ČEZ, a. s.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF DECEMBER 31, 2008

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

<u>INDEPENDENT AUDITOR'S REPORT</u>

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

We have audited the accompanying financial statements of ČEZ, a. s. which comprise the balance sheet as at December 31, 2008, and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on ČEZ, a. s. see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s. as at December 31, 2008, 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, s.r.o.
License No. 401
Represented by partner

Josef Pivoňka
Auditor, License No. 1963

February 24, 2009
Prague, Czech Republic

BALANCE SHEET

in accordance with IFRS

December 31, 2008

(in CZK Millions)

ČEZ, a. s.

Duhová 2/1444

Praha 4

IČ: **452 74 649**

	Note	current year	prior year *)
ASSETS		**392,593**	**313,894**
Fixed assets		**292,613**	**281,555**
Property, plant and equipment		**173,032**	**172,252**
Plant in service		296,094	295,255
Less accumulated provision for depreciation		162,220	150,603
Net plant in service	4.	133,874	144,652
Nuclear fuel, at amortized cost		6,266	6,955
Construction work in progress	4.	32,892	20,645
Other non-current assets		**119,581**	**109,303**
Investments and other financial assets, net	5.	118,799	108,294
Intangible assets, net	6.	782	1,009
Current assets		**99,980**	**32,339**
Cash and cash equivalents	7.	7,011	1,988
Receivables, net	8.	33,409	15,368
Income tax receivable		2	
Materials and supplies, net		2,832	2,731
Fossil fuel stock		1,069	592
Emission rights	9.	1,274	2
Other financial assets, net	10.	53,864	7,999
Other current assets	11.	519	3,659
EQUITY AND LIABILITIES		**392,593**	**313,894**
Equity	12.	**154,927**	**149,882**
Stated capital		59,221	59,221
Treasury shares		(66,910)	(55,972)
Retained earnings and other reserves		162,616	146,633
Long-term liabilities		**102,620**	**91,341**
Long-term debt, net of current portion	13.	66,559	51,839
Accumulated provision for nuclear decommissioning and fuel storage	16.	35,422	38,997
Other long-term liabilities		639	505
Deferred tax liability	24.	**8,613**	**11,618**
Current liabilities		**126,433**	**61,053**
Short-term loans		13,020	11,822
Current portion of long-term debt		4,710	3,235
Trade and other payables	17.	97,856	39,061
Income tax payable		3,381	3,696
Accrued liabilities	18.	7,466	3,239

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

Date: 24/02/2009	Signature of accounting unit´s statutory body:	Person responsible for accounting: Radim Sladkovský	Person responsible for financial statements: Ivan Viktora

STATEMENT OF INCOME

in accordance with IFRS

December 31, 2008

(in CZK Millions)

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

	Note	current period	prior year period *)
Revenues	19.	**109,528**	**103,746**
Sales of electricity		102,505	96,657
Gains and losses from electricity, coal and gas derivative trading, net		3,455	2,583
Heat sales and other revenues		3,568	4,506
Operating expenses		**(62,164)**	**(67,050)**
Fuel		(16,790)	(18,194)
Purchased power and related services		(15,474)	(19,172)
Repair and maintenance		(3,583)	(3,444)
Depreciation and amortization		(13,035)	(12,428)
Salaries and wages	20.	(5,904)	(6,335)
Materials and supplies		(1,765)	(1,758)
Emission rights, net	9.	294	838
Other operating expenses	21.	(5,907)	(6,557)
Income before other income (expenses) and income taxes		**47,364**	**36,696**
Other income (expenses)		**9,603**	**460**
Interest on debt, net of capitalized interest		(2,934)	(1,969)
Interest on nuclear and other provisions	16.	(1,755)	(1,643)
Interest income	22.	983	759
Foreign exchange rate gains (losses), net		(909)	(466)
Gain (loss) on sale of subsidiaries		679	266
Other income (expenses), net	23.	13,539	3,513
Income before income taxes		**56,967**	**37,156**
Income taxes	24.	**(9,849)**	**(5,731)**
Net income		**47,118**	**31,425**

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

Date: 24/02/2009	Signature of accounting unit´s statutory body:	Person responsible for accounting: Radim Sladkovský	Person responsible for financial statements: Ivan Viktora

STATEMENT OF CHANGES IN EQUITY

in accordance with IFRS

December 31, 2008

(in CZK Millions)

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

	Stated Capital	Treasury shares	Fair Value and Other Reserves	Retained Earnings	Total Equity
December 31, 2006, as previously reported	**59,221**	**-1,943**	**1,390**	**123,568**	**182,236**
Effect of merger (note 3)				282	282
January 1, 2007, as restated	**59,221**	**-1,943**	**1,390**	**123,850**	**182,518**
Change in fair value of cash flow hedges recognized in equity			2,802		**2,802**
Cash flow hedges removed from equity			44		**44**
Change in fair value of available-for-sale financial assets recognized in equity			(70)		**(70)**
Available-for-sale financial assets removed from equity			(355)		**(355)**
Deferred tax recognized in equity			(474)		**(474)**
Gain and loss recorded directly to equity	**-**	**-**	**1,947**	**-**	**1,947**
Net income				31,425	**31,425**
Total gains and losses	**-**	**-**	**1,947**	**31,425**	**33,372**
Dividends declared				(11,780)	**(11,780)**
Acquisition of treasury shares		(54,397)			**(54,397)**
Sale of treasury shares		368		(244)	**124**
Transfer of exercised and forfeited share options within equity			(90)	90	**-**
Share options			45		**45**
December 31, 2007 *)	**59,221**	**(55,972)**	**3,292**	**143,341**	**149,882**
Change in fair value of cash flow hedges recognized in equity			(7,564)		**(7,564)**
Cash flow hedges removed from equity			(3,198)		**(3,198)**
Change in fair value of available-for-sale financial assets recognized in equity			260		**260**
Deferred tax recognized in equity			2,137		**2,137**
Other movements				24	**24**
Gain and loss recorded directly to equity	**-**	**-**	**(8,365)**	**24**	**(8,341)**
Net income				47,118	**47,118**
Total gains and losses	**-**	**-**	**(8,365)**	**47,142**	**38,777**
Dividends declared				(21,321)	**(21,321)**
Acquisition of treasury shares		(13,098)			**(13,098)**
Sale of treasury shares		2,160		(1,596)	**564**
Transfer of exercised and forfeited share options within equity			(204)	204	**-**
Share options			123		**123**
December 31, 2008	**59,221**	**(66,910)**	**(5,154)**	**167,770**	**154,927**

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

Date: 24/02/2009	Signature of accounting unit´s statutory body:	Person responsible for accounting: Radim Sladkovský	Person responsible for financial statements: Ivan Viktora

CASH FLOW STATEMENT

in accordance with IFRS

December 31, 2008

(in CZK Millions)

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

	current period	prior year period *)
Operating activities:		
Income before income taxes	**56,967**	**37,156**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	13,052	12,465
Amortization of nuclear fuel	2,647	2,930
(Gain) loss on fixed assets retirements, net	(711)	(584)
Foreign exchange rate losses (gains), net	909	466
Interest expense, interest income and dividends income, net	(6,317)	(2,102)
Provision for nuclear decommissioning and fuel storage	293	683
Valuation allowances, other provisions and other adjustments	(2,027)	(253)
Changes in assets and liabilities:		
Receivables	(16,527)	(5,853)
Materials and supplies	(103)	(125)
Fossil fuel stocks	(477)	329
Other current assets	(43,400)	(5,174)
Trade and other payables	50,091	13,825
Accrued liabilities	2,856	(204)
Cash generated from operations	**57,253**	**53,559**
Income taxes paid	(11,035)	(8,665)
Interest paid, net of capitalized interest	(2,091)	(1,497)
Interest received	1,031	728
Dividends received	8,268	3,322
Net cash provided by operating activities	**53,426**	**47,447**
Investing activities:		
Acquisition of subsidiaries, associates and joint-ventures	(6,703)	(2,650)
Proceeds from disposal of subsidiaries and associates	1,607	1,600
Additions to property, plant and equipment and other non-current assets	(17,746)	(16,978)
Loans made	(4,134)	(6,631)
Proceeds from sales of fixed assets	323	931
Repayments of loans	2,551	960
Change in decommissioning and other restricted funds	(464)	(3,291)
Total cash used in investing activities	**(24,566)**	**(26,059)**

	current period	prior year period *)
<u>**Financing activities:**</u>		
Proceeds from borrowings	241,563	59,479
Payments of borrowings	(227,934)	(33,490)
Payments of other long-term liabilities		(96)
Change in payables/receivables from group cashpooling	(4,371)	5,325
Dividends paid	(21,218)	(11,694)
(Acquisition) sale of treasury shares	(12,535)	(54,443)
Total cash provided by (used in) financing activities	**(24,495)**	**(34,919)**
Net effect of currency translation in cash	658	(97)
Net increase (decrease) in cash and cash equivalents	**5,023**	**(13,628)**
Cash and cash equivalents at beginning of period	1,988	15,616
Cash and cash equivalents at end of period	7,011	1,988

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

Supplementary cash flow information:		
Total cash paid for interest	3,346	2,220

Date:	Signature of accounting unit´s statutory body:	Person responsible for accounting:	Person responsible for financial statements:
24/02/2009		Radim Sladkovský	Ivan Viktora

Č E Z , a. s.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008

1. Description of the Company

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

The Company is involved primarily in the production and sale of electricity and the related support services and in the production, distribution and sale of heat.

