CEZ GROUP

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

TOGETHER WITH REPORT OF INDEPENDENT
AUDITORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of CEZ Group which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing 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 consolidated financial statements present fairly, in all material respects, the financial position of CEZ Group 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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008

in CZK Millions

	2008	2007
Assets		
Property, plant and equipment:		
Plant in service	488,956	479,091
Less accumulated provision for depreciation	252,330	234,297
Net plant in service (Note 3)	236,626	244,794
Nuclear fuel, at amortized cost	6,287	6,983
Construction work in progress (Note 3)	47,913	25,388
Total property, plant and equipment	290,826	277,165
Other non-current assets:		
Investment in associates and joint-ventures	1,907	248
Investments and other financial assets, net (Note 4)	33,582	16,126
Intangible assets, net (Note 5)	18,074	19,060
Deferred tax assets (Note 27)	816	482
Total other non-current assets	54,379	35,916
Total non-current assets	345,205	313,081
Current assets:		
Cash and cash equivalents (Note 8)	17,303	12,429
Receivables, net (Note 9)	41,729	23,880
Income tax receivable	140	79
Materials and supplies, net	4,914	4,484
Fossil fuel stocks	2,959	857
Emission rights (Note 10)	1,523	355
Other financial assets, net (Note 11)	57,269	10,585
Other current assets (Note 12)	2,133	5,192
Total current assets	127,970	57,861
Total assets	473,175	370,942

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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008

continued

	2008	2007
Equity and liabilities		
Equity attributable to equity holders of the parent:		
Stated capital	59,221	59,221
Treasury shares	(66,910)	(55,972)
Retained earnings and other reserves	180,941	168,103
Total equity attributable to equity holders of the parent (Note 13)	173,252	171,352
Minority interests	12,158	12,874
Total equity	185,410	184,226
Long-term liabilities:		
Long-term debt, net of current portion (Note 14)	66,526	51,984
Accumulated provision for nuclear decommissioning and fuel storage (Note 17)	35,631	39,191
Other long-term liabilities (Note 18)	17,545	16,369
Total long-term liabilities	119,702	107,544
Deferred tax liability (Note 27)	14,421	17,153
Current liabilities:		
Short-term loans (Note 19)	35,001	18,048
Current portion of long-term debt (Note 14)	4,874	3,226
Trade and other payables (Note 20)	95,732	25,738
Income tax payable	3,910	5,969
Accrued liabilities (Note 21)	14,125	9,038
Total current liabilities	153,642	62,019
Total equity and liabilities	473,175	370,942

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

CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2008

in CZK Millions

	2008	2007
Revenues:		
Sales of electricity	165,317	160,046
Gains and losses from electricity, coal and gas derivative trading, net	4,095	2,690
Heat sales and other revenues	12,226	11,827
Total revenues (Note 22)	181,638	174,563
Operating expenses:		
Fuel	(16,176)	(16,883)
Purchased power and related services	(41,670)	(46,328)
Repairs and maintenance	(5,597)	(4,881)
Depreciation and amortization	(22,047)	(22,123)
Salaries and wages (Note 23)	(16,956)	(16,900)
Materials and supplies	(4,589)	(6,066)
Emission rights, net (Note 10)	507	1,058
Other operating expenses (Note 24)	(9,947)	(9,237)
Total expenses	(116,475)	(121,360)
Income before other income (expenses) and income taxes	65,163	53,203
Other income (expenses):		
Interest on debt, net of capitalized interest (Note 2.8)	(3,103)	(1,954)
Interest on nuclear and other provisions (Note 2.24, 17 and 18)	(2,056)	(1,937)
Interest income (Note 25)	1,842	1,163
Foreign exchange rate gains (losses), net	(1,311)	22
Gain on sale of subsidiaries and associates	333	129
Negative goodwill write-off and goodwill impairment, net	14	-
Other income (expenses), net (Note 26)	(178)	485
Income from associates and joint-ventures (Note 2.2)	12	40
Total other income (expenses)	(4,447)	(2,052)
Income before income taxes	60,716	51,151
Income taxes (Note 27)	(13,365)	(8,387)
Net income	47,351	42,764
Net income attributable to:		
Equity holders of the parent	46,510	41,555
Minority interests	841	1,209
Net income per share attributable to equity holders of the parent (CZK per share) (Note 30)		
Basic	87.0	72.9
Diluted	86.9	72.7
Average number of shares outstanding (000s) (Notes 13 and 30)		
Basic	534,594	569,981
Diluted	535,341	571,914

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

in CZK Millions

	Attributable to equity holders of the parent							
	Stated capital	Treasury shares	Translation difference	Fair value and other reserves	Retained earnings	Total	Minority interests	Total equity
December 31, 2006	59,221	(1,943)	(1,301)	1,381	137,579	194,937	12,716	207,653
Change in fair value of available-for-sale financial assets recognized in equity	-	-	-	(78)	-	(78)	-	(78)
Available-for-sale financial assets removed from equity	-	-	-	(354)	-	(354)	-	(354)
Change in fair value of cash flow hedges recognized in equity	-	-	-	2,802	-	2,802	-	2,802
Cash flow hedges removed from equity	-	-	-	44	-	44	-	44
Deferred tax recognized in equity	-	-	-	(525)	-	(525)	-	(525)
Translation differences	-	-	(995)	-	-	(995)	(759)	(1,754)
Share on equity movements of associates	-	-	-	-	(21)	(21)	-	(21)
Other movements	-	-	-	-	(5)	(5)	(3)	(8)
Gain and loss recorded directly to equity	-	-	(995)	1,889	(26)	868	(762)	106
Net income	-	-	-	-	41,555	41,555	1,209	42,764
Total gains and losses for the year	-	-	(995)	1,889	41,529	42,423	447	42,870
Acquisition of treasury shares	-	(54,397)	-	-	-	(54,397)	-	(54,397)
Sale of treasury shares	-	368	-	-	(244)	124	-	124
Dividends	-	-	-	-	(11,780)	(11,780)	(3)	(11,783)
Share options	-	-	-	45	-	45	-	45
Transfer of exercised and forfeited share options within equity	-	-	-	(90)	90	-	-	-
Change in minority due to acquisitions	-	-	-	-	-	-	(286)	(286)
December 31, 2007	59,221	(55,972)	(2,296)	3,225	167,174	171,352	12,874	184,226

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

continued

	Attributable to equity holders of the parent							
	Stated capital	Treasury shares	Translation difference	Fair value and other reserves	Retained earnings	Total	Minority interests	Total equity
December 31, 2007	59,221	(55,972)	(2,296)	3,225	167,174	171,352	12,874	184,226
Change in fair value of available-for-sale financial assets recognized in equity	-	-	-	372	-	372	-	372
Available-for-sale financial assets removed from equity	-	-	-	2	-	2	-	2
Change in fair value of cash flow hedges recognized in equity	-	-	-	(7,564)	-	(7,564)	-	(7,564)
Cash flow hedges removed from equity	-	-	-	(3,196)	-	(3,196)	-	(3,196)
Deferred tax recognized in equity	-	-	-	2,110	3	2,113	1	2,114
Translation differences	-	-	(2,729)	-	-	(2,729)	(728)	(3,457)
Share on equity movements of associates	-	-	-	-	112	112	-	112
Other movements	-	-	-	4	8	12	9	21
Gain and loss recorded directly to equity	-	-	(2,729)	(8,272)	123	(10,878)	(718)	(11,596)
Net income	-	-	-	-	46,510	46,510	841	47,351
Total gains and losses for the year	-	-	(2,729)	(8,272)	46,633	35,632	123	35,755
Acquisition of treasury shares	-	(13,098)	-	-	-	(13,098)	-	(13,098)
Sale of treasury shares	-	2,160	-	-	(1,596)	564	-	564
Dividends	-	-	-	-	(21,321)	(21,321)	(2)	(21,323)
Share options	-	-	-	123	-	123	-	123
Transfer of exercised and forfeited share options within equity	-	-	-	(204)	204	-	-	-
Change in minority due to acquisitions	-	-	-	-	-	-	(837)	(837)
December 31, 2008	59,221	(66,910)	(5,025)	(5,128)	191,094	173,252	12,158	185,410

