	(4,757)	(1,395)	-	(6,152)	(4,908)
Net intangible assets – closing balance	1,632	3,958	11,662	17,252	16,777

At December 31, 2007 and 2006, intangible assets presented in the balance sheet include intangible assets in progress in the amount of CZK 1,808 million and CZK 1,043 million, respectively.

At December 31, 2007 goodwill was allocated to the respective business and geographical segments based on the classification of the related subsidiaries (see Note 29). There have been no accumulated impairment losses of goodwill at December 31, 2007 and 2006, respectively.

Impairment testing of goodwill

At December 31, 2007 and 2006 goodwill was allocated to the following cash-generating units for the purpose of impairment testing (in CZK millions):

	2007	2006
Bulgarian distribution	1,063	1,098
TEC Varna	1,947	2,011
Polish power-plants	5,689	5,508
Czech distribution and sale	2,182	2,302
Teplárenská	643	-
Other	138	139
Total carrying amount of goodwill	11,662	11,058

The Group performed impairment tests and as result of these tests the Group did not recognize any impairment losses of goodwill in 2007 and 2006. The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Values in use are determined based on cash flow budgets, which are based on the medium-term budget for a period of 5 years, which has been approved by the management and which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on future market trends.

The medium-term budget is based on general economic data derived from macroeconomic and financial studies and makes assumptions primarily on the development of gross domestic product, consumer prices, interest rates and nominal wages.

The recoverable amount of Bulgarian distribution and TEC Varna has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 6.0% for distribution and seven-year period budget and discount rate 7.6% for Varna power-plant. Cash flows beyond the five-year period are extrapolated using an average growth rate of 5.0% for the distribution companies, while the calculation did not include any cash-flow for Varna power-plant beyond 2014. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The recoverable amount of Polish power-plants has also been determined based on a value in use calculation. Those cash flow projections are also based on financial budgets approved by management covering a five-year period, and a discount rate of 7.6%. Cash flows beyond the five-year period are extrapolated using an average growth rate of 2.4%. This growth rate represents the predicted long-term average growth rate of cash flows under currently known capacities and circumstances. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Czech distribution and sale and Teplárenská. Those cash flow projections are also based on financial budgets approved by management covering a five-year period, and a discount rate of 5.7% for distribution and 7.4% for Teplárenská. Cash flows beyond the five-year period are extrapolated using an average growth rate of 5.0%. This growth rate represents the predicted long-term average growth rate of cash flows under currently known circumstances. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The calculations of value in use for all cash-generating units are most sensitive to the following assumptions:

Gross margins – Gross margins are based on average volumes achieved in three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Raw materials price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Discount rate – Discount rates reflect management's estimate of the risk specific to each unit. The basis used to determine the value assigned is weighted average of cost of capital (WACC) of the related subsidiaries.

Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is the forecast of market and regulatory environment, where subsidiaries conduct the business.

6. Acquisition of Subsidiaries

Acquisitions of subsidiaries from third parties in 2007

On April 5, 2007 the Company acquired 100% share in Teplárenská, a.s. ("Teplárenská").

The fair value of the identifiable assets and liabilities of the subsidiary acquired in 2007 at the date of acquisition is as follows (in CZK millions):

	Teplárenská
Shares acquired in 2007	100%
Property, plant and equipment, net	1,792
Other non-current assets	232
Cash and cash equivalents	144
Other current assets	153
Long-term liabilities	-
Deferred tax liability	(362)
Current liabilities	(186)
Total net assets	1,773
Minority interests	-
Share of net assets acquired	1,773
Goodwill	643
Total purchase consideration	2,416
Less:	
Consideration paid for shares in previous periods	(7)
Cash and cash equivalents in subsidiaries acquired	(144)
Cash outflow on acquisition of subsidiary	2,265

The total purchase consideration paid for acquisition of subsidiary in 2007 consists of the following amounts (in CZK millions):

	Teplárenská
Acquisition price of the shares	2,307
Costs directly attributable to the acquisition of shares	109
Total purchase consideration	2,416

The carrying values of the acquired assets and liabilities of the subsidiary acquired in 2007 immediately before the acquisition were as follows (in CZK millions):

	Teplárenská
Property, plant and equipment, net	1,913
Other non-current assets	2
Cash and cash equivalents	144
Other current assets	153
Long-term liabilities	-
Deferred tax liability	(335)
Current liabilities	(186)
Total book value of net assets	1,691

From the date of acquisition, the newly acquired subsidiary has contributed the following balances to the Group's income statement for the year 2007 (in CZK millions):

	Teplárenská
Revenues	551
Income before other income (expenses) and income taxes	15
Net income	79

If the combination had taken place at the beginning of the year, the profit for the CEZ Group would have been CZK 42,800 million and revenues from continuing operation would have been CZK 174,913 million. The goodwill recognized as a result of the business combinations comprises the fair value of expected synergies arising from the acquisitions.