The average recounted number of employees was 6,218 and 7,126 in 2008 and 2007, respectively.

The Czech Republic, represented by the Ministry of Finance, is a majority shareholder holding 63.4% of the Company's share capital at December 31, 2008. The majority shareholder's share of the voting rights represented 70.4% at the same date.

Members of the statutory and supervisory bodies at December 31, 2008 were as follows:

Board of Directors		Supervisory Board	
Chair	Martin Roman	Chair	Martin Kocourek
1st Vice-chair	Daniel Beneš	Vice-chair	Tomáš Hüner
2nd Vice-chair	Tomáš Pleskač	Vice-chair	Zdeněk Židlický
Member	Vladimír Hlavinka	Member	Jan Demjanovič
Member	Martin Novák	Member	Ivan Fuksa
Member	Zdeněk Pasák	Member	Zdeněk Hrubý
		Member	Josef Janeček
		Member	Jiří Jedlička
		Member	Petr Kalaš
		Member	Jan Ševr
		Member	Drahoslav Šimek
		Member	Zdeněk Trojan

2. Summary of Significant Accounting Policies

2.1. Basis of Presentation of the Financial Statements

Pursuant to the Accounting Law, the accompanying separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. IFRS as adopted by the EU which are relevant to and used by the Company do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) except for IFRIC 12 which has not yet been adopted by the EU (see Note 2.26).

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 2007 or as at December 31, 2007 are presented in the format required for 2008.

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period. The consolidated financial statements were authorized for issue on March 2, 2009.

2.2. Presentation Currency

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

2.3. Revenue Recognition

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

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

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

Revenue from services is recognized when the services are rendered.

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

2.4. Estimates

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

2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 2,647 million and CZK 2,930 million for the years ended December 31, 2008 and 2007, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel (see Note 16). Such charges amounted to CZK 248 million and CZK 317 million in 2008 and 2007, respectively.

2.6. Interest

The Company capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 1,255 million and CZK 723 million, which was equivalent to an interest capitalization rate of 5.0% in both years 2008 and 2007.

2.7. Property, Plant and Equipment

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

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

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

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

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

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

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

	Average Life
Hydro plants	
Buildings and structures	48
Machinery and equipment	16
Fossil fuel plants	
Buildings and structures	33
Machinery and equipment	15
Nuclear power plant	
Buildings and structures	36
Machinery and equipment	17

Depreciation of plant in service was CZK 12,848 million and CZK 12,254 million for the years ended December 31, 2008 and 2007, which was equivalent to a composite depreciation rate of 4.4% and 4.5%, respectively. The tangible asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.8. Nuclear Fuel

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

Nuclear fuel includes capitalized costs of related provisions (see Note 2.21). As at December 31, 2008 and 2007 capitalized costs at net book value amounted to CZK 329 million and CZK 455 million, respectively.

2.9. Intangible Assets

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 10 years. The intangible asset's residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end. The costs of completed technical improvements are capitalized.

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

2.10. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plan in 2008 and 2007 the Company was granted emission rights free of charge.

The Company is responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person. On April, 30 of the following year, at latest, the Company is required to remit a number of certificates representing the number of tones of CO_2 actually emitted. Should the Company not fulfill this requirement and remit necessary number of emission rights, it would have to pay a penalty of EUR 100 per 1 ton of CO_2.

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

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

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

Sale and repurchase agreements with emission rights are accounted for as collateralized borrowing.

The swaps of European emission rights (EUA) and certified emission reductions (CER) are treated as derivatives in period from the trade date to the maturity date. The swap is measured at fair value with any fair value changes being recognized in profit and loss. Any cash received before the EUA/CER swap matures would result in an offsetting change in the fair value of the swap. Upon the delivery of EUAs and CERs the difference between the total of cash received and the fair value of the CER received on one hand and the total of the carrying value of the EUA given up and the fair value of the EUA/CER-swap given up is recognized as a gain or loss.

2.11. Investments

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

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

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

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

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

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

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

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

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

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

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

2.12. Cash and Cash Equivalents

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

2.13. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown under non-current financial assets as restricted funds (see Note 5.2), relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and financial guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Company. As at December 31, 2008 and 2007, restricted financial assets totaled CZK 6,864 million and CZK 6,409 million, respectively.

2.14. Receivables, Payables and Accruals

Receivables are carried at their nominal value. Ceded receivables are valued at cost. Doubtful receivables are adjusted for uncollectible amounts through a provision account. Additions to the provision account are charged to income. In December 31, 2008 and 2007 the allowance for short-term uncollectible receivables amounted to CZK 397 million and CZK 404 million, respectively.

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

2.15. Material and Supplies

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

2.16. Fossil Fuel Stock

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

2.17. Derivative Financial Instruments

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

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

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

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

Fair value hedge:

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

Cash flow hedge:

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

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

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

Other derivatives:

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

2.18. Commodity Derivative Instruments

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

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

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

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

Commodity contracts, which fall under the scope of IAS 39, are carried at fair value with changes in the fair value recognized in the income statement. Since 2007 the Company started to present revenues and expenses related to electricity trading and since 2008 revenues and expenses related to coal and gas trading net in the line Gains and losses from electricity, coal and gas derivative trading, net.

2.19. Income Taxes

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

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

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

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

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

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

2.20. Long-term Debt

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

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

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

2.21. Nuclear Provisions

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

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation for the years ended 2008 and 2007 is approximately 2.5% and 2%, respectively; the effect of interest rate is estimated 2.5%.The decommissioning process is expected to continue for approximately a sixty-year period (60 years for Dukovany nuclear power plant and 50 years for Temelín nuclear power plant) subsequent to the termination of operation in the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Company has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Company's current estimates.

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

2.22. Treasury Shares

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

2.23. Share Options

Board of Directors and selected managers (and in the past also 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 2008 and 2007 the expense recognized in respect of the share option plan amounted to CZK 123 million and CZK 45 million, respectively.

2.24. Translation of Foreign Currencies

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

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

Exchange rates used as at December 31, 2008 and 2007 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2008	2007
CZK per 1 EUR	26.930	26.620
CZK per 1 USD	19.346	18.078
CZK per 1 PLN	6.485	7.412
CZK per 100 SKK	89.335	79.179
CZK per 1 BGN	13.770	13.610
CZK per 1 RON	6.695	7.443

2.25. Adoption of New IFRS Standards in 2008

In 2008 the Company adopted the following new IFRIC Interpretation, which is relevant for the Company:

IFRIC 11 Company and Treasury Share Transactions

IFRIC interpretation 11 effective for annual periods beginning on or after 1 March 2007 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Company amended its accounting policy accordingly.

Adoption of the new interpretation did not have any effect on the opening balance of equity as at January 1, 2008 and 2007, respectively.

2.26. New IFRS Standards and Interpretations IFRIC not yet effective

The Company is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2009 or later. Most relevant to the Company's activities are IAS 1 Presentation of financial statements (Revised), IFRS 3 Business Combinations (Revised), IFRS 8 Operating Segments, IAS 23 Borrowing Costs (Revised), IAS 27 Consolidated and Separate Financial Statements (Revised) and IFRIC 12 Service Concession Arrangements.

Amendment to IAS 1 Presentation of Financial Statements

The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements.

Amendment to IAS 23 Borrowing Costs

The amendment will require capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs shall be recognized as an expense. This amendment has no impact on the Company as the Company has the policy of including the borrowing costs as part of the cost of the asset.

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (Revised)

The revised standards were issued in January 2008 and become effective for annual periods starting on or after 1 July 2009. Amended IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Amended IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by revised IFRS 3 and IAS 27 will affect future acquisitions or loss of control and transactions with minority interests. The Company does not expect any impact on separate financial statements.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Company's operating segments and replaced the requirement to determine business and geographical reporting segments of the Company. The Company determined that the operating segments were the same as the segments previously identified under IAS 14 Segment Reporting. The Company does not expect any impact on separate financial statements.

IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation has not yet been adopted by the EU. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Company is currently assessing the potential impact of this new interpretation on its financial statements.

The Company is also assessing the potential impacts of the following amended standards and interpretations that will be effective or adopted by the EU from January 1, 2009 or later: IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (Amendment), IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment). There were also certain improvements made to current IFRS, mainly: IAS 1 Presentation of Financial Statements (distinction between current and non current classification in the balance sheet of held for trading assets and liabilities), IAS 23 Borrowing Costs (revised definition of components of borrowing costs) and IAS 36 Impairment of Assets (disclosure of estimates used to determine recoverable amount). The Company currently does not expect that the amended standards will have a significant effect on the Company’s results and financial position, although they may affect the presentation and disclosures in certain areas.

3. Merger of ČEZ, a. s. with Energetika Vítkovice, a.s.

ČEZ, a. s. merged with Energetika Vítkovice, a.s (hereafer “EVi”). The effective date of the merger was January 1, 2008. The legal succeeding company is ČEZ, a. s.

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

The following table summarizes the impact of retrospective accounting using the method similar to the pooling of interests method on the previously reported statement of income of ČEZ, a. s. for the year ended December 31, 2007 (in CZK millions):

Statement of income for the year ended December 31, 2007	As previously reported	Results of EVi	Eliminations	As restated
Operating revenues	101,155	2,591	-	103,746
Operating expenses:				
Fuel	(17,829)	(365)	-	(18,194)
Purchased power and related services	(17,700)	(1,472)	-	(19,172)
Repairs and maintenance	(3,375)	(69)	-	(3,444)
Depreciation and amortization	(12,339)	(90)	1	(12,428)
Salaries and wages	(6,007)	(328)	-	(6,335)
Materials and supplies	(1,704)	(54)	-	(1,758)
Emission rights, net	794	44	-	838
Other operating expenses	(6,487)	(70)	-	(6,557)
Total expenses	(64,647)	(2,404)	1	(67,050)
Income before other expenses (income) and income taxes	36,508	187	1	36,696
Other income (expenses), net	479	-	(19)	460
Income before income taxes	36,987	187	(18)	37,156
Income taxes	(5,715)	(16)	-	(5,731)
Net income	31,272	171	(18)	31,425

The following table summarizes the impact of retrospective accounting using the method similar to the pooling of interests method on the previously reported balance sheet of ČEZ, a. s. as of December 31, 2007 (in CZK millions):

Balance sheet as of December 31, 2007	As previously reported	EVi	Eliminations	As restated
Non-current assets:				
Property, plant and equipment	171,494	805	(47)	172,252
Investments and other financial assets, net	108,169	532	(407)	108,294
Intangible assets, net	1,004	5	-	1,009
Total non-current assets	280,667	1,342	(454)	281,555
Current assets:				
Cash and cash equivalents	1,844	144	-	1,988
Receivables, net	15,222	225	(79)	15,368
Other current assets, net	14,870	113	-	14,983
Total current assets	31,936	482	(79)	32,339
Total assets	312,603	1,824	(533)	313,894
Equity:				
Stated capital	59,221	434	(434)	59,221
Treasury shares	(55,972)	-	-	(55,972)
Retained earnings and other reserves	146,199	443	(9)	146,633
Total equity	149,448	877	(443)	149,882
Long-term liabilities:				
Long-term debt, net of current portion	51,839	-	-	51,839
Accumulated provision for nuclear decommissioning and fuel storage	38,997	-	-	38,997
Other long-term liabilities	483	22	-	505
Total long-term liabilities	91,319	22	-	91,341
Deferred tax liability	11,557	70	(9)	11,618
Current liabilities:				
Short-term loans	11,822	-	-	11,822
Current portion of long-term debt	3,235	-	-	3,235
Trade and other payables	38,397	745	(81)	39,061
Income tax payable	3,682	14	-	3,696
Accrued liabilities	3,143	96	-	3,239
Current liabilities	60,279	855	(81)	61,053
Total equity and liabilities	312,603	1,824	(533)	313,894

4. Property, Plant and Equipment

Net plant in service at December 31, 2008 and 2007 was as follows (in CZK millions):

	Buildings	Plant and Equipment	Land and Other	Total 2008	Total 2007
Cost – opening balance	81,043	213,243	969	295,255	293,238
Effect of merger (see Note 3)	-	-	-	-	1,172
Additions	1,422	5,468	31	6,921	5,712
Disposals	(180)	(856)	(37)	(1,073)	(3,579)
Change in capitalized part of the provision	-	(4,139)	-	(4,139)	-
Non-monetary contribution and other	(448)	(363)	(59)	(870)	(1,288)
Cost – closing balance	81,837	213,353	904	296,094	295,255
Accumulated depreciation and impairment – opening balance	(36,524)	(114,079)	-	(150,603)	(142,016)
Effect of merger (see Note 3)	-	-	-	-	(480)
Depreciation	(2,551)	(10,297)	-	(12,848)	(12,254)
Net book value of assets disposed	(251)	(70)	-	(321)	(236)
Non-monetary contribution and other	188	242	-	430	601
Disposals	180	856	-	1,036	3,561
Impairment losses recognized	-	-	-	-	(325)
Impairment losses reversed	59	27	-	86	546
Accumulated depreciation and impairment – closing balance	(38,899)	(123,321)	-	(162,220)	(150,603)
Property, plant and equipment, net	42,938	90,032	904	133,874	144,652

At December 31, 2008 and 2007, machinery and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2008	2007
Cost	17,828	21,967
Accumulated depreciation	(5,319)	(4,802)
Net book value	12,509	17,165

Construction work in progress containts mainly refurbishments performed on Tušimice, Ledvice, Prunéřov and Dukovany power plants.

5. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2008 and 2007 consist of the following (in CZK millions):

	2008	2007
Restricted debt securities available-for-sale	6,547	3,233
Restricted debt securities held to maturity	25	996
Restricted cash	292	2,180
Total restricted financial assets	6,864	6,409
Equity securities and interests, net	104,143	93,230
Loans granted	4,347	6,561
Other long-term receivables, including prepayments	74	1,319
Financial assets in progress	3,371	775
Total	118,799	108,294

The balance of long-term financial assets in progress includes expenses incurred so far in certain future acquisitions and increase of subsidiaries' capital that was not yet registered on December 31, 2008.

Movements in impairment provisions (in CZK millions):

	2008			2007		
	Subsidiaries and associates at cost	Financial assets in progress	Long-term receivables	Subsidiaries and associates at cost	Financial assets in progress	Long-term receivables
Opening balance	2,244	-	-	2,346	-	13
Additions	-	-	-	-	-	-
Reversals	(3)	-	-	(102)	-	(13)
Closing balance	2,241	-	-	2,244	-	-

In 2006, the Company created provision against the share in ČEZ Správa majetku, s.r.o. at the amount of the difference between book value of the share and expert valuation of the assets contributed. As at December 31, 2008 and 2007, the provision totaled CZK 1,473 million.

In 2006, the Company created provision against the share in ČEZData, s.r.o. (nowadays ČEZ ICT Services, a. s.). This provision relates to the difference between book value of the share and expert valuation of the assets contributed. As at December 31, 2008 and 2007, the provision totaled CZK 155 million.

In previous years, the Company maintained a provision against the shares of ŠKODA PRAHA a.s., covering the difference between the market price of the shares at the Prague Stock Exchange and their carrying value. As at December 31, 2008 and 2007, the provision totaled CZK 566 million.

Loans granted and other long-term receivables at December 31, 2008 and 2007 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	2008		2007	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Due in 1 – 2 years	640	66	439	1,303
Due in 2 – 3 years	555	3	508	12
Due in 3 – 4 years	370	5	1,385	-
Due in 4 – 5 years	389	-	401	-
Due in more than 5 years	2,393	-	3,828	4
Total	4,347	74	6,561	1,319

Loans granted and other long-term receivables at December 31, 2008 and 2007 have following effective interest rate structure (in CZK millions):

	2008		2007	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Less than 2.0%	-	74	-	1,310
From 2.0% to 3.0%	-	-	-	9
From 3.0% to 4.0%	144	-	850	-
From 4.0% to 5.0%	47	-	165	-
Over 5.0%	4,156	-	5,546	-
Total	4,347	74	6,561	1,319

5.1. Investments in Subsidiaries, Associates and Joint-ventures

100% of the subsidiary Energetické opravny, a.s. was sold in the beginning of 2008.