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

in CZK Millions

	2008	2007
Operating activities:		
Income before income taxes	60,716	51,151
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	22,090	22,166
Amortization of nuclear fuel	2,654	2,936
(Gain) loss on fixed asset retirements, net	(563)	(637)
Foreign exchange rate losses (gains), net	1,311	(22)
Interest expense, interest income and dividend income, net	1,210	697
Provision for nuclear decommissioning and fuel storage	309	695
Valuation allowances, other provisions and other adjustments	(214)	(193)
Income from associates and joint-ventures	(12)	(40)
Changes in assets and liabilities:		
Receivables	(18,470)	(8,724)
Materials and supplies	(43)	(612)
Fossil fuel stocks	(2,031)	345
Other current assets	(42,233)	(2,934)
Trade and other payables	58,148	5,111
Accrued liabilities	4,372	1,457
Cash generated from operations	87,244	71,396
Income taxes paid	(16,285)	(11,920)
Interest paid, net of capitalized interest	(1,586)	(1,552)
Interest received	1,142	1,186
Dividends received	68	109
Net cash provided by operating activities	70,583	59,219
Investing activities:		
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired (Note 6)	(490)	(2,462)
Proceeds from disposal of subsidiaries and associates, net of cash disposed of	1,501	1,416
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.9)	(46,186)	(34,066)
Loans made	(15,491)	(2)
Proceeds from sale of fixed assets	833	1,216
Change in decommissioning and other restricted funds	(1,200)	(3,312)
Repayment of loans	863	177
Total cash used in investing activities	(60,170)	(37,033)

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

continued

	2008	2007
Financing activities:		
Proceeds from borrowings	349,972	83,051
Payments of borrowings	(322,365)	(56,803)
Proceeds from other long-term liabilities	526	289
Payments of other long-term liabilities	(293)	(542)
Dividends paid to Company's shareholders	(21,218)	(11,694)
Dividends paid to minority interests / Contributions received from minority interests, net	(4)	22
(Acquisition) sale of treasury shares	(12,535)	(54,443)
Total cash used in financing activities	(5,917)	(40,120)
Net effect of currency translation in cash	378	(569)
Net increase (decrease) in cash and cash equivalents	4,874	(18,503)
Cash and cash equivalents at beginning of period	12,429	30,932
Cash and cash equivalents at end of period	17,303	12,429

Supplementary cash flow information

Total cash paid for interest	2,851	2,284

These financial statements have been authorized for issue on February 24, 2009:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Martin Novák
Member of Board of Directors
Chief Financial Officer

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

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 63.4% (70.4% of voting rights) at December 31, 2008 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The Company is a parent company of the CEZ Group ("the Group"), which is primarily engaged in the business of production, distribution and sale of electricity (see Notes 2.2 and 7). ČEZ is an electricity generation company, which in 2008 produced approximately 73% of the electricity and a portion of the district heating in the Czech Republic. In the Czech Republic the Company operates eleven fossil fuel plants, sixteen hydroelectric plants and two nuclear plants. The Company also operates through its subsidiaries several hydroelectric power plants in the Czech Republic, two fossil fuel plants in Poland and one in Bulgaria. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria and Romania. The average number of employees of the Company and its consolidated subsidiaries was 28,330 and 30,565 in 2008 and 2007, respectively.

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

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

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

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

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The accompanying consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. IFRS as adopted by the EU which are relevant to and used by the Group do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) except for IFRIC 12 which has not yet been adopted by the EU (see Note 2.3).

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.

2.2. *Group Accounting*

a. Group Structure

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

b. Subsidiaries

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

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

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

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

c. Associates

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

d. Joint-ventures

Joint-venture is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint-venture using the equity method of accounting (see Note 2.2 c).

The financial statements of the joint-venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

e. Transactions involving entities under common control

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

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

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

2.3. Change in Accounting Policies

a. New IFRS standards and interpretations

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

IFRIC 11 Group 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 Group amended its accounting policy accordingly.

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

b. New IFRS Standards and Interpretations either not yet effective or not yet adopted by the EU

The Group 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 Group as the Group 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.

IFRS 8 Operating Segments

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

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 Group is currently assessing the potential impact of this new interpretation on its financial statements.

The Group 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 Group currently does not expect that the amended standards will have a significant effect on the Group’s results and financial position, although they may affect the presentation and disclosures in certain areas.

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. Revenues

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

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

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

Revenue from services is recognized when the services are rendered.

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

2.6. Unbilled Electricity

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

2.7. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 2,654 million and CZK 2,936 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 to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 17). Such charges amounted to CZK 248 million and CZK 317 million in 2008 and 2007, respectively.

2.8. Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 1,265 million and CZK 732 million, which was equivalent to an interest capitalization rate of 5.0% and 5.0% in 2008 and 2007, respectively.

2.9. Property, Plant and Equipment

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

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

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

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

Depreciation

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

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

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

Depreciation of plant in service was CZK 20,839 million and CZK 20,675 million for the years ended December 31, 2008 and 2007, which was equivalent to a composite depreciation rate of 4.3% and 4.4%, respectively.

2.10. Nuclear Fuel

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

Nuclear fuel includes capitalized costs of related provisions (see Note 2.24). At December 31, 2008 and 2007 capitalized costs at net book value amounted to CZK 329 million and CZK 455 million, respectively.

2.11. Intangible Assets, Net

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

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses.

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

2.12. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans in 2008 and 2007 certain companies of the Group have been granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

On April, 30 of the following year, at latest, these companies are required to remit a number of certificates representing the number of tones of CO_2 actually emitted. If a company does not fulfill this requirement and does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 100 per 1 ton of CO_2 (in 2007 EUR 40 per 1 ton of CO_2).

In the financial statements the emission rights, which were granted free of charge, are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost. Emission rights acquired in a business combination are initially recognized at their fair value at the date of acquisition and subsequently treated similarly to purchased emission rights. If the granted allowances are not sufficient to cover actual emissions, the Group recognizes a provision, which is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date.

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

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

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.

2.13. Goodwill

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

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

2.14. Investments

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

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

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

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

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

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

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

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

2.15. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less. Foreign currency deposits are translated at December 31, 2008 and 2007 exchange rates, respectively.

2.16. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown under non-current financial assets as restricted funds (see Note 4), relate to mining reclamation and damages, deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to swap transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Group.

2.17. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.

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

2.18. Materials and Supplies

Materials and supplies are principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets. Cost is determined by using weighted average cost, which approximates actual cost. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. The Group records a provision for obsolete inventory as such items are identified. At December 31, 2008 and 2007 the provision for obsolescence amounted to CZK 216 million and CZK 343 million, respectively.

2.19. Fossil Fuel Stocks

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

2.20. Derivative Financial Instruments

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

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

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

a. Fair value hedge

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

b. Cash flow hedge

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

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

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

c. Other derivatives

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

2.21. Commodity Derivative Instruments

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

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

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

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

Commodity contracts, which fall under the scope of IAS 39, are carried at fair value with changes in the fair value recognized in the income statement. The Group presents revenues and expenses related to commodity trading net in the line Gains and losses from electricity, coal and gas derivative trading, net.

2.22. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic current income taxes are provided at a rate of 21% and 24% for the year 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 determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

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

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

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

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

2.23. Long-term Debt

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

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

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

2.24. Nuclear Provisions

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

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. At December 31, 2008 and 2007 the estimate for the effect of inflation is 2.5% and 2.0%, respectively.

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

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

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

The Group has recognized provisions for obligations to decommission and reclaim mines at the end of their operating live (see Note 18). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. At December 31, 2008 and 2007 the estimate for the effect of inflation is 2.5% and 2.0%, respectively.

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

2.26. Exploration for and Evaluation of Mineral Resources

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

2.27. Leases

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

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

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

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

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

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

2.28. Treasury Shares

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

2.29. Share Options

Members of Board of Directors and selected managers (and Supervisory Board members in prior years) 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.

2.30. Translation of Foreign Currencies

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

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

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as 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.