Acquisition of minority shares in 2007

During 2007 the Group purchased further minority shares in Středočeská energetická a.s. (STE). The following table summarizes the critical terms of the subsequent acquisition of minority shares during 2007 (in CZK millions):

	Group STE
Shares acquired in 2007 from third parties	2.1%
Share of net assets acquired	176
Goodwill	9
Total purchase price	185

The following table summarizes the cash outflows on acquisitions of subsidiary and minority shares during 2007 (in CZK millions):

Cash outflows on acquisition of subsidiary	2,265
Cash outflows on purchase of minority	185
Change in payables from acquisitions	12
Total cash outflows on acquisitions in 2007	2,462

7. Investments in Subsidiaries and Associates

The consolidated financial statements include the financial figures of ČEZ, a. s., and the subsidiaries and associates listed in the following table:

Subsidiaries	Country of incorporation	% equity [1] interest 2007	% voting interest 2007	% equity [1] interest 2006	% voting interest 2006
CEZ Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Ciepło Polska sp. z o.o.	Poland	100.00%	100.00%	-	-
CEZ Deutschland GmbH	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Distributie S.A.	Romania	51.01%	51.01%	51.01%	51.01%
CEZ Elektro Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ FINANCE B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Hungary Ltd.	Hungary	100.00%	100.00%	100.00%	100.00%
CEZ Chorzow B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Laboratories Bulgaria EOOD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ MH B.V.	Netherlands	100.00%	100.00%	-	-
CEZ Poland Distribution B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Romania S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ Servicii S.A.	Romania	51.00%	51.00%	-	-
CEZ Silesia B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Slovensko, s.r.o.	Slovakia	100.00%	100.00%	-	-
CEZ Srbija d.o.o.	Serbia	100.00%	100.00%	100.00%	100.00%
CEZ Trade Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Trade Polska sp. z o.o.	Poland	100.00%	100.00%	-	-
CEZ Trade Romania S.R.L.	Romania	100.00%	100.00%	-	-
CEZ Ukraine CJSC	Ukraine	100.00%	100.00%	100.00%	100.00%
CEZ Vanzare S.A.	Romania	51.01%	51.01%	-	-
ČEZ Distribuce, a. s.	Czech Republic	100.00%	100.00%	99.52%	100.00%
ČEZ Distribuční služby, s.r.o.	Czech Republic	100.00%	100.00%	99.45%	100.00%
ČEZ Energetické služby, s.r.o.	Czech Republic	100.00%	100.00%	-	-
ČEZ Logistika, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Měření, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Prodej, s.r.o.	Czech Republic	100.00%	100.00%	99.64%	100.00%
ČEZ Správa majetku, s.r.o.	Czech Republic	100.00%	100.00%	99.29%	100.00%
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZData, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZnet, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrociepłownia Chorzów ELCHO sp. z o.o.	Poland	88.82%	75.20%	88.82%	75.20%
Elektrorazpredelenie Pleven AD [2]	Bulgaria	-	-	67.00%	67.00%
Elektrorazpredelenie Sofia Oblast AD [2]	Bulgaria	-	-	67.00%	67.00%
Elektrorazpredelenie Stolichno AD [2]	Bulgaria	67.00%	67.00%	67.00%	67.00%
Elektrownia Skawina S.A.	Poland	74.82%	74.82%	74.82%	74.82%
Energetické opravny, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Energetika Vítkovice, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%

Subsidiaries, continued	Country of incorporation	% equity [1] interest 2007	% voting interest 2007	% equity [1] interest 2006	% voting interest 2006
I & C Energo a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
MSEM, a.s.	Czech Republic	-	-	100.00%	100.00%
NERS d.o.o.	Bosnia and Herzegovina	51.00%	51.00%	51.00%	51.00%
New Kosovo Energy L.L.C.	Kosovo	100.00%	100.00%	100.00%	100.00%
PPC Úžín, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - 1.strojírenská, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - Autodoprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - Kolejová doprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Severočeská energetika, a.s. [3]	Czech Republic	-	-	100.00%	100.00%
Severočeské doly a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Severomoravská energetika, a. s. [3]	Czech Republic	-	-	100.00%	100.00%
STE - obchodní služby spol. s r.o. v likvidaci	Czech Republic	100.00%	100.00%	97.91%	100.00%
Středočeská energetická a.s. [3]	Czech Republic	-	-	97.91%	97.91%
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA Invest s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
TEC Varna EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
Teplárenská, a.s.	Czech Republic	100.00%	100.00%	-	-
Transenergo International N.V.	Netherlands	100.00%	100.00%	-	-
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46%	52.46%	52.46%	52.46%
VČE - montáže, a.s.	Czech Republic	-	-	100.00%	100.00%
Východočeská energetika, a.s. [3]	Czech Republic	-	-	100.00%	100.00%
ZAO TransEnergo	Russia	100.00%	100.00%	100.00%	100.00%
Západočeská energetika, a.s. [3]	Czech Republic	-	-	100.00%	100.00%

Associates	Country of incorporation	% equity [1] interest 2007	% voting interest 2007	% equity [1] interest 2006	% voting interest 2006
Coal Energy, a.s.	Czech Republic	40.00%	40.00%	40.00%	40.00%
KNAUF POČERADY, spol. s r.o.	Czech Republic	-	-	40.00%	50.00%
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05%	50.00%	51.05%	50.00%

1) The equity interest represents effective ownership interest of the Group.
2) The companies merged into Elektrorazpredelenie Stolichno AD (effective as at 2.11.2007) which was in January 2008 renamed to CEZ Razpredelenie Bulgaria AD
3) These companies merged on 1.1.2007 with ČEZ, a. s.