Several subsidiaries and joint-ventures were founded during 2008: CEZ RUS OOO (100%) based in Moscow, CEZ Bosna i Hercegovina d.o.o. (100%) based in Sarajevo, CM European Power International B.V. (50%) based in Rotterdam, Akcez Enerji A.S. (50%) based in Istanbul and CEZ Elektroproizvodstvo Bulgaria AD (100%) based in Varna.

The Company bought 100% of shares of ŠKODA PRAHA Invest s.r.o. from ŠKODA PRAHA a.s. in April 2008.

During 2008 was increased the stated capital in New Kosovo Energy L.L.C., CEZ Ciepło Polska sp. z o.o., CEZ Polska sp. z o.o., CEZ Srbija d.o.o., CEZ Trade Polska sp. z o.o. and ČEZ Teplárenská, a.s.

Enpro, a.s. and Enprospol, s.r.o. merged in June 2008 into succeeding company I & C Energo a.s. ČEZ, a.s. transferred 100% of shares of I & C Energo, a.s. to MOL company in the same period.

In August 2008 ZAO TransEnergo (100%) was sold to Transenergo International N.V. and the company Energokov, s.r.o. ceased to exist.

Furthermore the majority shares of Romanian companies dealing with wind park projects Tomis Team S.R.L. (95%) and Ovidiu Development S.R.L. (95%) were purchased. Remaining 5% is held by subsidiary CEZ Poland Distribution B.V. which simultaneously increased its basic capital in 2008.

The share of VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s. was increased from 32% to 42.22% in October 2008.

ČEZnet, a.s. and ČEZData, s.r.o. merger is effective from 1 January 2008 and succeeding company was renamed ČEZ ICT Services, a. s. on 30 September 2008.

Due to the Energetika Vítkovice, a.s. merger with succeeding company ČEZ, a. s. (see note 3) the ownership of subsidiaries ČEZ Správa majetku, s.r.o. and ČEZ Distribuce, a. s. was increased to final 100% of stated capital. ČEZ, a. s. gained 100% of shares of the subsidiary ČEZ Energetické služby, s.r.o. as a result of the merger with Energetika Vítkovice, a.s.

The following table summarizes investments in subsidiaries, associates and joint-ventures at December 31, 2008 and 2007:

At December 31, 2008

Company	Country	Interest in CZK millions	% interest	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	30,987	100.00	1,927
Severočeské doly a.s.	Czech Republic	14,112	100.00	1,816
TEC Varna EAD	Bulgaria	8,804	100.00	-
CEZ Razpredelenie Bulgaria AD	Bulgaria	8,689	67.00	-
CEZ Poland Distribution B.V.	Netherlands	6,240	100.00	-
CEZ Silesia B.V.	Netherlands	5,774	100.00	-
ČEZ Správa majetku, s.r.o.	Czech Republic	4,960	100.00	-
CEZ Distributie S.A.	Romania	4,784	51.01	-
Tomis Team S.R.L.	Romania	4,533	95.00	-
ČEZ ICT Services, a. s.	Czech Republic	4,391	100.00	400
Ovidiu Development S.R.L.	Romania	2,548	95.00	-
ČEZ Teplárenská, a.s.	Czech Republic	2,459	100.00	-
Akcez Enerji A.S.	Turkey	1,550	50.00	-
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	2,197
ŠKODA PRAHA a.s.	Czech Republic	987	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	792	100.00	-
ČEZ Distribuční služby, s.r.o.	Czech Republic	728	100.00	862
ČEZ Energetické služby, s.r.o.	Czech Republic	422	100.00	-
ŠKODA PRAHA Invest s.r.o.	Czech Republic	389	100.00	-
CEZ Vanzare S.A.	Romania	284	51.01	-
PPC Úžín, a.s.	Czech Republic	220	100.00	-
ČEZ Měření, s.r.o.	Czech Republic	217	100.00	242
ČEZ Logistika, s.r.o.	Czech Republic	200	100.00	384
Ústav jaderného výzkumu Řež a.s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	-
NERS d.o.o.	Bosnia and Herzegovina	110	51.00	-
CM European Power International B.V.	Netherlands	97	50.00	-
CEZ RUS OOO	Russia	73	100.00	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	42.22	-
CEZ FINANCE B.V.	Netherlands	53	100.00	-
CEZ Polska sp. z o.o.	Poland	50	100.00	-
CEZ Deutschland GmbH	Germany	47	100.00	-
STE - obchodní služby spol. s r.o. v likvidaci	Czech Republic	47	100.00	-
CITELUM, a.s.	Czech Republic	43	48.00	8
CEZ Hungary Ltd.	Hungary	35	100.00	-
CEZ Srbija d.o.o.	Serbia	32	100.00	-
New Kosovo Energy L.L.C.	Kosovo	27	100.00	-
CEZ Trade Polska sp. z o.o.	Poland	27	100.00	-
CEZ Servicii S.A.	Romania	27	51.00	-
ČEZ Zákaznické služby, s.r.o.	Czech Republic	20	100.00	372
CEZ Bosna i Hercegovina d.o.o.	Bosnia and Herzegovina	20	100.00	-
Other		97	-	35
Total		106,384		
Provision		(2,241)		
Total, net		104,143		

At December 31, 2007

Company	Country	Interest in CZK millions	% interest	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	30,872	100.00	-
Severočeské doly a.s.	Czech Republic	14,112	100.00	1,544
TEC Varna EAD	Bulgaria	8,804	100.00	-
Elektrorazpredelenie Stolichno AD 1)	Bulgaria	8,689	67.00	-
CEZ Silesia B.V.	Netherlands	5,774	100.00	-
CEZ Poland Distribution B.V.	Netherlands	5,156	100.00	-
ČEZ Správa majetku, s.r.o.	Czech Republic	4,934	100.00	-
CEZ Distributie S.A.	Romania	4,784	51.01	-
Teplárenská, a.s.	Czech Republic	2,416	100.00	-
ČEZnet, a.s. 2)	Czech Republic	2,288	100.00	320
ČEZData, s.r.o. 2)	Czech Republic	2,103	100.00	-
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	677
ŠKODA PRAHA a.s.	Czech Republic	987	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	792	100.00	-
ČEZ Distribuční služby, s.r.o.	Czech Republic	728	100.00	-
CEZ Vanzare S.A.	Romania	284	51.01	-
ČEZ Měření, s.r.o.	Czech Republic	217	100.00	161
ČEZ Logistika, s.r.o.	Czech Republic	200	100.00	294
Ústav jaderného výzkumu Řež a.s.	Czech Republic	185	52.46	-
PPC Úžín, a.s.	Czech Republic	170	100.00	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	6
NERS d.o.o.	Bosnia and Herzegovina	102	51.00	-
Energetické opravny, a.s.	Czech Republic	75	100.00	-
I & C Energo a.s.	Czech Republic	56	100.00	15
CEZ FINANCE B.V.	Netherlands	53	100.00	-
CEZ Deutschland GmbH	Germany	47	100.00	-
STE - obchodní služby spol. s r.o. v likvidaci	Czech Republic	47	100.00	-
CITELUM, a.s.	Czech Republic	43	48.00	7
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	42	32.00	-
CEZ Hungary Ltd.	Hungary	35	100.00	-
CEZ Servicii S.A.	Romania	27	51.00	-
ČEZ Zákaznické služby, s.r.o.	Czech Republic	20	100.00	135
CEZ Srbija d.o.o.	Serbia	20	100.00	-
Other		143	-	15
Total		95,474		
Provision		(2,244)		
Total, net		93,230		

1) The company Elektrorazpredelenie Stolichno AD was renamed CEZ Razpredelenie Bulgaria AD in January 2008.

2) ČEZnet, a.s. merged with ČEZData, s.r.o. and the effective date of the merger was January 1, 2008.

5.2. Restricted Financial Assets

At December 31, 2008 and 2007, restricted balances of financial assets totaled CZK 6,864 million and CZK 6,409 million, respectively, and represented accumulated provision for the decommissioning, reclamation and maintenance of waste storages after they are put out of services, escrow accounts securing the Company's liquidity (pursuant to contracts entered into with the respective banks) from significant financial market volatility affecting market prices of designated hedging transactions, and accumulated provision for nuclear decommissioning in compliance with the Nuclear Act. Since 2007 restricted financial assets comprise not only restricted cash balances, but also term deposits and government bonds.

At December 31, 2008 and 2007, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 445 million and CZK 465 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 6,255 million and CZK 5,522 million, respectively.