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

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

3. Property, Plant and Equipment

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

	Buildings	Plant and Equip-ment	Land and Other	Total 2008	Total 2007
Cost – opening balance	179,176	295,536	4,379	479,091	464,776
Plant additions	7,824	12,200	296	20,320	18,227
Disposals	(812)	(2,455)	(73)	(3,340)	(5,282)
Acquisition of subsidiaries	238	27	30	295	1,792
Disposal of subsidiaries	(115)	(287)	(1)	(403)	(565)
Change in capitalized part of provisions	-	(4,139)	(190)	(4,329)	1,659
Reclassification and other	193	(99)	(34)	60	15
Currency translation differences	(1,461)	(1,261)	(16)	(2,738)	(1,531)
Cost – closing balance	185,043	299,522	4,391	488,956	479,091
Accumulated deprec. and impairment – opening balance	(73,287)	(160,177)	(833)	(234,297)	(219,073)
Depreciation	(5,326)	(15,490)	(23)	(20,839)	(20,675)
Net book value of assets disposed	(619)	(175)	(5)	(799)	(517)
Disposals	812	2,455	18	3,285	5,255
Disposal of subsidiaries	37	324	1	362	279
Reclassification and other	(110)	96	4	(10)	7
Impairment losses recognized	(260)	(132)	(11)	(403)	(491)
Impairment losses reversed	145	54	32	231	632
Currency translation differences	81	56	3	140	286
Accumulated deprec. and impairment – closing balance	(78,527)	(172,989)	(814)	(252,330)	(234,297)
Net plant in service – closing balance	106,516	126,533	3,577	236,626	244,794

At December 31, 2008 and 2007 plant 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)
Total net book value	12,509	17,165

The carrying value of plant and equipment held under finance lease at December 31, 2008 and 2007 is CZK 6 million and CZK 39 million, respectively.

Group's plant in service pledged as security for liabilities at December 31, 2008 and 2007 is CZK 51 million and CZK 76 million, respectively.

In August 2008 the Group paid for the acquisition of a project in Romania to develop and operate two wind power farms. The total consideration paid amounted to EUR 300,584 thousand (CZK 7,372 million). As at December 31, 2008 construction work in progress includes CZK 10,005 million related to this project.

In addition, most of the remaining balance of construction work in progress relates to refurbishments performed on Tušimice, Ledvice, Prunéřov and Dukovany power plants and electricity distribution network of subsidiary ČEZ Distribuce, a. s.

4. Investments and Other Financial Assets, Net

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

	2008	2007
Restricted debt securities available-for-sale	7,756	3,233
Restricted debt securities held to maturity	25	996
Restricted cash	1,791	4,160
Total restricted financial assets	9,572	8,389
Financial assets in progress, net	230	241
Debt securities held-to-maturity	453	765
Debt securities available-for-sale	6,020	4,810
Equity securities available-for-sale	522	525
Investment in MOL	16,543	-
Other long-term receivables, net	242	1,396
Total	33,582	16,126

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

In January 2008 the Group acquired a 7% share in MOL. At that time the Group granted to MOL a call option, which enables MOL to reacquire the shares in the following 3 years for the price HUF 20,000 per share. The amount paid to MOL after deduction of option premium received was EUR 560 million. The transaction was recorded as a receivable together with a written put option. The purchase was financed through a new loan in the total amount of EUR 600 million. Within the scope of cooperation the Group together with MOL also established 50-50% joint-ventures in order to pursue jointly business opportunities and develop projects in the business of gas-fired power and heat plants in Central and South-Eastern Europe. The written put option is shown as liabilities from derivatives in payables and other liabilities (see Note 20).

Movements in impairment provisions (in CZK millions):

	2008			2007		
	Financial assets in progress	Available-for-sale financial assets	Long-term receivables	Financial assets in progress	Available-for-sale financial assets	Long-term receivables
Opening balance	-	130	-	-	202	13
Additions	-	-	27	-	-	-
Reversals	-	(52)	-	-	(72)	(13)
Closing balance	-	78	27	-	130	-

Debt instruments at December 31, 2008 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	74	342	1,382	1,798
Due in 2 – 3 years	16,672	-	594	17,266
Due in 3 – 4 years	7	-	1,044	1,051
Due in 4 – 5 years	3	-	411	414
Due in more than 5 years	29	111	2,589	2,729
Total	16,785	453	6,020	23,258

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

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

Debt instruments at December 31, 2008 have following effective interest rate structure (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	242	-	-	242
From 2.0% to 3.0%	-	178	789	967
From 3.0% to 4.0%	-	-	833	833
From 4.0% to 5.0%	16,543	111	3,805	20,459
Over 5.0%	-	164	593	757
Total	16,785	453	6,020	23,258

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

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

The following table analyses the debt instruments at December 31, 2008 by currency (in CZK millions):

	CZK	EUR	Total
Long-term receivables	173	16,612	16,785
Debt securities held-to-maturity	453	-	453
Debt securities available-for-sale	6,020	-	6,020
Total	6,646	16,612	23,258

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

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

5. Intangible Assets, Net

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

	Software	Rights and Other	Goodwill	Total 2008	Total 2007
Cost – opening balance	6,389	5,353	11,662	23,404	21,685
Additions	1,484	99	-	1,583	1,100
Disposals	(208)	-	(162)	(370)	(244)
Acquisition of subsidiaries	14	125	46	185	884
Disposal of subsidiaries	(35)	-	-	(35)	(136)
Reclassification and other	12	(10)	-	2	(5)
Currency translation differences	(9)	(396)	(663)	(1,068)	120
Cost – closing balance	7,647	5,171	10,883	23,701	23,404
Accumulated amortization and impairment – opening balance	(4,757)	(1,395)	-	(6,152)	(4,908)
Amortization charge for the year	(765)	(443)	-	(1,208)	(1,448)
Net book value of assets disposed	(22)	(71)	-	(93)	(20)
Disposals	208	-	-	208	244
Disposal of subsidiaries	116	-	-	116	7
Reclassification and other	(9)	8	-	(1)	5
Impairment losses recognized	-	-	-	-	(35)
Currency translation differences	5	127	-	132	3
Accumulated amortization and impairment – closing balance	(5,224)	(1,774)	-	(6,998)	(6,152)
Net intangible assets – closing balance	2,423	3,397	10,883	16,703	17,252

At December 31, 2008 and 2007, intangible assets presented in the balance sheet include intangible assets in progress in the amount of CZK 1,371 million and CZK 1,808 million, respectively.

At December 31, 2008 goodwill was allocated to the respective business and geographical segments based on the classification of the related subsidiaries (see Note 29).

Impairment testing of goodwill

At December 31, 2008 and 2007 goodwill was allocated to the following cash-generating units for the purpose of impairment testing (in CZK millions):

	2008	2007
Bulgarian distribution	1,076	1,063
TEC Varna	1,970	1,947
Polish power plants (ELCHO, Skawina)	4,829	5,689
Czech distribution and sale	2,182	2,182
ČEZ Teplárenská	643	643
Other	183	138
Total carrying amount of goodwill	10,883	11,662

The Group performed impairment tests and as result of these tests the Group did not recognize any impairment losses of goodwill in 2008 and 2007. The goodwill at Skawina was decreased by CZK 166 million in 2008 due to the acquisition of minority interest (see Note 6). The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Values in use are determined based on cash flow budgets, which are based on the medium-term budget for a period of 5 years, which has been approved by the management and which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on future market trends.

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

The recoverable amount of Bulgarian distribution and TEC Varna has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and discount rates in 2007 and 2008 of 6.0% for distribution and eight-year period budget and discount rate of 7.6% for Varna power plant. Cash flows beyond the five-year period are extrapolated using an average growth rate of 5.0% for the distribution companies, while the calculation did not include any cash flow for Varna power plant beyond 2016. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The recoverable amount of Polish power plants has also been determined based on a value in use calculation. Those cash flow projections are also based on financial budgets approved by management covering a five-year period, and discount rates in 2007 and 2008 of 7.6%. Cash flows beyond the five-year period are extrapolated using zero growth rate. This growth rate represents the predicted long-term average growth rate of cash flows under currently known capacities and circumstances. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Czech distribution and sale and ČEZ Teplárenská. Those cash flow projections are also based on financial budgets approved by management covering a five-year period, and discount rates in 2007 and 2008 are 5.7% for Czech distribution and sale and 7.4% for ČEZ Teplárenská in both years. Cash flows beyond the five-year period are extrapolated using an average growth rate of 5.0% in 2007 and 2008. This growth rate represents the predicted long-term average growth rate of cash flows under currently known circumstances. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