The associates are not listed on any public exchange. The following table illustrates summarized financial information of associates for the year ended December 31, 2007 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
Coal Energy, a.s.	1,004	855	149	10,988	39
LOMY MOŘINA spol. s r.o.	418	56	362	222	9
Total	1,422	911	511	11,210	48

8. Cash and Cash Equivalents

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

	2007	2006
Cash on hand and current accounts with banks	4,655	6,621
Short-term bank notes	1,586	7,568
Term deposits	6,188	16,743
Total	12,429	30,932

At December 31, 2007 and 2006, cash and cash equivalents included foreign currency deposits of CZK 8,081 million and CZK 21,880 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2007 and 2006 was 5.0% and 3.7%, respectively. For the years 2007 and 2006 the weighted average interest rate was 3.7% and 3.4%, respectively.

9. Receivables, Net

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

	2007	2006
Unbilled electricity supplied to retail customers	-	361
Received advances from retail customers	-	-
Unbilled supplies to retail customers, net	-	361
Trade receivables	22,453	17,213
Taxes and fees, excluding income taxes	802	461
Other receivables	3,239	751
Allowance for doubtful receivables	(2,614)	(2,452)
Total	23,880	16,334

The information about receivables from related parties is included in Note 28.

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

	2007	2006
Not past due	20,871	14,156
Past due but not impaired [1]:		
Less than 3 months	2,589	1,773
3 – 6 months	203	136
6 – 12 months	196	233
more than 12 months	21	36
Total	23,880	16,334

[1] Past due but not impaired receivables include net receivables, for which the Group 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	2,452	2,288
Additions	1,596	1,883
Reversals	(1,323)	(1,862)
Acquisition of subsidiaries	-	157
Disposal of subsidiaries	(3)	-
Currency translation differences	(108)	(14)
Closing balance	2,614	2,452

10. Emission Rights

In 2005 an emission trading scheme was introduced in the European Union. The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights held by the Group during 2007 and 2006 (in CZK millions):

	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	37,109	2,207	35,092	-
Emission rights granted	42,143	-	37,522	-
Settlement of prior year actual emissions	(39,118)	(2,036)	(33,320)	-
Emission rights acquired in business combination	200	7	5,161	2,461
Emission rights sold	(930)	-	(7,346)	(257)
Emission rights purchased	3,820	202	-	-
Fair value adjustment	-	(200)	-	-
Currency translation differences	-	51	-	3
Granted and purchased emission rights at December 31	43,224	231	37,109	2,207
Emission rights held for trading:				
Emission rights for trading at January 1	41	7	219	134
Emission rights purchased	4,937	288	2,997	1,627
Emission rights sold	(4,966)	(308)	(3,175)	(1,746)
Fair value adjustment	-	13	-	(8)
Emission rights held for trading at December 31	12	-	41	7

During 2007 and 2006 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 43,105 thousand tons (including 32 thousand tons emitted by Teplárenská before the day of acquisition) and 39,033 thousand tons of CO_2 (including 1,811 thousand tons emitted by Polish power plants before the day of acquisition), respectively. In 2007 and 2006 the Group recognized a provision for CO_2 emissions in total amount of CZK 231 million and CZK 2,438 million, respectively (see Note 2.12).

At December 31, 2007 and 2006 the balance of emission rights presented in the balance sheet includes also green certificates in total amount CZK 124 million and CZK 10 million, respectively.

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

	2007	2006
Gain on sales of granted emission rights	281	3,531
Net gain from emission trading	568	4
Gain on sales of green certificates	175	-
Settlement of provisions for contracts acquired in business combinations	-	1,140
Creation of provisions for emissions rights	(227)	(1,590)
Settlement of provisions for emissions rights	2,486	-
Remitted emission rights	(2,038)	-
Fair value adjustment	(187)	(8)
Net gain related to emission rights and green certificates	1,058	3,077

11. Other Financial Assets, net

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

	2007	2006
Debt securities held for trading	14	12
Debt securities held-to-maturity	1,057	1,756
Debt securities available-for-sale	1,345	1,664
Equity securities held for trading	9	38
Equity securities available-for-sale	63	2,085
Derivatives	8,097	3,397
Total	10,585	8,952

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.

Short-term debt securities at December 31, 2007 have the following effective interest rate structure (in CZK millions):

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
From 2.0% to 3.0%	366	101	-	467
From 3.0% to 4.0%	691	1,212	-	1,903
From 4.0% to 5.0%	-	32	-	32
Over 5.0%	-	-	14	14
Total	1,057	1,345	14	2,416

Short-term debt securities at December 31, 2006 have the following effective interest rate structure (in CZK millions):

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
From 2.0% to 3.0%	1,566	568	-	2,134
From 3.0% to 4.0%	190	784	-	974
From 4.0% to 5.0%	-	73	-	73
Over 5.0%	-	239	12	251
Total	1,756	1,664	12	3,432

All short-term debt securities are denominated in CZK.

12. Other Current Assets

The composition of other current assets at December 31, 2007 and 2006 is as follows (in CZK millions):

	2007	2006
Prepaid variation margin on "own use" electricity futures	2,992	-
Advances paid	1,485	1,835
Prepayments	715	734
Total	5,192	2,569

13. 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 2.29) 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 Group 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.