5.3. Loans Granted

Loans granted at December 31, 2008 and 2007 were as follows (in CZK millions):

	2008	2007
Elektrociepłownia Chorzów ELCHO sp. z o.o.	3,958	5,392
Elektrownia Skawina S.A.	305	267
ČEZ ICT Services, a. s.	150	1,000
Tomis Team S.R.L.	144	-
NERS d.o.o.	108	107
Other	106	43
Current portion	(424)	(248)
Long-term portion of loans granted	4,347	6,561

Current portion of loans granted is presented as part of short-term receivables.

6. Intangible Assets, Net

Intangible assets, net, at December 31, 2008 and 2007 were as follows (in CZK millions):

	Software	Rights and Other	Total 2008	Total 2007
Cost at January 1	905	919	1,824	1,649
Effect of merger (see Note 3)	-	-	-	16
Additions	103	28	131	163
Disposals	(8)	-	(8)	(4)
Non-monetary contribution	(9)	-	(9)	-
Cost at December 31	991	947	1,938	1,824
Accumulated amortization at January 1	(816)	(251)	(1,067)	(885)
Effect of merger (see Note 3)	-	-	-	(12)
Amortization	(73)	(114)	(187)	(174)
Disposals	8	-	8	4
Non-monetary contribution	6	-	6	-
Accumulated amortization at December 31	(875)	(365)	(1,240)	(1,067)
Intangible assets, net	116	582	698	757

At December 31, 2008 and 2007, intangible assets presented in the balance sheet included intangible assets in progress in the amount of CZK 84 million and CZK 252 million, respectively.

7. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2008 and 2007 were as follows (in CZK millions):

	2008	2007
Cash on hand and current accounts with banks	3,994	814
Term deposits	3,017	1,174
Total	7,011	1,988

At December 31, 2008 and 2007, cash and cash equivalents included foreign currency deposits of CZK 6,971 million and CZK 1,341 million, respectively.

Average interest rates on term deposits at December 31, 2008 and 2007 were 2.94% and 4.53%, respectively. The weighted average interest rate for 2008 and 2007 was 3.29% and 3.40%, respectively.

8. Receivables, Net

The composition of receivables, net, at December 31, 2008 and 2007 is as follows (in CZK millions):

	2008	2007
Trade receivables	31,751	12,211
Taxes and fees, excluding income tax	33	-
Short-term loans granted	759	633
Other receivables	1,263	2,928
Allowance for doubtful receivables	(397)	(404)
Total	33,409	15,368

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

At December 31, 2008 and 2007 the ageing analysis of receivables, net is as follows (in CZK millions):

	2008	2007
Not past due	32,634	14,818
Past due but not impaired [1]:		
less than 3 months	744	489
3 – 6 months	23	24
6 – 12 months	8	24
more than 12 months	-	13
Total	33,409	15,368

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

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

	2008	2007
Opening balance	404	360
Additions	506	223
Reversals	(513)	(179)
Closing balance	397	404

9. Emission Rights

The following table summarizes the movements and balances of emission rights and certified emission reductions in measurement units (thousands of tons) in 2008 and 2007 and as at December 31, 2008 and 2007, respectively, and their valuation presented in the accompanying financial statements:

	2008		2007	
	in thousands tons	in millions CZK	in thousands tons	in millions CZK
Emission rights and certified emission reductions (CERs) granted and purchased for own use:				
Granted and purchased emission rights at January 1	38,905	2	31,951	-
Effect of merger (see Note 3)	-	-	535	-
Emission rights granted	34,711	-	37,522	-
Settlement of prior year actual emissions with register	(38,812)	(1)	(34,777)	-
Disposal of remaining emmission rights from the first allocation period	(93)	-	-	-
Emission rights purchased	447	251	3,854	202
Certified emission reductions purchased	2,510	1,023	-	-
Emission rights sold	(3,215)	-	(180)	-
Fair value adjustment	-	(1)	-	(200)
Granted and purchased emission rights and CERs at December 31	34,453	1,274	38,905	2
Emission rights held for trading:				
Emission rights held for trading at January 1	12	-	41	7
Emission rights purchased	24,723	14,175	5,937	539
Emission rights sold	(24,447)	(14,142)	(5,966)	(559)
Disposal of remaining emmission rights from the first allocation period	(288)	-	-	-
Fair value adjustment	-	(33)	-	13
Emission rights held for trading at December 31	-	-	12	-

In 2008 and 2007, total emissions of greenhouse gases made by the Company amounted to an equivalent of 33,768 thousand tons of CO_2 and 38,812 thousand tons of CO_2, respectively. The amount of emissions CO_2 in 2008 and 2007 was higher than the amount of granted emission rights as at December 31, 2008 and 2007, respectively. Because of that in 2008 and 2007 the provision of CZK 925 million and CZK 2 million, respectively, was created.

The following table shows the impact of transactions with emission rights on income for the year ended December 31, 2008 and 2007 (in CZK millions):

	2008	2007
Gain on sales of granted emission rights	1,809	44
Net gain (loss) from emission trading	(557)	568
Remitted emission rights	(1)	-
Fair value adjustment	(34)	(187)
Creation of provisions for emission rights	(925)	(2)
Settlement of provisions for emission rights	2	415
Net gain related to emission rights	294	838

10. Other Financial Assets, Net

Other financial assets, net, at December 31, 2008 and 2007 were as follows (in CZK millions):

	2008	2007
Derivatives	40,269	7,975
Securities available-for-sale	13,580	1
Debt securities held-to-maturity	15	-
Securities held for trading	-	23
Total	53,864	7,999

Derivatives balance is mainly comprised of positive fair value of electricity trading contracts and emission right derivatives. At December 31, 2008 the securities available-for-sale represent mainly investments in mutual fund.

11. Other Current Assets

Other current assets at December 31, 2008 and 2007 were as follows (in CZK millions):

	2008	2007
Prepaid variation margin on “own use” electricity futures	-	2,992
Prepayments	321	442
Advances granted	198	225
Total	519	3,659

Prepaid variation margin represents the net variation margin paid to or by Prague Energy Exchange in respect of the electricity future contracts treated as own use, which will be delivered after balance sheet date. This prepaid variation margin resulted in net liability in 2008 and therefore is presented as part of Accrued liabilities (see Note 18).

12. Equity

As at December 31, 2008, 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 ČEZ was allowed to buyback its shares, was CZK 300 per share. The highest price, at which the company was allowed to acquire its shares, was CZK 2,000 per share. The acquired shares might have been used for the reduction of the stated capital of the Company and for fulfilling the commitments arising from the share option plan (see Note 2.23) namely within the amount of 5 million shares. The main reason for carrying out the share-buy-back program was to make the capital structure of the Company more effective.

The General Meeting of the Company, held on May 21, 2008, passed a resolution to reduce the share capital of the Company from CZK 59,221,084,300 to CZK 53,798,975,900, i.e. by CZK 5,422,108,400. The reduction of share capital will be in the form of cancellation of 54,221,084 own shares with a nominal value of CZK 100 per share, i.e. by the delisting of shares. As at December 31, 2008, the Company owns 59,171,105 of own shares, which represents 9.99% of share capital.

Development of the number of treasury shares in 2008 and 2007 is as follows (in pieces):

	2008	2007
Number of treasury shares at beginning of period	50,370,144	3,455,010
Acquisitions of treasury shares	10,732,221	47,570,134
Sales of treasury shares	(1,931,260)	(655,000)
Number of treasury shares at end of period	59,171,105	50,370,144

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

In accordance with Czech regulations, joint stock companies are required to establish a non-distributable reserve fund for contingencies against possible future losses. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As at December 31, 2008 and 2007, the balance was CZK 78,756 million and CZK 67,817 million, respectively and presented as part of retained earnings. The reserve fund also includes amounts equal to the purchase price of treasury shares held by the Company. At December 31, 2008 and 2007 such balances amounted to CZK 66,910 million and CZK 55,972 million, respectively, and were recorded against distributable retained earnings.

Dividends paid per share were CZK 40.0 and CZK 20.0 in 2008 and 2007, respectively. Dividends from 2008 profit will be declared on the general meeting which will be held in the first half of 2009.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize value for shareholders. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Company primarily monitors capital using the the ratio of net debt to EBITDA. The Company's goal is to keep this ratio at maximum in the range of 2.0 – 2.5. In addition, the Company also monitors capital using a total debt to total capital ratio. The Company's policy is to keep the total debt to total capital ratio below 50%.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization. The Company includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid short-term financial assets. Total capital is total equity attributable to equity holders of the parent plus total debt.

The calculation and evaluation of ratios is done using consolidated figures (in CZK millions).