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

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

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

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

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

6. Business Combinations and Acquisition of Minority Shares

Acquisitions of subsidiaries from third parties in 2008

In January 2008 the Group acquired 100% share in ALLEWIA leasing s.r.o. ("ALLEWIA"), in August 2008 46.32% share in SD – KOMES, a.s. ("KOMES") and in September 2008 49.50% share in PRODECO, a.s. ("PRODECO"). Until the acquisition of majority of voting rights the Group owned 46.33% shares (46.33% voting rights) in KOMES and 50.50% shares (50.00% voting rights) in PRODECO.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired in 2008 at the date of acquisition are as follows (in CZK millions):

	KOMES	PRODECO	ALLEWIA
Shares acquired in 2008	46.32%	49.50%	100%
Property, plant and equipment	231	29	35
Other non-current assets	3	68	-
Cash and cash equivalents	-	591	6
Receivables, net	110	89	31
Income tax receivable	-	10	-
Materials and supplies, net	55	278	-
Other current assets	1	302	2
Long-term liabilities	(1)	-	-
Deferred tax liability	(8)	-	(4)
Short-term loans	(22)	-	-
Trade and other payables	(101)	(1,218)	(33)
Accrued liabilities	-	(45)	(3)
Total net assets	268	104	34
Minority interests	(144)	(52)	-
Share of net assets acquired	124	52	34
Goodwill / (negative goodwill)	(4)	(10)	46
Total purchase consideration	120	42	80
Less:			
Non-cash consideration paid	(120)	-	-
Cash and cash equivalents in subsidiaries acquired	-	(591)	(6)
Cash outflow / (inflow) on acquisition of subsidiaries	-	(549)	74

The total purchase consideration paid for acquisition of subsidiaries in 2008 consists of the following amounts (in CZK millions):

	KOMES	PRODECO	ALLEWIA
Acquisition price of the shares	120	42	80
Costs directly attributable to the acquisition of shares	-	-	-
Total purchase consideration	120	42	80

The carrying values of the acquired assets and liabilities of the subsidiaries acquired in 2008 immediately before the acquisitions were as follows (in CZK millions):

	KOMES	PRODECO	ALLEWIA
Property, plant and equipment	231	29	16
Other non-current assets	3	68	-
Cash and cash equivalents	-	591	6
Receivables, net	110	89	31
Income tax receivable	-	10	-
Materials and supplies, net	55	278	-
Other current assets	1	302	2
Long-term liabilities	(1)	-	-
Deferred tax liability	(8)	-	-
Short-term loans	(22)	-	-
Trade and other payables	(101)	(1,218)	(33)
Accrued liabilities	-	(45)	(3)
Total book value of net assets	268	104	19

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group's income statement for the year 2008 (in CZK millions):

	KOMES	PRODECO	ALLEWIA
Revenues	22	83	34
Income before other expense (income) and income taxes	(7)	33	5
Net income	2	44	3

If the combinations had taken place at the beginning of the year, the profit for the CEZ Group would have been CZK 47,355 million and revenues from continuing operation would have been CZK 182,444 million. The goodwill recognized as a result of the business combinations comprises the fair value of expected synergies arising from the acquisitions.

Acquisitions of minority shares in 2008

In September 2008 the Group purchased further minority shares in Elektrownia Skawina S.A. ("Skawina"). The following table summarizes the critical terms of the subsequent acquisition of minority shares during 2008 (in CZK millions):

	Skawina
Shares acquired in 2008 from third parties	25.09%
Share of net assets acquired	874
Negative goodwill	(166)
Total purchase price	708

The following table summarizes the cash outflows on acquisitions during 2008 (in CZK millions):

Cash inflows on acquisition of subsidiaries	(475)
Cash contribution to joint-venture	97
Cash outflows on purchase of minority	708
Change in payables from acquisitions	160
Total cash outflows on acquisitions in 2008	490

Acquisitions of subsidiaries from third parties in 2007

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

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

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

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

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

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

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

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

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

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

Acquisitions of minority shares in 2007

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

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

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

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

7. Investments in Subsidiaries, Associates and Joint-ventures

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

Subsidiaries	Country of incorporation	% equity [1)] interest 2008	% voting interest 2008	% equity [1)] interest 2007	% voting interest 2007
ALLEWIA leasing s.r.o.	Czech Republic	100.00%	100.00%	-	-
CEZ Bosna i Hercegovina d.o.o.	Bosnia and Herzegovina	100.00%	100.00%	-	-
CEZ Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Ciepło Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Deutschland GmbH	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Distributie S.A.	Romania	51.01%	51.01%	51.01%	51.01%
CEZ Elektro Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Elektroproizvodstvo Bulgaria AD	Bulgaria	100.00%	100.00%	-	-
CEZ FINANCE B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Hungary Ltd.	Hungary	100.00%	100.00%	100.00%	100.00%
CEZ Chorzow B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Laboratories Bulgaria EOOD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ MH B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Poland Distribution B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Razpredelenie Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Romania S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ RUS OOO	Russia	100.00%	100.00%	-	-
CEZ Servicii S.A.	Romania	51.00%	51.00%	51.00%	51.00%
CEZ Silesia B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Slovensko, s.r.o.	Slovakia	100.00%	100.00%	100.00%	100.00%
CEZ Srbija d.o.o.	Serbia	100.00%	100.00%	100.00%	100.00%
CEZ Trade Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Trade Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Trade Romania S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ Ukraine CJSC	Ukraine	100.00%	100.00%	100.00%	100.00%
CEZ Vanzare S.A.	Romania	51.01%	51.01%	51.01%	51.01%
ČEZ Distribuce, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Distribuční služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Energetické produkty, s.r.o.	Czech Republic	100.00%	100.00%	-	-
ČEZ Energetické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ ICT Services, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Logistika, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Měření, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Prodej, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Správa majetku, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Teplárenská, a.s	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZData, s.r.o. [2)]	Czech Republic	-	-	100.00%	100.00%
Elektrociepłownia Chorzów ELCHO sp. z o.o.	Poland	88.82%	75.20%	88.82%	75.20%
Elektrownia Skawina S.A.	Poland	99.91%	99.91%	74.82%	74.82%
Energetické opravny, a.s.	Czech Republic	-	-	100.00%	100.00%

Subsidiaries, continued	Country of incorporation	% equity [1] interest 2008	% voting interest 2008	% equity [1] interest 2007	% voting interest 2007
I & C Energo a.s.	Czech Republic	-	-	100.00%	100.00%
M.W. Team Invest S.R.L.	Romania	100.00%	100.00%	-	-
NERS d.o.o.	Bosnia and Herzegovina	51.00%	51.00%	51.00%	51.00%
New Kosovo Energy L.L.C.	Kosovo	100.00%	100.00%	100.00%	100.00%
Ovidiu Development S.R.L.	Romania	100.00%	100.00%	-	-
PPC Úžín, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
PRODECO, a.s.	Czech Republic	100.00%	100.00%	-	-
SD - 1.strojírenská, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - Autodoprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - Kolejová doprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - KOMES, a.s.	Czech Republic	92.65%	92.65%	-	-
SD - Rekultivace, a.s.	Czech Republic	100.00%	100.00%	-	-
Severočeské doly a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
STE - obchodní služby spol. s r.o. v likvidaci	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA Invest s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
TEC Varna EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
Tomis Team S.R.L.	Romania	100.00%	100.00%	-	-
Transenergo International N.V.	Netherlands	67.00%	67.00%	100.00%	100.00%
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46%	52.46%	52.46%	52.46%
ZAO TransEnergo	Russia	67.00%	67.00%	100.00%	100.00%

Associates and joint-ventures	Country of incorporation	% equity [1] interest 2008	% voting interest 2008	% equity [1] interest 2007	% voting interest 2007
Akcez Enerji A.S. [3]	Turkey	50.00%	50.00%	-	-
CM European Power International B.V.	Netherlands	50.00%	50.00%	-	-
CM European Power International s.r.o.	Slovakia	50.00%	50.00%	-	-
Coal Energy, a.s.	Czech Republic	40.00%	40.00%	40.00%	40.00%
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05%	50.00%	51.05%	50.00%

[1] The equity interest represents effective ownership interest of the Group.

[2] Company ČEZData, s.r.o. merged as at January 1, 2008 with company ČEZnet, a.s. which was renamed to ČEZ ICT Services, a. s.

[3] At the end of 2008 the Group together with Akkök Group and Akenerji formed a joint-venture Akcez Enerji A. S. with the intention to acquire the distribution company SEDAŞ in Turkey (see Note 32).