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 Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

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

The Group primarily monitors capital using the ratio of net debt to EBITDA. The Group's goal is to keep this ratio at maximum in the range of 2.0 – 2.5. In addition, the Group 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 Group'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 Group 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 the ratios is done using consolidated numbers (in CZK millions):

	2007	2006
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
Plus: Depreciation and amortization	22,123	24,280
EBITDA	75,326	64,344
Total equity attributable to 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%

14. Long-term Debt

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

	2007	2006
7.125% Notes, due 2007 (USD 178 million)	-	3,765
4.625% Eurobonds, due 2011 (EUR 400 million)	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) [1)]	2,496	2,495
3.35% Debentures, due 2008 (CZK 3,000 million)	2,820	2,867
4.30% Debentures, due 2010 (CZK 7,000 million)	6,834	-
Long-term bank loans:		
2.00% to 2.99% p. a.	-	1,864
3.00% to 3.99% p. a.	19	266
4.00% to 4.99% p. a.	1,856	413
5.00% to 5.99% p. a.	-	3,666
6.00% to 6.99% p. a.	3	3,946
7.00% to 7.99% p. a.	-	618
8.00% p. a. and more	-	43
Total long-term debt	55,210	48,321
Less: Current portion	(3,226)	(6,365)
Long-term debt, net of current portion	51,984	41,956

1) From 2006 the interest rate changes to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2007 and 2006 was 5.90% and 6.40%, 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 Group. For the fair values of interest rate hedging instruments see Note 15.

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

	2007	2006
Current portion	3,226	6,365
Between 1 and 2 years	4,551	3,583
Between 2 and 3 years	7,118	4,576
Between 3 and 4 years	10,886	717
Between 4 and 5 years	13,519	11,703
Thereafter	15,910	21,377
Total long-term debt	55,210	48,321

The following table analyses the long-term debt at December 31, 2007 and 2006 by currency (in millions):

	2007		2006	
	Foreign currency	CZK	Foreign currency	CZK
EUR	1,400	37,035	925	25,233
USD	-	-	436	9,170
PLN	37	276	368	2,643
BGN	-	-	4	52
CZK	-	17,899	-	11,223
Total long-term debt		55,210		48,321

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising 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	272	553
with interest rate fixed from 1 to 3 months	1,415	2,069
with interest rate fixed from 3 months to 1 year	2,587	9,254
Total floating rate long-term debt	4,274	11,876
Fixed rate long-term debt	50,936	36,445
Total long-term debt	55,210	48,321

Fixed rate long-term debt exposes the Group 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 15 and Note 16.

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

15. Fair Value of Financial Instruments

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

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

Cash and cash equivalents, current investments

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

Investments

The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. For unquoted equity instruments the Group considered the use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments are carried at cost, the carrying amount approximates the fair value of such investments.

Receivables and Payables

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

Short-term loans

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

Long-term debt

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

Derivatives

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

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

		2007		2006	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Investments		16,126	16,039	13,277	13,147
Restricted debt securities available-for-sale	AFS	3,233	3,233	-	-
Restricted debt securities held to maturity	HTM	996	996	-	-
Restricted cash	LaR	4,160	4,160	5,088	5,088
Financial assets in progress, net	LaR	241	241	104	104
Debt securities held-to-maturity	HTM	765	754	705	700
Debt securities available-for-sale, net	AFS	4,810	4,810	4,039	4,039
Equity securities available-for-sale	AFS	525	525	933	933
Long-term receivables, net	LaR	1,396	1,320	2,408	2,283
Receivables	LaR	23,880	23,880	16,334	16,334
Cash and cash equivalents	LaR	12,429	12,429	30,932	30,932
Other financial assets		2,488	2,488	5,555	5,555
Debt securities held for trading	HFT	14	14	12	12
Debt securities held-to-maturity	HTM	1,057	1,057	1,756	1,756
Debt securities available-for-sale	AFS	1,345	1,345	1,664	1,664
Equity securities held for trading	HFT	9	9	38	38
Equity securities available-for-sale	AFS	63	63	2,085	2,085
Other current assets	LaR	5,192	5,192	2,569	2,569
Liabilities:					
Long-term debt	AC	(55,210)	(54,766)	(48,321)	(49,339)
Short-term loans	AC	(18,048)	(18,048)	(121)	(121)
Accounts payable	AC	(18,864)	(18,864)	(16,362)	(16,362)
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)

	Category	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value
Electricity trading contracts:					
Receivables	HFT	5,385	5,385	2,695	2,695
Payables	HFT	(5,250)	(5,250)	(2,935)	(2,935)
Total electricity trading contracts		135	135	(240)	(240)
Other derivatives:					
Receivables	HFT	1,703	1,703	702	702
Payables	HFT	(1,624)	(1,624)	(1,928)	(1,928)
Total other derivatives		79	79	(1,226)	(1,226)

LaR Loans and receivables
AFS Available-for-sale investments
HTM Held to maturity
HFT Held for trading
AC Financial liabilities at amortized cost

16. 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 in the Group 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

1.1 Financial (FX, IR)
1.2 Commodity
1.3 Volumetric
1.4 Market liquidity

2. Credit risks

2.1 Counterparty default
2.2 Supplier default
2.3 Settlement

3. Operation risks

3.1 Operating
3.2 Internal change
3.3 Liquidity management
3.4 Security

4. Business risks

4.1 Strategic
4.2 Political
4.3 Regulatory
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 in the Czech Republic.

The development of the above Group's 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.

16.1. Qualitative description of risks associated with financial instruments

Commodity risks

The development of electricity and emission allowances prices is a key risk factor of the Group's 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 the Group'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 within the whole Group (the potential risk is managed on the VaR basis).

Market financial risks (currency and interest risks)

The development of foreign exchange rates and interest rates is a significant risk factor of the Group's 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 of the Group (including operational and investment foreign currency flows).