	2008	2007
Total long-term debt	71,400	55,210
Total short-term loans	35,001	18,048
Total debt	106,401	73,258
Less: Cash and cash equivalents	(17,303)	(12,429)
Less: Highly liquid short-term financial assets	(13,580)	-
Total net debt	75,518	60,829
Income before income taxes and other income (expenses)	65,163	53,203
Plus: Depreciation and amortization	22,047	22,123
EBITDA	87,210	75,326
Total equity attributable to the equity holders of the parent	173,252	171,352
Total debt	106,401	73,258
Total capital	279,653	244,610
Net debt to EBITDA ratio	0.87	0.81
Total debt to total capital ratio	38.0%	29.9%

13. Long-term Debt

Long-term debt at December 31, 2008 and 2007 was as follows (in CZK millions):

	2008	2007
4.625% Eurobonds, due 2011 (EUR 400 million) [1)]	10,742	10,606
4.125% Eurobonds, due 2013 (EUR 500 million)	13,362	13,179
5.125% Eurobonds, due 2012 (EUR 500 million)	13,419	13,250
6.0% Eurobonds, due 2014 (EUR 600 million)	16,020	-
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,559	-
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million)	29	-
7.88% Zero Coupon Debentures, due 2009 (CZK 4,500 million)	4,475	4,147
9.22% Debentures, due 2014 (CZK 2,500 million) [2)]	2,497	2,496
3.35% Debentures, due 2008 (CZK 3,000 million)	-	3,000
4.30% Debentures, due 2010 (CZK 7,000 million)	6,990	6,984
Total long term bonds and debentures	70,093	53,662
Less: Current portion	(4,475)	(3,000)
Long-term bonds and debentures, net of current portion	65,618	50,662
Long-term bank loans:		
3.00% to 3.99% p.a.	1,176	-
4.00% to 4.99% p.a.	-	1,412
Total long term loans	1,176	1,412
Less: Current portion	(235)	(235)
Long-term loans, net of current portion	941	1,177
Long term debt total	71,269	55,074
Less: current portion	(4,710)	(3,235)
Long-term debt, net of current portion	66,559	51,839

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

2) Floating interest rate (Czech Republic CPI + 4.20%) from 2006. The rate was 9.60 % and 5.90% at December 31, 2008 and 2007, respectively.

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

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

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

	2008	2007
Current portion	4,710	3,235
Between 1 and 2 years	7,225	4,382
Between 2 and 3 years	10,977	7,219
Between 3 and 4 years	13,654	10,841
Between 4 and 5 years	13,597	13,485
Thereafter	21,106	15,912
Total long-term debt	71,269	55,074

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

	2008		2007	
	Foreign currency	CZK	Foreign currency	CZK
EUR	1,989	53,572	1,400	37,035
JPY	11,987	2,559	-	-
CZK	-	15,138	-	18,039
Total long-term debt		71,269		55,074

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2008 and 2007 without considering interest rate hedging (in CZK millions):

	2008	2007
Floating rate long-term debt		
with interest rate fixed from 1 to 3 months	1,176	1,412
with interest rate fixed from 3 months to 1 year	2,497	2,496
Total floating rate long-term debt	3,673	3,908
Fixed rate long-term debt	67,596	51,166
Total long-term debt	71,269	55,074

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

The Company has entered into loan agreements, which contain restrictive financial covenants relating to debt service coverage, ratio of debt to total capital and current ratio. In 2008 and 2007 the Company has complied with all required covenants.

14. Fair Value of Financial Instruments

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

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

Cash and cash equivalents

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

Securities held for trading

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

Investments

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

Receivables and payables

The carrying amounts of receivables and payables approximate 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, 2008 and 2007 are as follows (in CZK millions):

		2008		2007	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Long-term financial assets:		118,799	118,799	108,294	108,218
Equity securities and interests, net	SaA	104,143	104,143	93,230	93,230
Restricted debt securities available-for-sale	AFS	6,547	6,547	3,233	3,233
Restricted debt securities held-to-maturity	HTM	25	25	996	996
Restricted cash	LaR	292	292	2,180	2,180
Other long-term financial assets, net	LaR	7,792	7,792	8,655	8,579
Receivables	LaR	33,409	33,409	15,368	15,368
Cash and cash equivalents	LaR	7,011	7,011	1,988	1,988
Short-term equity securities held for trading	HFT	-	-	9	9
Short-term debt securities held for trading	HFT	-	-	14	14
Short-term debt scurities held-to-maturity	HTM	15	15	-	-
Short-term debt securities available-for-sale	AFS	13,580	13,580	1	1
Other current assets	LaR	198	198	3,217	3,217
Liabilities:					
Long-term debt including the current portion	AC	(71,269)	(70,686)	(55,074)	(54,630)
Short-term loans	AC	(13,020)	(13,020)	(11,822)	(11,822)
Current liabilities	AC	(55,200)	(55,200)	(32,475)	(32,475)
Derivatives:					
Cash flow hedges:					
Receivables	HFT	109	109	1,009	1,009
Payables	HFT	(4,753)	(4,753)	-	-
Total cash flow hedges		(4,644)	(4,644)	1,009	1,009
Electricity, coal and gas trading contracts:					
Receivables	HFT	36,173	36,173	5,385	5,385
Payables	HFT	(36,134)	(36,134)	(5,250)	(5,250)
Total electricity, coal and gas trading contracts		39	39	135	135
Other derivatives:					
Receivables	HFT	3,986	3,986	1,581	1,581
Payables	HFT	(1,769)	(1,769)	(1,336)	(1,336)
Total other derivatives		2,217	2,217	245	245

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

15. Financial Risk Management

Risk management approach

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

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

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

Risk management organization

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

Overview and methods of risk management

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

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

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

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

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

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

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

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

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

Commodity risks

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

Market financial risks (currency and interest risks)

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

Credit risks

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

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

Liquidity risks

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

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

Commodity risks

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

- the source of market prices is mainly EEX, PXE and PointCarbon
- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (these are the following commodities in the Company: electricity, emission allowances EUA and CER/ERU, gas UK BNP, coal API2 and API4)
- for the calculation of volatility and, in the case of electricity, of internal correlations (between points in time series), the SMA (Simple Moving Average) method is applied to 60 daily time series while the volatilities identified for EUA are used for VaR with respect to CER/ERU commodity because ČEZ uses them as EUA

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

	2008	2007
Monthly VaR (95%) – impact of changes in electricity market price	324	174
Monthly VaR (95%) – impact of changes in emission allowances market price	152	169
Monthly VaR (95%) – impact of changes in gas market price	16	-
Monthly VaR (95%) – impact of changes in coal market price	0	-

Currency risks

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

- the source of market foreign exchange rates and interest rate curves is mainly IS Reuters, IS Bloomberg and ČNB data
- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence)
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency flows from all contracted and highly probable financial and non-financial instruments (including the hedge accounting transactions of expected future cash flows under IFRS)
- the highly probable non-financial instruments include all foreign-currency operational and investment revenues and expenditures expected in 2009 and highly probable forecasted foreign-currency revenues from electricity sales in the future
- the relevant currency positions reflect all significant foreign-currency flows in the monitored basket of foreign currencies

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

	2008	2007
Monthly currency VaR (95% confidence)	495	93

Interest risks

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

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

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

	2008	2007
Monthly VaR (95% confidence) *	1,271	570

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

Liquidity risks

Contractual maturity profile of financial liabilities at December 31, 2008 (in CZK millions):

	Bonds and debentures	Loans	Derivatives *	Trade and other payables
Less than 1 year	7,818	13,424	200,269	55,200
Between 1 and 2 years	10,332	268	56,015	-
Between 2 and 3 years	13,540	259	17,410	-
Between 3 and 4 years	15,954	249	3,835	-
Between 4 and 5 years	15,208	240	-	-
Thereafter	24,241	-	-	-
Total	87,093	14,440	277,529	55,200

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

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

	Bonds and debentures	Loans	Derivatives *	Trade and other payables
Less than 1 year	5,609	12,119	93,955	32,475
Between 1 and 2 years	6,355	278	18,648	-
Between 2 and 3 years	9,181	269	8,532	-
Between 3 and 4 years	12,528	259	1,831	-
Between 4 and 5 years	14,611	250	367	-
Thereafter	16,659	240	-	-
Total	64,943	13,415	123,333	32,475

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

15.3. Hedge accounting

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

In 2008 and 2007 the remeasurement of hedged items in fair value hedges resulted in gain (loss) of CZK 0 million and CZK (14) million, respectively. In 2008 and 2007 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 0 million and CZK (31) million, respectively.

In 2008 and 2007 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the line Sales of electricity and Other income (expenses), net. In 2008 and 2007 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (3) million and CZK 0 million, respectively.

The Company also enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2009 to 2012. The hedging instruments as at December 31, 2008 are the EUR denominated liability from the issued Eurobonds in the total amount of EUR 2 billion and currency forward contracts.

16. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of four 440 MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000 MW units, which started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of nuclear facilities and the disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. An updated 2008 Dukovany and a 2004 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 17.3 billion and CZK 13.7 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet under other non-current financial assets (see Note 5).

The Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a "nuclear account" funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government resolution at 50 CZK per MWh produced at nuclear power plants. In 2008 and 2007, respectively, the payments to the nuclear account amounted to CZK 1,328 million and CZK 1,307 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of radioactive waste and spent fuel. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

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

The following is a summary of the provisions for the years ended December 31, 2008 and 2007 (in CZK millions).

	Accumulated provisions			
	Nuclear Decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2006	9,982	4,896	21,625	36,503
Movements during 2007:				
Discount accretion	249	122	541	912
Effect of inflation	199	98	433	730
Provision charged to income statement	-	393	-	393
Effect of change in estimate charged to income statement	-	439	-	439
Effect of change in estimate added to (deducted from) fixed assets	(4)	32	1,467	1,495
Current cash expenditures	-	(168)	(1,307)	(1,475)
Balance at December 31, 2007	10,426	5,812	22,759	38,997
Movements during 2008:				
Discount accretion	261	146	569	976
Effect of inflation	208	116	455	779
Provision charged to income statement	-	346	-	346
Effect of change in estimate charged to income statement	-	203	-	203
Effect of change in estimate added to (deducted from) fixed assets	(2,866)	23	(1,273)	(4,116)
Current cash expenditures	-	(435)	(1,328)	(1,763)
Balance at December 31, 2008	8,029	6,211	21,182	35,422

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.

In 2008 the Company recorded the change in estimate for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Dukovany and the change in estimate in provision for long-term spent fuel storage due to the change in discount rate.

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

17. Trade and Other Payables

Trade and other payables at December 31, 2008 and 2007 were as follows (in CZK millions):

	2008	2007
Trade payables	35,588	9,027
Derivatives	42,656	6,586
Payables from Group cashpooling and similar intra-group loans	18,855	22,378
Other	757	1,070
Total	97,856	39,061

18. Accrued Liabilities

Accrued liabilities at December 31, 2008 and 2007 consist of the following (in CZK millions):

	2008	2007
Provisions	1,688	801
Accrued interest	1,394	916
Taxes and fees, except income tax	593	413
Unbilled goods and services	1,225	1,106
Prepaid variation margin on “own use” electricity futures (see Note 11)	2,561	-
Other	5	3
Total	7,466	3,239

In addition to the nuclear provisions, the Company establishes other provisions. In 2008 and 2007, the Company, in compliance with the Law on Wastes, established a provision for future expenditures related to the decommissioning, reclamation and maintenance of waste storages after they are put out of services. The balance of the provision at December 31, 2008 and 2007 was CZK 406 million and CZK 453 million, respectively.

The Company is by law liable for damages caused by pollution and establishes a provision for environmental claims, which is based on the current estimates of its future liabilities. At December 31, 2008 and 2007, the provision totaled CZK 296 million and CZK 280 million, respectively.

In 2008 and 2007, the Company recognized provision in total amount of CZK 925 million and CZK 2 million, respectively, for insufficient amount of granted allowances to cover actual emissions (see Note 9).

19. Revenues

Revenues for the years ended December 31, 2008 and 2007 were as follows (in CZK millions):

	2008	2007
Sale of electricity:		
Unregulated sales domestic [1)]	83,895	74,813
Unregulated sales foreign	9,161	15,082
Effect of hedging (see Note 15.3)	3,245	-
Sales of ancillary and other services	6,204	6,762
Total sales of electricity	102,505	96,657
Electricity, coal and gas derivative trading:		
Sales	83,354	37,631
Purchases	(80,762)	(35,220)
Changes in fair value of commodity derivatives	863	172
Total gains and losses from electricity, coal and gas derivative trading, net	3,455	2,583
Sales of heat	1,967	1,939
Other	1,601	2,567
Total revenues	109,528	103,746

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

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

20. Salaries and Wages

Salaries and wages for the years ended December 31, 2008 and 2007 were as follows (in CZK millions):

2008	Total	Key management personnel [1)]
Salaries and wages	(3,920)	(239)
Remuneration of board members, including royalties	(35)	(35)
Share options	(123)	(123)
Social security and health security	(1,178)	(15)
Other personal expenses	(648)	(22)
Total	(5,904)	(434)

2007 [2)]	Total	Key management personnel
Salaries and wages	(4,016)	(275)
Remuneration of board members, including royalties	(34)	(34)
Share options	(45)	(45)
Social and health security	(1,391)	(82)
Other personal expenses	(849)	(14)
Total	(6,335)	(450)

1) Members of Supervisory Board and Board of Directors, Chief Executive Officer, divisional directors and selected managers of departments with group field of activity. The remuneration of former members of company bodies is included in personal expenses.

2) Due to organizational changes in 2008, the information about salaries and wages related to key management personnel is not fully comparable between 2007 and 2008.

The members of Board of Directors and selected managers were entitled to use company cars for both business and private purposes in addition to the personal expenses in 2008 and 2007.

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

At December 31, 2008 and 2007, the aggregate number of share options granted to members of Board of Directors, Supervisory Board members and selected managers was 2,355 thousand and 3,175 thousand, respectively.

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.

Members of the Board of Directors and selected managers are entitled to receive share options based on the conditions stipulated in the share option agreement. Pursuant to the resolution of the May 2008 General Meeting, members of the Board of Directors and selected managers are granted certain quantity of share options each year of their tenure. The exercise price for the granted options is based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during one-month period preceding the grant date each year. Options granted could be exercised at the earliest 2 years and latest 3.5 years after each grant date. Option right is limited so that the profit per share option will not exceed 100% of exercise price and the beneficent has to hold at his account such number of shares exercised through options granted which is equivalent to 20% of profit made on exercise date until the end of share option plan.

In 2008 and 2007 the Company has recognized a compensation expense of CZK 123 million and CZK 45 million, respectively, 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 2008 and 2007 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options				Weighted average exercise price (CZK per share)
	Supervisory Board 000s	Board of Directors 000s	Selected managers 000s	Total 000s	
Share options at December 31, 2006	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
Options granted	-	975	140	1,115	1,232.65
Movements	-	150	(150)	-	-
Options exercised [1]	(300)	(1,140)	(495)	(1,935)	292.40
Share options at December 31, 2008 [2]	150	1,625	580	2,355	945.60

1) In 2008 and 2007 the weighted average share price at the date of the exercise for the options exercised was CZK 1,290.78 and CZK 957.10, respectively.

2) At December 31, 2008 and 2007 the number of exercisable options was 865 thousand pieces and 2,490 thousand pieces, respectively. The weighted average exercise price of the exercisable options was CZK 551.23 per share and CZK 304.91 per share at December 31, 2008 and 2007, 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:

	2008	2007
Weighted average assumptions:		
Dividend yield	2.9%	2.8%
Expected volatility	31.2%	28.5%
Mid-term risk-free interest rate	3.9%	2.8%
Expected life (years)	2.0	2.0
Share price (CZK per share)	1,169.0	1,027.3
Weighted average grant-date fair value of options (CZK per 1 option)	173.0	177.7

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

At December 31, 2008 and 2007 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2008	2007
CZK 100 – 500 per share	265	1,750
CZK 500 – 900 per share	700	1,125
CZK 900 – 1,400 per share	1,390	300
Total	2,355	3,175

The options granted, which were outstanding as at December 31, 2008 and 2007 had an average remaining contractual life of 1.8 years and 1.5 years, respectively.

21. Other Operating Expenses

Other operating expenses for the years ended December 31, 2008 and 2007 consist of the following (in CZK millions):

	2008	2007
Services	(6,003)	(5,723)
Change in provisions and valuation allowances	1,510	882
Taxes and fees	(1,523)	(1,777)
Write-off of bad debts and cancelled investment	(21)	(81)
Travel expense	(109)	(95)
Gifts	(101)	(124)
Gain (loss) on sale of property, plant and equipment	27	(16)
Gain on sale of material	60	55
Fines, penalties and penalty interest, net	(8)	59
Other, net	261	263
Total	(5,907)	(6,557)

Taxes and fees include the contributions to the nuclear account (see Note 16). The settlement of the provision for long-term spent fuel storage is accounted for at the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions and valuation allowances.

22. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2008 and 2007 was as follows (in CZK millions):

	2008	2007
Loans and receivables	513	114
Held-to-maturity investments	21	62
Available-for-sale investments	253	-
Financial assets held for trading	-	4
Bank accounts	196	579
Total	983	759

23. Other Income (Expenses), Net

Other income (expenses), net, for the years ended December 31, 2008 and 2007 consist of the following (in CZK millions):

	2008	2007
Dividends received	8,268	3,313
Gain on sale of available-for-sale financial assets	808	752
Gain on sale of financial assets for trading	1	1
Change in impairment of financial investments	3	115
Derivative gains (losses), net	4,539	(568)
Other, net	(80)	(100)
Total	13,539	3,513

24. Income Taxes

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

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

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

	2008	2007
Current income tax charge	(10,803)	(8,096)
Adjustments in respect of current income tax of previous periods	86	(47)
Deferred income taxes	868	2,412
Total	(9,849)	(5,731)

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

	2008	2007
Income before income taxes	56,967	37,156
Statutory income tax rate in Czech Republic	21%	24%
“Expected” income tax expense	(11,963)	(8,917)
Add (deduct) tax effect of:		
Change in tax rates	94	2,560
Non-deductible provisions, net	111	36
Non-deductible expenses related to shareholdings	(194)	(144)
Other non-deductible (non taxable) items, net	42	(19)
Non-taxable revenue from dividends	1,974	798
Tax credits	1	2
Adjustments in respect of current income tax of previous periods	86	(47)
Income taxes	(9,849)	(5,731)
Effective tax rate	17%	15%

Deferred income tax liability, net, at December 31, 2008 and 2007 was calculated as follows (in CZK millions):

	2008	2007
Accumulated provision for nuclear decommissioning and spent fuel storage	5,604	6,344
Other provisions	61	-
Allowances	60	85
Deferred tax recognized in equity	1,367	-
Other temporary differences	28	30
Total deferred tax assets	7,120	6,459
Tax depreciation in excess of financial statement depreciation	15,404	16,844
Other provisions	-	394
Penalty receivables	15	16
Deferred tax recognized in equity	-	770
Other temporary differences	314	53
Total deferred tax liability	15,733	18,077
Total deferred tax liability, net	8,613	11,618

25. Related Parties

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

At December 31, 2008 and 2007, the receivables from related parties and payables to related parties were as follows (in CZK millions):

Subsidiaries, associates and joint-ventures:	Receivables		Payables	
	2008	2007	2008	2007
Akcez Enerji A.S.	-	-	1,571	-
CEZ FINANCE B.V.	-	-	11,265	10,606
CEZ MH B.V.	162	-	810	-
CEZ Romania S.R.L.	59	154	-	-
CEZ Slovensko, s.r.o.	843	1	189	-
CEZ Trade Polska sp. z o.o.	96	-	134	-
Coal Energy, a.s.	154	175	34	29
ČEZ Distribuce, a. s.	91	85	2,397	4,663
ČEZ Distribuční služby, s.r.o.	8	6	1,398	1,789
ČEZ ICT Services, a. s. [1)]	164	1,032	898	1,417
ČEZ Logistika, s.r.o.	3	2	556	536
ČEZ Měření, s.r.o.	4	4	515	511
ČEZ Obnovitelné zdroje, s.r.o.	1	1	258	114
ČEZ Prodej, s.r.o.	1,185	1,260	2,746	3,471
ČEZ Správa majetku, s.r.o.	6	366	283	199
ČEZ Teplárenská, a.s.	76	-	275	174
ČEZ Zákaznické služby, s.r.o.	3	3	374	488
CM European Power International s.r.o.	63	-	-	-
Elektrociepłownia Chorzów ELCHO sp. z o.o.	3,959	5,457	-	-
Elektrownia Skawina S.A.	584	301	-	59
Severočeské doly a.s.	13	-	6,971	7,449
ŠKODA PRAHA a.s.	-	-	321	412
ŠKODA PRAHA Invest s.r.o.	23	17	3,358	105
TEC Varna EAD	-	-	1,885	-
Ústav jaderného výzkumu Řež a.s.	66	3	149	76
Other	434	507	332	186
Total	7,997	9,374	36,719	32,284

[1)] In 2007 data for CEZnet, a.s. and CEZData, s.r.o. that merged with effective date on January 1, 2008 are presented combined.

Other related parties:	Receivables		Payables	
	2008	2007	2008	2007
ČEPS, a.s.	136	164	22	18
ČD Cargo, a.s.	-	-	247	-
Ministry of Finance of the Czech Republic	1,270	2,012	-	-
Other	-	-	-	2
Total	1,406	2,176	269	20

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

Subsidiaries, associates and joint-ventures:	Sales to related parties		Purchases from related parties	
	2008	2007	2008	2007
CEZ Bulgaria EAD	176	286	-	-
CEZ Deutschland GmbH	166	1,331	-	-
CEZ Hungary Ltd.	17	-	292	-
CEZ Romania S.R.L.	150	125	-	-
CEZ Slovensko, s.r.o.	2,939	-	1,958	-
CEZ Trade Polska sp. z o.o.	73	1	1,293	-
Coal Energy, a.s.	1,421	1,873	121	391
ČEZ Distribuce, a. s.	486	556	78	239
ČEZ Distribuční služby, s.r.o.	59	46	1	5
ČEZ Energetické služby, s.r.o.	21	2	202	-
ČEZ ENERGOSERVIS spol. s r.o.	3	6	122	225
ČEZ ICT Services, a. s. [1)]	75	81	2,029	1,696
ČEZ Obnovitelné zdroje, s.r.o.	8	8	291	223
ČEZ Prodej, s.r.o.	46,877	39,310	3,080	1,906
ČEZ Správa majetku, s.r.o.	42	78	570	587
ČEZ Teplárenská, a.s.	453	-	6	-
CM European Power International s.r.o.	63	-	-	-
Elektrociepłownia Chorzów ELCHO sp. z o.o.	11	6	-	125
Elektrownia Skawina S.A.	44	311	62	1,330
OSC, a.s.	-	-	81	166
Severočeské doly a.s.	47	20	6,167	6,376
ŠKODA PRAHA a.s.	-	1	301	1,101
ŠKODA PRAHA Invest s.r.o.	82	16	10,739	4,244
Ústav jaderného výzkumu Řež a.s.	3	5	299	270
Energetické opravny, a.s. [2)]	-	8	-	256
I & C Energo a.s. [2)]	11	20	201	576
Other	151	169	328	452
Total	53,378	44,259	28,221	20,168

[1)] In 2007 data for CEZnet, a.s. and CEZData, s.r.o. that merged with effective date on January 1, 2008 are presented combined.

[2)] The shares of those companies were sold during 2008.

Other related parties:	Sales to related parties		Purchases from related parties	
	2008	2007	2008	2007
ČEPS, a.s.	6,333	6,144	113	703
České dráhy, a.s.	-	-	3	1,511
ČD Cargo, a.s.	-	-	1,643	-
Other	-	-	-	8
Total	6,333	6,144	1,759	2,222

In 2008 and 2007 the Company made non-monetary contributions to several subsidiaries (see Notes 4 and 6 for amounts of contributed assets).

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

The Company and some of its subsidiaries are included in the system of cash-pooling. Payables to subsidiaries related to cash-pooling and similar borrowings are included in Trade and other payables (see Note 17).

26. Segment Information

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

27. Earnings per Share

	2008	2007
Numerator (CZK millions)		
Basic and diluted:		
Net profit	47,118	31,425
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	534,594	569,981
Dilutive effect of share options	747	1,933
Diluted:		
Adjusted weighted average shares	535,341	571,914
Net income per share (CZK per share)		
Basic	88.1	55.1
Diluted	88.0	54.9

28. Commitment and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2008 to total CZK 138.1 billion over the next five years, as follows: CZK 21.3 billion in 2009, CZK 26.2 billion in 2010, CZK 32.3 billion in 2011, CZK 33.9 billion in 2012 and CZK 24.4 billion in 2013. These figures do not include the expected acquisitions of subsidiaries and associates, which will depend on the number of future investment opportunities, for which the Company will be a successful bidder and also considering the recoverability of these investments

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2008 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 concluded mentioned insurance policies with the Czech nuclear pool, a group of insurance companies.

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

29. Events after the Balance Sheet Date

The liability amounting to USD 71 million related to additional contribution to the share capital of the Turkish joint-venture Akcez Enerji A.S. was settled in January 2009.

The amount of USD 228 million was deposited to an escrow account in respect of the acquisition of Turkish company Akenerji in January 2009.

In February 2009 the reduction of share capital of the Company to the amount of CZK 53,799 million (i.e. by CZK 5,422 million) was registered in the Commercial Register.

Prepared on:	Signature of accounting unit´s statutory body:	Person responsible for accounting:	Person responsible for the financial statements:
February 24, 2009		Radim Sladkovský	Ivan Viktora