The associates are not listed on any public exchange. The following table illustrates summarized financial information of associates and joint-ventures for the year ended December 31, 2008 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
Coal Energy, a.s.	641	547	94	5,670	(8)
LOMY MOŘINA spol. s r.o.	411	48	363	219	(2)
Akcez Enerji A.S.	3,143	-	3,143	-	-
CM European Power International B.V.	226	2	224	3	1
CM European Power International s.r.o.	317	117	200	-	(2)
Total	4,738	714	4,024	5,892	(11)

The following table illustrates summarized financial information of associates for the year ended December 31, 2007 (in CZK millions):

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

8. Cash and Cash Equivalents

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

	2008	2007
Cash on hand and current accounts with banks	5,125	4,655
Short-term bank notes	591	1,586
Term deposits	11,587	6,188
Total	17,303	12,429

At December 31, 2008 and 2007, cash and cash equivalents included foreign currency deposits of CZK 14,471 million and CZK 8,081 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2008 and 2007 was 7.9% and 5.0%, respectively. For the years 2008 and 2007 the weighted average interest rate was 6.1% and 3.7%, respectively.

9. Receivables, Net

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

	2008	2007
Unbilled electricity supplied to retail customers	14,208	-
Received advances from retail customers	(12,746)	-
Unbilled supplies to retail customers, net	1,462	-
Trade receivables	41,129	22,453
Taxes and fees, excluding income taxes	1,022	802
Other receivables	1,840	3,239
Allowance for doubtful receivables	(3,724)	(2,614)
Total	41,729	23,880

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

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

	2008	2007
Not past due	39,164	20,871
Past due but not impaired [1]:		
Less than 3 months	2,156	2,589
3 – 6 months	244	203
6 – 12 months	161	196
more than 12 months	4	21
Total	41,729	23,880

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

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

	2008	2007
Opening balance	2,614	2,452
Additions	1,906	1,596
Reversals	(726)	(1,323)
Acquisition of subsidiaries	27	-
Disposal of subsidiaries	(2)	(3)
Currency translation differences	(95)	(108)
Closing balance	3,724	2,614

10. Emission Rights

In 2005 an emission trading scheme was introduced in the European Union. The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and certified emission reductions held by the Group during 2008 and 2007 (in CZK millions):

	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	43,224	231	37,109	2,207
Emission rights granted	42,022	-	42,143	-
Settlement of prior year actual emissions	(43,103)	(221)	(39,118)	(2,036)
Emission rights acquired in business combination	-	-	200	7
Disposal of remaining emission rights from the first allocation period	(134)	-	-	-
Emission rights sold	(3,215)	-	(930)	-
Emission rights purchased	447	251	3,820	202
Certified emission reductions purchased	2,510	1,023	-	-
Fair value adjustment	-	(1)	-	(200)
Currency translation differences	-	(9)	-	51
Granted and purchased emission rights and certified emission reductions at December 31	41,751	1,274	43,224	231
Emission rights held for trading:				
Emission rights for trading at January 1	12	-	41	7
Emission rights purchased	24,623	14,117	4,937	288
Emission rights sold	(24,347)	(14,084)	(4,966)	(308)
Disposal of remaining emission rights from the first allocation period	(288)	-	-	-
Fair value adjustment	-	(33)	-	13
Emission rights held for trading at December 31	-	-	12	-

During 2008 and 2007 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 40,421 thousand tons and 43,103 thousand tons of CO_2, respectively. In 2008 and 2007 the Group recognized a provision for CO_2 emissions in total amount of CZK 1,033 million and CZK 231 million, respectively (see Note 2.12).

At December 31, 2008 and 2007 the balance of emission rights presented in the balance sheet includes also green and similar certificates in total amount CZK 249 million and CZK 124 million, respectively.

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

	2008	2007
Gain on sales of granted emission rights	1,809	281
Net gain (loss) from emission trading	(538)	568
Gain on green and similar certificates	292	175
Creation of provisions for emissions rights	(1,023)	(227)
Settlement of provisions for emissions rights	222	2,486
Remitted emission rights	(221)	(2,038)
Fair value adjustment	(34)	(187)
Net gain related to emission rights and green and similar certificates	507	1,058

11. Other Financial Assets, net

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

	2008	2007
Debt securities held for trading	-	14
Debt securities held-to-maturity	327	1,057
Debt securities available-for-sale	1,459	1,345
Equity securities held for trading	-	9
Equity securities available-for-sale	13,580	63
Derivatives	41,903	8,097
Total	57,269	10,585

Derivatives balance is mainly comprised of positive fair value of electricity trading contracts and emission right derivatives.

At December 31, 2008 the equity securities available-for-sale represent mainly investments in mutual fund.

Short-term debt securities at December 31, 2008 have the following effective interest rate structure (in CZK millions):

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
From 2.0% to 3.0%	172	481	-	653
From 3.0% to 4.0%	103	618	-	721
From 4.0% to 5.0%	-	317	-	317
Over 5.0%	52	43	-	95
Total	327	1,459	-	1,786

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

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

All short-term debt securities are denominated in CZK.

12. Other Current Assets

The composition of other current assets at December 31, 2008 and 2007 is as follows (in CZK millions):

	2008	2007
Prepaid variation margin on "own use" electricity futures	-	2,992
Advances paid	1,209	1,485
Prepayments	924	715
Total	2,133	5,192

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 21).

13. 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 the ČEZ company 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 2.29) 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 Group 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.

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

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

14. Long-term Debt

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

	2008	2007
4.625% Eurobonds, due 2011 (EUR 400 million)	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
6.000% 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) [1)]	2,497	2,496
3.35% Debentures, due 2008 (CZK 3,000 million)	-	2,820
4.30% Debentures, due 2010 (CZK 7,000 million)	6,841	6,834
Total bonds and debentures	69,944	53,332
Less: Current portion	(4,475)	(2,820)
Bonds and debentures, net of current portion	65,469	50,512
Long-term bank loans:		
3.00% to 3.99% p. a.	1,176	19
4.00% to 4.99% p. a.	96	1,856
6.00% to 6.99% p. a.	184	3
Total long-term bank loans:	1,456	1,878
Less: Current portion	(399)	(406)
Long-term bank loans, net of current portion	1,057	1,472
Total long-term debt	71,400	55,210
Less: Current portion	(4,874)	(3,226)
Long-term debt, net of current portion	66,526	51,984

[1)] Since 2006 the interest rate has changed to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2008 and 2007 was 9.60% and 5.90%, respectively.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Group. For the fair values of interest rate hedging instruments see Note 15.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.20.

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

	2008	2007
Current portion	4,874	3,226
Between 1 and 2 years	7,098	4,551
Between 2 and 3 years	11,022	7,118
Between 3 and 4 years	13,685	10,886
Between 4 and 5 years	13,617	13,519
Thereafter	21,104	15,910
Total long-term debt	71,400	55,210

The following table analyses the long-term debt at December 31, 2008 and 2007 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	-	-
PLN	28	184	37	276
CZK	-	15,085	-	17,899
Total long-term debt		71,400		55,210

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

	2008	2007
Floating rate long-term debt		
with interest rate fixed for 1 month	22	272
with interest rate fixed from 1 to 3 months	1,176	1,415
with interest rate fixed from 3 months to 1 year	2,679	2,587
Total floating rate long-term debt	3,877	4,274
Fixed rate long-term debt	67,523	50,936
Total long-term debt	71,400	55,210

Fixed rate long-term debt exposes the Group to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 15 and Note 16.

The Group has entered into 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 Group has complied with all required covenants.