Credit risks

With respect to the Group's activities managed on a centralized level, 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). With respect to the electricity sales to end-customers in the Czech Republic, the actual credibility is monitored for each business partner based on payment history (in addition, the financial standing is considered for selected partners). This credibility determines the payment conditions of partners (i.e. it indirectly determines an amount of an approved credit exposure) and also serves to quantify both the expected and the potential losses. 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 all credit risks mentioned above in the aggregate annual Profit@Risk limit is quantified and evaluated.

Liquidity risks

The Group's 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 in the Group 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 Group's 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 the Group.

16.2. Quantitative description of 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 Group: 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 the Group 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	206	162
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 December 31) 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 forecasted foreign-currency revenues from electricity sales in the future
- the relevant currency positions reflect all significant foreign-currency flows of the Group units in the monitored basket of foreign currencies

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

	2007	2006
Monthly currency VaR (95% confidence)	150	34

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 of the Group units

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

	2007	2006
Monthly interest VaR (95% confidence) *	501	346

* 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 the Group debt).

Liquidity risk

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

	Bank loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *
Less than 1 year	476	5,419	19,151	95,157
Between 1 and 2 years	456	6,347	340	18,648
Between 2 and 3 years	322	9,012	84	8,531
Between 3 and 4 years	306	12,486	13	1,831
Between 4 and 5 years	284	14,551	-	367
Thereafter	240	16,524	-	-
Total	2,084	64,339	19,588	124,534

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Group will receive corresponding consideration. For fair values of derivatives see Note 15.

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

	Bank loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *
Less than 1 year	3,111	5,674	16,626	45,452
Between 1 and 2 years	1,145	4,525	321	4,346
Between 2 and 3 years	1,117	5,101	67	-
Between 3 and 4 years	1,077	1,233	19	-
Between 4 and 5 years	1,095	12,174	2	-
Thereafter	6,516	17,672	20	-
Total	14,061	46,379	17,055	49,798

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Group will receive corresponding consideration. For fair values of derivatives see Note 15.

16.3. Hedge accounting

The Group 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 Group 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 Group 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.

17. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants, Dukovany and Temelín. Nuclear power plant Dukovany consists of four 440 MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000 MW units, which have started commercial operation in 2002 and 2003. The Czech parliament has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of nuclear facilities and the disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. An updated 2003 Dukovany estimate and a 2004 Temelín decommissioning cost study estimates that nuclear decommissioning will cost CZK 15.6 billion and CZK 13.7 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds 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 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a "nuclear account" funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government decision 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 Group has established provisions as described in Note 2.24, 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	9,722	4,174	21,973	35,869
Movements during 2006:				
Discount accretion	243	104	549	896
Effect of inflation	195	84	439	718
Provision charged to income statement	-	220	-	220
Effect of change in estimate credited to income statement (Note 2.24)	-	(46)	-	(46)
Effect of change in estimate added to (deducted from) fixed assets (Note 2.24)	(4)	564	(32)	528
Current cash expenditures	-	(198)	(1,304)	(1,502)
Balance at December 31, 2006	10,156	4,902	21,625	36,683
Movements during 2007:				
Discount accretion	257	122	541	920
Effect of inflation	205	98	433	736
Provision charged to income statement	-	394	-	394
Effect of change in estimate charged to income statement (Note 2.24)	-	438	-	438
Effect of change in estimate added to (deducted from) fixed assets (Note 2.24)	(4)	32	1,467	1,495
Current cash expenditures	-	(168)	(1,307)	(1,475)
Balance at December 31, 2007	10,614	5,818	22,759	39,191

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.

18. Other Long-term Liabilities

Other long-term liabilities at December 31, 2007 and 2006 are as follows (in CZK millions):

	2007	2006
Provision for decommissioning and reclamation of mines and mining damages	6,608	7,175
Other long-term provisions	-	140
Deferred connection fees	7,983	7,082
Other	1,778	1,146
Total	16,369	15,543

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ. Severočeské doly a.s. operates an open pit coal mine and is responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. The current cost estimates for the decommissioning and reclamation provision have been discounted using an estimated real rate of interest of 2.5%.

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

	Mine reclamation	Mining damages	Total
Balance at December 31, 2005	6,083	1,120	7,203
Movements during 2006:			
Discount accretion	145	-	145
Effect of inflation	117	-	117
Provision charged to income statement	89	-	89
Effect of change in estimate credited to income statement	(125)	-	(125)
Current cash expenditures	(254)	-	(254)
Balance at December 31, 2006	6,055	1,120	7,175
Movements during 2007:			
Discount accretion	119	-	119
Effect of inflation	148	-	148
Provision charged to income statement	41	-	41
Effect of change in estimate added to fixed assets	197	-	197
Current cash expenditures	(142)	(930)	(1,072)
Balance at December 31, 2007	6,418	190	6,608

Current cash expenditures represent cash payments for current reclamation of mining area and settlement of mining damages. Change in estimate represents change in provision as result of updated cost estimates in the current period, mainly due to changes in expected prices of reclamation activities.

19. Short-term Loans

Short-term loans at December 31, 2007 and 2006 are as follows (in CZK millions):

	2007	2006
Short-term bank loans	10,571	45
Bank overdrafts	7,477	76
Total	18,048	121

Interest on short-term loans is variable. The weighted average interest rate was 4.1% at December 31, 2007 and 4.4% at December 31, 2006. For the years 2007 and 2006 the weighted average interest rate was 3.5% and 2.8%, respectively.