15. Fair Value of Financial Instruments

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

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

Cash and cash equivalents, current investments

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

Investments

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

Receivables and Payables

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

Short-term loans

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

Long-term debt

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

Derivatives

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

Carrying amounts and the estimated fair values of financial instruments at December 31, 2008 and 2007 are as follows (in CZK millions):

		2008		2007	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Investments		33,582	33,965	16,126	16,039
Restricted debt securities available-for-sale	AFS	7,756	7,756	3,233	3,233
Restricted debt securities held-to-maturity	HTM	25	25	996	996
Restricted cash	LaR	1,791	1,791	4,160	4,160
Financial assets in progress, net	LaR	230	230	241	241
Debt securities held-to-maturity	HTM	453	462	765	754
Debt securities available-for-sale, net	AFS	6,020	6,020	4,810	4,810
Equity securities available-for-sale	AFS	522	522	525	525
Long-term receivables, net	LaR	16,785	17,159	1,396	1,320
Receivables	LaR	41,729	41,729	23,880	23,880
Cash and cash equivalents	LaR	17,303	17,303	12,429	12,429
Other financial assets		15,366	15,366	2,488	2,488
Debt securities held for trading	HFT	-	-	14	14
Debt securities held-to-maturity	HTM	327	327	1,057	1,057
Debt securities available-for-sale	AFS	1,459	1,459	1,345	1,345
Equity securities held for trading	HFT	-	-	9	9
Equity securities available-for-sale	AFS	13,580	13,580	63	63
Other current assets	LaR	2,133	2,133	5,192	5,192
Liabilities:					
Long-term debt	AC	(71,400)	(70,817)	(55,210)	(54,766)
Short-term loans	AC	(35,001)	(35,001)	(18,048)	(18,048)
Accounts payable	AC	(44,154)	(44,154)	(18,864)	(18,864)
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

	Category	2008 Carrying amount	2008 Fair value	2007 Carrying amount	2007 Fair value
Electricity, coal and gas trading contracts:					
Receivables	HFT	38,079	38,079	5,385	5,385
Payables	HFT	(37,519)	(37,519)	(5,250)	(5,250)
Total electricity trading contracts		560	560	135	135
Other derivatives:					
Receivables	HFT	3,715	3,715	1,703	1,703
Payables	HFT	(9,306)	(9,306)	(1,624)	(1,624)
Total other derivatives		(5,591)	(5,591)	79	79

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

16. Financial Risk Management

Risk management approach

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

Since 2005 a risk capital concept has been applied within the Group. The concept allows the setting of basic caps for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every 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 in the Group is the Risk Management Committee (the ČEZ, a. s. CEO's committee). Except for approval of the aggregate risk capital limits (within the competence of the ČEZ, a. s. Board of Directors), the Risk Management Committee makes decisions on the development of an integrated system of risk management, administers the risk capital, i.e. makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including the risk capital utilization.

Overview and methods of risk management

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

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 price) 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 in the Czech Republic.

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

16.1. Qualitative description of risks associated with financial instruments

Commodity risks

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

Market financial risks (currency, interest and stock price risks)

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

Credit risks

With respect to the Group's activities managed on a centralized level, credit exposures of individual financial partners and wholesale partners are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the counterparty's credibility (in accordance with international rating and internal financial evaluation of counterparties with no international rating). With respect to the electricity sales to end customers in the Czech Republic, the actual credibility is monitored for each business partner based on payment history (in addition, the financial standing is considered for selected partners). This credibility determines the payment conditions of partners (i.e. it indirectly determines an amount of an approved credit exposure) and also serves to quantify both the expected and the potential losses. In accordance with the credit risk methodology applied to the banking sector per Basel II, every month the expected and potential losses are quantified on a 95% confidence level. It means that the share of all credit risks mentioned above in the aggregate annual Profit@Risk limit is quantified and evaluated.

Liquidity risks

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

16.2. Quantitative description of risks associated with financial instruments

Commodity risks

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

- the source of market prices is mainly EEX, PXE and PointCarbon
- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (these are the following commodities in the Group: electricity, emission allowances EUA and CER/ERU, 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 the Group uses them as EUA

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

	2008	2007
Monthly VaR (95%) – impact of changes in electricity market price	478	206
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 December 31) was prepared based on the assumptions given below:

- the source of market foreign exchange rates and interest rate curves is mainly IS REUTERS, IS Bloomberg and ČNB (Czech National Bank) 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 of the Group units in the monitored basket of foreign currencies

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

	2008	2007
Monthly currency VaR (95% confidence)	557	150

Interest risks

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

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

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

	2008	2007
Monthly interest VaR (95% confidence) *	1,054	501

* 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 the Group debt).

Stock price risks

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

- the source of market data is IS Bloomberg and ČNB data
- the indicator of stock risk is determined as the monthly parametric VaR (95% confidence)
- the relevant implied volatility and standard deviation is determined from risk module IS Bloomberg
- the relevant stock position is defined as market value of stocks/stock options as at December 31, 2008
- the relevant stock positions reflect all significant stock-sensitive deals of the ČEZ Group units

Potential impact of the stock price risk as at December 31 (in CZK millions)

	2008	2007
Monthly stock VaR (95% confidence)	3,829	N/A *

* The stock instruments were not used before 2008

Liquidity risk

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

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *
Less than 1 year	35,732	7,811	44,446	200,269
Between 1 and 2 years	297	10,178	466	56,015
Between 2 and 3 years	306	13,540	137	17,410
Between 3 and 4 years	282	15,954	37	3,835
Between 4 and 5 years	260	15,208	24	-
Thereafter	-	24,241	149	-
Total	36,877	86,932	45,259	277,529

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

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

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *
Less than 1 year	18,534	5,419	19,151	95,157
Between 1 and 2 years	456	6,347	340	18,648
Between 2 and 3 years	322	9,012	84	8,531
Between 3 and 4 years	306	12,486	13	1,831
Between 4 and 5 years	284	14,551	-	367
Thereafter	240	16,524	-	-
Total	20,142	64,339	19,588	124,534

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

16.3. Hedge accounting

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

In 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 Group also enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 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.

17. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants, Dukovany and Temelín. Nuclear power plant Dukovany consists of four 440 MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000 MW units, which have started commercial operation in 2002 and 2003. The Czech parliament has enacted a Nuclear Act (“Act”), which defines certain obligations for the decontamination and dismantling (“decommissioning”) of nuclear facilities and the disposal of radioactive waste and spent fuel (“disposal”). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant’s operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. An updated 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 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a "nuclear account" funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government decision at 50 CZK per MWh produced at nuclear power plants. In 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 Group has established provisions as described in Note 2.24, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2008 and 2007 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommis -sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2006	10,156	4,902	21,625	36,683
Movements during 2007:				
Discount accretion	257	122	541	920
Effect of inflation	205	98	433	736
Provision charged to income statement	-	394	-	394
Effect of change in estimate charged to income statement (Note 2.24)	-	438	-	438
Effect of change in estimate added to (deducted from) fixed assets (Note 2.24)	(4)	32	1,467	1,495
Current cash expenditures	-	(168)	(1,307)	(1,475)
Balance at December 31, 2007	10,614	5,818	22,759	39,191
Movements during 2008:				
Discount accretion	269	146	569	984
Effect of inflation	215	116	455	786
Provision charged to income statement	-	346	-	346
Effect of change in estimate charged to income statement (Note 2.24)	-	203	-	203
Effect of change in estimate added to (deducted from) fixed assets (Note 2.24)	(2,866)	23	(1,273)	(4,116)
Current cash expenditures	-	(435)	(1,328)	(1,763)
Balance at December 31, 2008	8,232	6,217	21,182	35,631

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.

18. Other Long-term Liabilities

Other long-term liabilities at December 31, 2008 and 2007 are as follows (in CZK millions):

	2008	2007
Provision for decommissioning and reclamation of mines and mining damages	6,363	6,608
Other long-term provisions	1	-
Deferred connection fees	8,927	7,983
Other	2,254	1,778
Total	17,545	16,369

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

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

	Mine reclamation	Mining damages	Total
Balance at December 31, 2006	6,055	1,120	7,175
Movements during 2007:			
Discount accretion	148	-	148
Effect of inflation	119	-	119
Provision charged to income statement	41	-	41
Effect of change in estimate added to fixed assets	197	-	197
Current cash expenditures	(142)	(930)	(1,072)
Balance at December 31, 2007	6,418	190	6,608
Movements during 2008:			
Discount accretion	155	-	155
Effect of inflation	125	-	125
Provision charged to income statement	46	-	46
Effect of change in estimate credited to income statement	(50)	-	(50)
Effect of change in estimate credited to fixed assets	(190)	-	(190)
Current cash expenditures	(176)	(155)	(331)
Balance at December 31, 2008	6,328	35	6,363

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

19. Short-term Loans

Short-term loans at December 31, 2008 and 2007 are as follows (in CZK millions):

	2008	2007
Short-term bank loans	31,394	10,571
Bank overdrafts	500	7,477
Other short-term borrowings	3,107	-
Total	35,001	18,048

Interest on short-term loans is variable. The weighted average interest rate was 3.3% at December 31, 2008 and 4.1% at December 31, 2007. For the years 2008 and 2007 the weighted average interest rate was 4.0% and 3.5%, respectively.