20. Trade and Other Payables

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

	2007	2006
Advances received from retail customers	18,240	17,460
Unbilled electricity supplied to retail customers	(17,886)	(15,379)
Received advances from retail customers, net	354	2,081
Trade payables	15,993	12,372
Derivatives	6,874	6,543
Other payables	2,517	1,909
Total	25,738	22,905

The information about payables to related parties is included in Note 28.

21. Accrued Liabilities

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

	2007	2006
Provision for CO_2 emissions	231	2,438
Provision for waste storage reclamation	453	452
Other provisions	1,432	1,771
Accrued interest	891	859
Taxes and fees, except income tax	1,005	1,209
Unbilled goods and services	3,764	2,814
Contingent liabilities from acquisitions	604	713
Social and similar funds	83	327
Deferred income	575	607
Total	9,038	11,190

In 2007 and 2006, the provision for CO_2 emissions also includes a provision recorded as at the acquisition date of Teplárenská and the Polish power plants, which amounted to CZK 4 millions and 864 millions respectively. Other provisions represent provisions for environmental claims, restructuring and legal cases and are based on the best estimates of the costs needed to settle the related obligations.

22. Revenues

The composition of revenues for the year ended December 31, 2007 and 2006 is as follows (in CZK millions):

	2007	2006
Sale of electricity:		
Sales to end customers	94,538	88,066
Sales to distribution companies	15,509	17,236
Exports of electricity	12,923	13,512
Other sales of electricity	31,795	13,314
Sales of ancillary and other services	5,281	6,029
Total sales of electricity	160,046	138,157
Electricity derivative trading:		
Sales of electricity	39,800	7,487
Purchases of electricity	(37,372)	(7,391)
Changes in fair value of electricity trading contracts	262	(404)
Total gains and losses from electricity derivative trading, net	2,690	(308)
Sales of heat	2,935	2,255
Sales of coal	3,444	3,382
Other	5,448	5,648
Total revenues	174,563	149,134

In October 2007 the Shareholder's meeting of Elektrociepłownia Chorzów ELCHO sp. z o.o. (ELCHO) decided to terminate its long-term contract for the sale of electricity with Polskie Sieci Elektroenergetyczne S.A. (PSE) based on which the electricity should have originally been delivered until 2023. According to the Act on termination of long term agreements ELCHO will receive compensation in cash from an entity established by Polish state, to compensate the revenues lost (the equivalent of the difference between original contractual price and market price with the total limit of PLN 889 million). From April 2008 on ELCHO will start to sell the electricity on the free market.

23. Salaries and Wages

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

	2007		2006	
	Total	Key manage-ment personnel [1]	Total	Key manage-ment personnel [1]
Salaries and wages	(11,293)	(155)	(10,136)	(141)
Remuneration of the board members, including royalties	(87)	(34)	(103)	(34)
Share options	(45)	(45)	(235)	(235)
Social and health security	(4,001)	(54)	(3,706)	(50)
Other personal expenses	(1,474)	(13)	(904)	(27)
Total	(16,900)	(301)	(15,084)	(487)

[1] Key management personnel represent members of Supervisory Board, Board of Directors and members of Executive Committee. Members of Board of Directors are also members of Executive Committee.

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 were in the following ranges (in thousand pieces):

	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.

24. Other Operating Expenses

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

	2007	2006
Services	(10,955)	(8,217)
Travel expenses	(278)	(255)
Gain on sale of property, plant and equipment	153	181
Gain on sale of material	138	79
Capitalization of expenses to the cost of assets and change in own inventory	2,979	2,694
Fines, penalties and penalty interest, net	330	236
Change in provisions and valuation allowances	438	308
Taxes and fees	(1,558)	(998)
Write-off of bad debts and cancelled investment	(540)	(844)
Gifts	(352)	(249)
Other, net	408	(612)
Total	(9,237)	(7,677)

25. 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	196	231
Investments held-to-maturity	160	65
Available-for-sale investments	-	43
Financial assets held for trading	4	8
Bank accounts	803	575
Total	1,163	922

26. Other Income (Expenses), Net

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

	2007	2006
Derivative gains (losses), net	(585)	(327)
Gains from sales available-for-sale financial assets	772	-
Gain (loss) on sale of financial assets held for trading	1	(2)
Change in impairment of financial investments	79	108
Other, net	218	20
Total	485	(201)

27. Income Taxes

Companies resident in the Czech Republic 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 a potentially effect on reported income.

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

	2007	2006
Current income tax charge	(11,776)	(9,168)
Adjustments in respect of current income tax of previous periods	(115)	(16)
Deferred income taxes	3,504	232
Total	(8,387)	(8,952)

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	51,151	37,708
Statutory income tax rate in Czech Republic	24%	24%
"Expected" income tax expense	(12,276)	(9,050)
Add (deduct) tax effect of:		
Change in tax rates	3,212	377
Czech/IFRS accounting differences	96	6
Non-deductible provisions, net	(84)	(14)
Investment tax relief	-	1
Other non taxable (non-deductible) items, net	290	(562)
Income already taxed or exempt	226	209
Tax credits	5	4
Adjustments in respect of current income tax of previous periods	(115)	(16)
Effect of different tax rate in other countries	294	186
Change in unrecorded deferred tax receivables	(35)	(93)
Income taxes	(8,387)	(8,952)
Effective tax rate	16%	24%

Deferred Income Taxes, Net

Deferred income taxes, net, at December 31, 2007 and 2006 consist of the following (in CZK millions):

	2007	2006
Accumulated provision for nuclear decommissioning and spent fuel storage	6,363	7,511
Financial statement depreciation in excess of tax depreciation	3	370
Revaluation of financial instruments	56	238
Allowances	495	555
Other provisions	1,086	1,364
Unpaid interest to abroad	11	23
Tax loss carry forwards	230	232
Other temporary differences	77	70
Total deferred tax assets	8,321	10,363
Tax depreciation in excess of financial statement depreciation	23,089	28,312
Revaluation of financial instruments	825	630
Other provisions	973	641
Penalty receivables	19	6
Investment in associate	11	10
Other temporary differences	75	82
Total deferred tax liability	24,992	29,681
Total deferred tax liability, net	16,671	19,318

Movements in net deferred tax liability were as follows (in CZK millions):

	2007	2006
Opening balance	19,318	18,031
Deferred tax recognized in profit or loss	(3,504)	(232)
Deferred tax charged directly to equity	525	232
Acquisition of subsidiaries	363	1,347
Disposal of subsidiaries	(20)	-
Currency translation differences	(11)	(60)
Closing balance	16,671	19,318

At December 31, 2007 and 2006 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 20,737 million and CZK 4,107 million, respectively.

28. Related Parties

The Group purchases products, goods and services 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):

	Receivables		Payables	
	2007	2006	2007	2006
Associates and other affiliates:				
AZ Elektrostav, a.s.[1)]	-	7	-	20
Centrum výzkumu Řež s.r.o.	1	1	-	-
Coal Energy, a.s.	175	394	29	2
ČEZ ENERGOSERVIS spol. s r.o.	1	4	36	45
ELTRAF, a.s. [1)]	-	4	-	11
Energetická montážní společnost Česká Lípa, s.r.o. [2)]	-	60	-	31
Energetická montážní společnost Liberec, s.r.o. [3)]	-	20	-	13
Energetická montážní společnost Ústí nad Labem, s.r.o. [2)]	-	39	-	17
ENPRO, a.s.	1	-	3	3
ENPROSPOL, s.r.o.	1	2	2	4
KNAUF POČERADY, spol. s r.o. [3)]	-	8	-	-
LOMY MOŘINA spol. s r.o.	-	-	4	14
OSC, a.s.	-	-	17	9
PRODECO, a.s.	206	13	68	36
SEG s.r.o. [4)]	-	3	-	60
SHD - KOMES a.s.	-	14	82	71
SIGMA - ENERGO s.r.o. [5)]	-	-	-	16
SINIT,a.s.	-	2	19	4
Others	16	26	45	49
Total associates and other affiliates	401	597	305	405
Companies under the control of Company's majority owner:				
ČEPS, a.s.	201	219	191	782
Česká pošta s.p.	3	-	56	12
České dráhy, a.s.	480	21	66	171
Ministry of Finance of the Czech Republic	2,012	2,854	-	-
Others	-	1	2	-
Total companies under the control of Company's majority owner	2,696	3,095	315	965
Total	3,097	3,692	620	1,370

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

	Sales to related parties		Purchases from related parties	
	2007	2006	2007	2006
Associates and other affiliates:				
AZ Elektrostav, a.s.[1]	9	88	62	149
Centrum výzkumu Řež s.r.o.	44	1	9	-
Coal Energy, a.s.	2,229	4,627	465	25
ČEZ ENERGOSERVIS spol. s r.o.	13	18	296	255
ELTRAF, a.s. [1]	1	4	-	103
Energetická montážní společnost Česká Lípa, s.r.o. [2]	8	118	72	98
Energetická montážní společnost Liberec, s.r.o. [3]	1	36	8	25
Energetická montážní společnost Ústí nad Labem, s.r.o. [2]	5	84	11	55
ENPRO, a.s.	6	4	54	32
ENPROSPOL, s.r.o.	5	3	48	26
KNAUF POČERADY, spol. s r.o. [3]	70	120	11	-
LOMY MOŘINA spol. s r.o.	20	13	155	151
OSC, a.s.	10	-	208	11
PRODECO, a.s.	11	13	270	1,498
SEG s.r.o. [4]	10	105	38	336
SHD - KOMES a.s.	11	10	865	612
SIGMA - ENERGO s.r.o. [5]	5	6	77	74
SINIT,a.s.	5	6	117	33
Others	64	95	172	403
Total associates and other affiliates	2,527	5,351	2,938	3,886
Companies under the control of Company's majority owner:				
ČEPS, a.s.	7,488	7,701	10,031	11,227
Česká pošta s.p.	128	106	120	173
České dráhy, a.s.	2,911	2,548	1,815	1,520
Others	12	13	-	-
Total companies under the control of Company's majority owner	10,539	10,368	11,966	12,920
Total	13,066	15,719	14,904	16,806

[1] Part of CEZ Group till 3/2007
[2] Part of CEZ Group till 8/2007
[3] Part of CEZ Group till 7/2007
[4] Part of CEZ Group till 5/2007
[5] Part of CEZ Group till 10/2007

Information about compensation of key management personnel is included in Note 23.

29. Segment Information

The Group reports its result based on business and geographical segments.

The power production and trading segment includes production of electricity and heat and the commodity trading activities of the Group. The distribution and sale segment sells electricity to end customers through the power distribution grid. The mining segment produces coal and limestone used by the power production segment and sold to third parties.

The Group's geographical segments are based on the location of the Group's assets. The Central Europe segment includes Czech Republic, the Netherlands, Poland, Germany, Hungary and Slovakia. The South East Europe segment the operations of the Group in Bulgaria, Romania, Russia, Serbia, Kosovo, Bosnia and Herzegovina and the Ukraine.