At December 31, 2008 short-term bank loans include the loan of CZK 16,158 million which was used to finance the acquisition of investment in MOL (see Note 4).

20. Trade and Other Payables

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

	2008	2007
Advances received from retail customers	7,359	18,240
Unbilled electricity supplied to retail customers	(6,490)	(17,886)
Received advances from retail customers, net	869	354
Trade payables	41,065	15,993
Fair value of option (see Note 4)	7,534	-
Derivatives	44,044	6,874
Other	2,220	2,517
Total	95,732	25,738

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

21. Accrued Liabilities

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

	2008	2007
Provision for CO_2 emissions	1,033	231
Provision for waste storage reclamation	406	453
Other provisions	1,426	1,432
Accrued interest	1,387	891
Taxes and fees, except income tax	1,134	1,005
Unbilled goods and services	4,324	3,764
Contingent liabilities from acquisitions	524	604
Deferred variation margin on “own use” electricity futures (see Note 12)	2,561	-
Deferred income	1,252	575
Other	78	83
Total	14,125	9,038

22. Revenues

The composition of revenues for the years ended December 31, 2008 and 2007 is as follows (in CZK millions):

	2008	2007
Sale of electricity:		
Sales of electricity to end customers	59,679	53,945
Sales of electricity through energy exchange	22,810	55
Sales to distribution companies	1,258	15,509
Exports of electricity	6,452	12,923
Other sales of electricity	24,496	31,740
Effect of hedging (see Note 16.3)	3,245	-
Sales of ancillary, system, distribution and other services	47,377	45,874
Total sales of electricity	165,317	160,046
Electricity, coal and gas derivative trading:		
Sales	85,246	39,800
Purchases	(82,605)	(37,372)
Changes in fair value of commodity derivatives	1,454	262
Total gains and losses from electricity, coal and gas derivative trading, net	4,095	2,690
Sales of heat	3,295	2,935
Sales of coal	3,701	3,444
Other	5,230	5,448
Total revenues	181,638	174,563

In October 2007 the Shareholder’s meeting of Elektrociepłownia Chorzów ELCHO sp. z o.o. (“ELCHO”) decided to terminate its long-term contract for the sale of electricity with Polskie Sieci Elektroenergetyczne S.A. (PSE) based on which the electricity should have originally been delivered until 2023. According to the Act on termination of long-term agreements ELCHO will receive compensation in cash from an entity established by Polish state, to compensate the revenues lost (the equivalent of the difference between original contractual price and market price with the total limit of PLN 889 million). From April 2008 ELCHO started to sell the electricity on the free market. In 2008 ELCHO recognized CZK 719 million of revenues as a result of the above mentioned compensations.

23. Salaries and Wages

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

	2008		2007 [2]	
	Total	Key management personnel [1]	Total	Key management personnel
Salaries and wages	(11,467)	(239)	(11,293)	(275)
Remuneration of the board members, including royalties	(106)	(35)	(87)	(34)
Share options	(123)	(123)	(45)	(45)
Social and health security	(3,735)	(15)	(4,001)	(82)
Other personal expenses	(1,525)	(22)	(1,474)	(14)
Total	(16,956)	(434)	(16,900)	(450)

[1] Key management personnel represent members of Supervisory Board, 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.

At December 31, 2008 and 2007, the aggregate number of share options granted to members of Board of Directors, Supervisory Board 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 General 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 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.

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

	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.

24. 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	(9,891)	(10,955)
Travel expenses	(285)	(278)
Gain on sale of property, plant and equipment	68	153
Gain on sale of material	121	138
Capitalization of expenses to the cost of assets and change in own inventory	1,721	2,979
Fines, penalties and penalty interest, net	731	330
Change in provisions and valuation allowances	618	1,745
Taxes and fees	(2,477)	(2,865)
Write-off of bad debts and cancelled investment	(234)	(540)
Gifts	(336)	(352)
Other, net	17	408
Total	(9,947)	(9,237)

Taxes and fees include the contributions to the nuclear account (see Note 17). The settlement of the provision for long-term spent fuel storage is accounted for in 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.

25. Interest Income

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

	2008	2007
Loans and receivables	694	196
Held-to-maturity investments	68	160
Available-for-sale investments	263	-
Financial assets held for trading	10	4
Bank accounts	807	803
Total	1,842	1,163

26. 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
Derivative gains (losses), net	(1,194)	(585)
Gains from sales available-for-sale financial assets	968	772
Gain on sale of financial assets held for trading	1	1
Change in impairment of financial investments	37	79
Other, net	10	218
Total	(178)	485

27. Income Taxes

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

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

	2008	2007
Current income tax charge	(14,271)	(11,776)
Adjustments in respect of current income tax of previous periods	78	(115)
Deferred income taxes	828	3,504
Total	(13,365)	(8,387)

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

	2008	2007
Income before income taxes	60,716	51,151
Statutory income tax rate in Czech Republic	21%	24%
"Expected" income tax expense	(12,750)	(12,276)
Add (deduct) tax effect of:		
Change in tax rates	150	3,212
Non-deductible provisions, net	68	(84)
Non-deductible loss from derivatives	(1,146)	-
Non-deductible expenses related to shareholdings	(194)	(144)
Other non taxable (non-deductible) items, net	(72)	530
Income already taxed or exempt	286	226
Tax credits	4	5
Adjustments in respect of current income tax of previous periods	78	(115)
Effect of different tax rate in other countries	135	294
Change in unrecorded deferred tax receivables	76	(35)
Income taxes	(13,365)	(8,387)
Effective tax rate	22%	16%

Deferred Income Taxes, Net

Deferred income taxes, net, at December 31, 2008 and 2007 consist of the following (in CZK millions):

	2008	2007
Accumulated provision for nuclear decommissioning and spent fuel storage	5,625	6,363
Financial statement depreciation in excess of tax depreciation	142	3
Revaluation of financial instruments	1,367	56
Allowances	383	495
Other provisions	903	1,086
Penalty payables	3	11
Tax loss carry forwards	199	230
Other temporary differences	113	77
Total deferred tax assets	8,735	8,321
Tax depreciation in excess of financial statement depreciation	21,109	23,089
Revaluation of financial instruments	141	825
Other provisions	539	973
Penalty receivables	20	19
Investment in associate	-	11
Other temporary differences	531	75
Total deferred tax liability	22,340	24,992
Total deferred tax liability, net	13,605	16,671

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

	2008	2007
Opening balance	16,671	19,318
Deferred tax recognized in profit or loss	(828)	(3,504)
Deferred tax charged directly to equity	(2,114)	525
Acquisition of subsidiaries	(1)	363
Disposal of subsidiaries	(21)	(20)
Currency translation differences	(102)	(11)
Closing balance	13,605	16,671

At December 31, 2008 and 2007 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 16,885 million and CZK 20,737 million, respectively.

28. Related Parties

The Group purchases products, goods and services 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 are as follows (in CZK millions):

	Receivables		Payables	
	2008	2007	2008	2007
Associates, joint-ventures and other affiliates:				
Akcez Enerji A.S.	-	-	1,571	-
CM European Power International s.r.o.	63	-	-	-
Coal Energy, a.s.	262	175	35	29
ČEZ ENERGOSERVIS spol. s r.o.	9	1	48	36
LOMY MOŘINA spol. s r.o.	-	-	14	4
OSC, a.s.	-	-	20	17
SINIT,a.s.	-	-	18	19
Ústav aplikované mechaniky Brno, s.r.o.	-	-	14	10
Others	10	15	28	25
Total associates, joint-ventures and other affiliates	344	191	1,748	140
Entities under the control of Company's majority owner:				
ČEPS, a.s.	614	201	116	191
Česká pošta s.p.	1	3	61	56
České dráhy, a.s.	-	480	-	66
ČD Cargo, a.s.	-	-	247	-
Správa železniční dopravní cesty, státní organizace	511	-	-	-
Ministry of Finance of the Czech Republic	1,270	2,012	-	-
Others	-	-	2	2
Total entities under the control of Company's majority owner	2,396	2,696	426	315
Total	2,740	2,887	2,174	455

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

	Sales to related parties		Purchases from related parties	
	2008	2007	2008	2007
Associates, joint-ventures and other affiliates:				
AFRAS Energo s.r.o. [1]	-	2	17	26
Centrum výzkumu Řež s.r.o.	41	37	12	8
CM European Power International s.r.o.	63	-	-	-
Coal Energy, a.s.	2,541	1,873	383	391
ČEZ ENERGOSERVIS spol. s r.o.	6	11	135	249
ENERGOPROJEKT SLOVAKIA, a. s.	-	-	6	25
ENPRO, a.s. [2]	1	5	12	45
ENPROSPOL, s.r.o. [2]	1	4	18	40
LOMY MOŘINA spol. s r.o.	14	17	120	130
OSC, a.s.	-	8	90	175
SD-Vrtné a trhací práce, a.s.	6	7	23	20
SINIT,a.s.	3	4	68	98
Ústav aplikované mechaniky Brno, s.r.o.	2	2	15	15
Výzkumný ústav pro hnědé uhlí a.s.	2	2	22	18
AZ Elektrostav, a.s.[3]	-	8	-	52
Energetická montážní společnost Česká Lípa, s. r. o. [3]	-	7	-	61
KNAUF POČERADY, spol. s r.o. [3]	-	59	-	9
SEG s.r.o. [3]	-	8	-	32
SIGMA - ENERGO s.r.o. [3]	-	4	-	65
Others	23	46	25	39
Total associates, joint-ventures and other affiliates	2,703	2,104	946	1,498
Entities under the control of Company's majority owner:				
ČEPS, a.s.	6,450	6,292	8,318	8,429
Česká pošta s.p.	106	108	123	101
České dráhy, a.s.	64	2,446	5	1,525
ČD Cargo, a.s.	-	-	1,643	-
Správa železniční dopravní cesty, státní organizace	2,284	-	-	-
Others	2	10	-	-
Total entities under the control of Company's majority owner	8,906	8,856	10,089	10,055
Total	11,609	10,960	11,035	11,553

[1] Part of CEZ Group till 6/2008
[2] Part of CEZ Group till 5/2008
[3] Companies sold in 2007

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

29. Segment Information

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

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

The Group's geographical segments are based mainly on the location of the Group's assets. The Central Europe segment includes the Czech Republic, the Netherlands, Poland, Germany, Hungary and Slovakia. The South East Europe segment consists of the operations of the Group in Bulgaria, Romania, Russia, Serbia, Kosovo, Bosnia and Herzegovina, Turkey and the Ukraine except for trading operations that are provided at the Group headquarters and therefore presented in the Central Europe segment.

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

The following tables summarize segment information by business segments for the years ended December 31, 2008 and 2007, respectively (in CZK millions):

Year 2008:	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	71,529	101,911	3,993	4,205	181,638	-	181,638
Intersegment sales	48,307	3,799	6,285	31,128	89,519	(89,519)	-
Total revenues	119,836	105,710	10,278	35,333	271,157	(89,519)	181,638
Operating income	48,954	9,594	3,593	3,026	65,167	(4)	65,163
Identifiable assets	198,683	71,653	13,331	15,770	299,437	(8,611)	290,826
Goodwill	7,550	3,258	60	15	10,883	-	10,883
Investment in associates and joint-ventures	149	1,571	187	-	1,907	-	1,907
Unallocated assets							169,559
Total assets							473,175
Identifiable liabilities	253,444	21,507	13,653	18,361	306,965	(33,621)	273,344
Unallocated liabilities							14,421
Total liabilities							287,765
Income from associates and joint-ventures	(4)	-	(1)	17	12	-	12
Depreciation and amortization	(14,336)	(4,498)	(1,226)	(1,987)	(22,047)	-	(22,047)
Change in provisions and allowances	448	(1,428)	345	201	(434)	-	(434)
Negative goodwill write-off and goodwill impairment, net	-	-	-	14	14	-	14
Capital expenditure	31,260	8,396	3,100	6,057	48,813	(2,542)	46,271

Year 2007:	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	71,969	95,665	3,524	3,405	174,563	-	174,563
Intersegment sales	40,234	2,773	6,507	23,743	73,257	(73,257)	-
Total revenues	112,203	98,438	10,031	27,148	247,820	(73,257)	174,563
Operating income	37,357	9,774	3,670	2,402	53,203	-	53,203
Identifiable assets	190,070	68,019	11,615	13,692	283,396	(6,231)	277,165
Goodwill	8,342	3,245	60	15	11,662	-	11,662
Investment in associates	60	-	188	-	248	-	248
Unallocated assets							81,867
Total assets							370,942
Identifiable liabilities	152,528	20,182	14,027	16,305	203,042	(33,479)	169,563
Unallocated liabilities							17,153
Total liabilities							186,716
Income from associates	16	-	4	20	40	-	40
Depreciation and amortization	(14,002)	(5,163)	(1,095)	(1,863)	(22,123)	-	(22,123)
Change in provisions and allowances	2,887	(46)	1,105	(259)	3,687	-	3,687
Capital expenditure	14,639	11,193	1,695	7,099	34,626	(3,960)	30,666

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

The following tables summarize geographical segment information for the years ended December 31, 2008 and 2007, respectively (in CZK millions):

Year 2008:	Central Europe	South East Europe	Combined	Elimination	Consoli-dated
Sales other than intersegment sales	153,380	28,258	181,638	-	181,638
Intersegment sales	465	220	685	(685)	-
Total revenues	153,845	28,478	182,323	(685)	181,638
Operating income	64,103	1,058	65,161	2	65,163
Identifiable assets	254,798	36,028	290,826	-	290,826
Goodwill	7,834	3,049	10,883	-	10,883
Investment in associates and joint-ventures	336	1,571	1,907	-	1,907
Unallocated assets					169,559
Total assets					473,175
Identifiable liabilities	267,205	8,552	275,757	(2,413)	273,344
Unallocated liabilities					14,421
Total liabilities					287,765
Income from associates and joint-ventures	12	-	12	-	12
Depreciation and amortization	(19,988)	(2,059)	(22,047)	-	(22,047)
Change in provisions and allowances	925	(1,359)	(434)	-	(434)
Negative goodwill write-off and goodwill impairment, net	14	-	14	-	14
Capital expenditure	33,727	12,544	46,271	-	46,271

Year 2007:	Central Europe	South East Europe	Combined	Elimination	Consoli-dated
Sales other than intersegment sales	145,408	29,155	174,563	-	174,563
Intersegment sales	534	190	724	(724)	-
Total revenues	145,942	29,345	175,287	(724)	174,563
Operating income	51,215	1,987	53,202	1	53,203
Identifiable assets	249,797	27,368	277,165	-	277,165
Goodwill	8,649	3,013	11,662	-	11,662
Investment in associates	248	-	248	-	248
Unallocated assets					81,867
Total assets					370,942
Identifiable liabilities	164,437	7,533	171,970	(2,407)	169,563
Unallocated liabilities					17,153
Total liabilities					186,716
Income from associates	40	-	40	-	40
Depreciation and amortization	(19,776)	(2,347)	(22,123)	-	(22,123)
Change in provisions and allowances	4,154	(467)	3,687	-	3,687
Capital expenditure	27,403	3,263	30,666	-	30,666

30. Net Income per Share

	2008	2007
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	46,510	41,555
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	87.0	72.9
Diluted	86.9	72.7

31. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2008 to total CZK 277.9 billion over the next five years, as follows: CZK 52.8 billion in 2009, CZK 59.0 billion in 2010, CZK 59.2 billion in 2011, CZK 62.2 billion in 2012 and CZK 44.7 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 Group will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 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 has obtained all insurance policies with minimal limits as required by the law. The Company concluded mentioned insurance policies with the Czech nuclear pool, a group of insurance companies.

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

32. Events after the Balance Sheet Date

In February 2009 joint-venture of CEZ Group and Turkish group Akkök (Akcez Enerji A.S.), 50% owned by ČEZ, a. s. and the remaining 50% by the companies Akkök (5%) and Akenerji (45%), acquired 100% share in the Turkish grid company Sedaş. The Consortium Akkök – Akenerji – ČEZ won the tender with USD 600 million and paid USD 300 million in cash, while the remaining amount will be paid in two years in equal installments with an interest rate of LIBOR+2.5%.

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.

These financial statements have been authorized for issue on February 24, 2009:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Martin Novák
Member of Board of Directors
Chief Financial Officer