The accounting policies of the segments are the same as those described in Note 2. The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices. The Group evaluates the performance of its segments and allocates resources to them based on operating income.

The following table summarizes segment information by business segments for the years ended December 31, 2007 and 2006, respectively (in CZK millions):

Year 2007:

	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	71,969	95,665	3,524	3,405	174,563	-	174,563
Intersegment sales	40,234	2,773	6,507	23,743	73,257	(73,257)	-
Total revenues	112,203	98,438	10,031	27,148	247,820	(73,257)	174,563
Operating income	37,357	9,774	3,670	2,402	53,203	-	53,203
Identifiable assets	190,070	68,019	11,615	13,692	283,396	(6,231)	277,165
Goodwill	8,342	3,245	60	15	11,662	-	11,662
Investment in associates	60	-	188	-	248	-	248
Unallocated assets							81,867
Total assets							370,942
Identifiable liabilities	152,528	20,182	14,027	16,305	203,042	(33,479)	169,563
Unallocated liabilities							17,153
Total liabilities							186,716
Income from associate	16	-	4	20	40	-	40
Depreciation and amortization	(14,002)	(5,163)	(1,095)	(1,863)	(22,123)	-	(22,123)
Change in provisions and allowances	2,887	(46)	1,105	(259)	3,687	-	3,687
Capital expenditure	14,639	11,193	1,695	7,099	34,626	(3,960)	30,666

Year 2006:

	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	53,959	88,064	3,476	3,635	149,134	-	149,134
Intersegment sales	37,848	4,487	5,456	16,051	63,842	(63,842)	-
Total revenues	91,807	92,551	8,932	19,686	212,976	(63,842)	149,134
Operating income	29,683	7,509	3,369	(496)	40,065	(1)	40,064
Identifiable assets	185,740	63,279	10,805	12,442	272,266	(2,503)	269,763
Goodwill	7,583	1,098	60	2,317	11,058	-	11,058
Investment in associates	65	-	189	176	430	-	430
Unallocated assets							87,404
Total assets							368,655
Identifiable liabilities	118,902	21,573	8,680	9,886	159,041	(18,056)	140,985
Unallocated liabilities							20,017
Total liabilities							161,002
Income from associate	60	-	1	13	74	-	74
Depreciation and amortization	(14,093)	(4,785)	(994)	(4,408)	(24,280)	-	(24,280)
Change in provisions and allowances	(169)	(159)	345	(178)	(161)	-	(161)
Capital expenditure	10,553	7,881	1,866	4,985	25,285	(2,740)	22,545

Prices in certain intersegment transactions are regulated by the Energy Regulatory Office (see Note 1).

The following tables summarize geographical segment information for the years ended December 31, 2007 and 2006, respectively (in CZK millions):

Year 2007:

	Central Europe	South East Europe	Combined	Elimination	Consoli-dated
Sales other than intersegment sales	145,408	29,155	174,563	-	174,563
Intersegment sales	534	190	724	(724)	-
Total revenues	145,942	29,345	175,287	(724)	174,563
Operating income	51,215	1,987	53,202	1	53,203
Identifiable assets	249,797	27,368	277,165	-	277,165
Goodwill	8,649	3,013	11,662	-	11,662
Investment in associates	248	-	248	-	248
Unallocated assets					81,867
Total assets					370,942
Identifiable liabilities	164,437	7,533	171,970	(2,407)	169,563
Unallocated liabilities					17,153
Total liabilities					186,716
Income from associate	40	-	40	-	40
Depreciation and amortization	(19,776)	(2,347)	(22,123)	-	(22,123)
Change in provisions and allowances	4,154	(467)	3,687	-	3,687
Capital expenditure	27,403	3,263	30,666	-	30,666

Year 2006:

	Central Europe	South East Europe	Combined	Elimination	Consoli-dated
Sales other than intersegment sales	125,983	23,151	149,134	-	149,134
Intersegment sales	153	4	157	(157)	-
Total revenues	126,136	23,155	149,291	(157)	149,134
Operating income	37,798	2,266	40,064	-	40,064
Identifiable assets	241,741	28,022	269,763	-	269,763
Goodwill	7,945	3,113	11,058	-	11,058
Investment in associates	430	-	430	-	430
Unallocated assets					87,404
Total assets					368,655
Identifiable liabilities	134,127	6,981	141,108	(123)	140,985
Unallocated liabilities					20,017
Total liabilities					161,002
Income from associate	74	-	74	-	74
Depreciation and amortization	(22,373)	(1,907)	(24,280)	-	(24,280)
Change in provisions and allowances	449	(610)	(161)	-	(161)
Capital expenditure	20,065	2,480	22,545	-	22,545

30. Net Income per Share

	2007	2006
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	41,555	27,697
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	72.9	47.0
Diluted	72.7	46.8

31. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2007 to total CZK 182.7 billion over the next five years, as follows: CZK 39.2 billion in 2008, CZK 33.4 billion in 2009, CZK 38.2 billion in 2010, CZK 38.0 billion in 2011 and CZK 33.9 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 Group will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 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 Group 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.

32. Events after the Balance Sheet Date

In January 2008 the Group acquired a 7% share in MOL. At the same moment the Group 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 Group 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.

These financial statements have been authorized for issue on February 25, 2008:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Tomáš Pleskač
Vice-chairman of Board of Directors
Director of Division International

Martin Novák
Chief Financial Officer