




**ČEZ Distribuce, a. s.
Annual Report
2006**

CEZ Group

Energy without borders



ČEZ Distribuce, a. s. (also referred to as the “Company”), with its seat in Děčín, was incorporated by registration in the Commercial Register on 31 March 2005. ČEZ Distribuce, a. s. operates in nine regions of the Czech Republic, and holds a license to distribute electricity and operate a distribution grid. The Company is a member of CEZ Group. The Company's shares are issued in documentary form – a total of five multiple share certificates, one each owned by the five shareholders: Středočeská energetická a.s., Severomoravská energetika, a. s., Východočeská energetika, a.s., Západočeská energetika, a.s., and Severočeská energetika, a.s. The Company's mission is to distribute electricity to private individuals and legal entities and to continuously improve quality and reliability of supply to all customers. ČEZ Distribuce, a. s. manages distribution grid assets and controls them through a Grid Control Center.

ČEZ Distribuce, a. s.
in 2006

33,059
Electricity
distributed
to end customers
(GWh)

3,475,044
Number
of connection
points

5,668
Capital expenditure
(CZK millions)

670
Expense to distribute
1 MWh, including losses
(CZK/MWh)

6,621
EBITDA
(CZK millions)

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Selected Indicators

Selected Indicators

	Unit	2005	2006
Employee head count at December 31	persons	869	1,150
Revenues	CZK millions	4,687	29,193
of which: sales of electricity	CZK millions	4,662	28,999
EBITDA	CZK millions	1,257	6,621
EBIT	CZK millions	338	410
Net income	CZK millions	260	362
ROIC	%	0.53	0.63
Total assets	CZK millions	58,206	76,717
Equity	CZK millions	37,352	49,602
Financial Debt	CZK millions	0	0
Financial Debt / Equity	%	0	0
CAPEX	CZK millions	707	5,668
Operating cash flow	CZK millions	1,200	8,237

Selected Sector-specific Indicators

	Unit	2005	2006
Supply area	km ²	41,630	52,697
Number of connection points at December 31	number	2,520,997	3,475,044
of which: wholesale – HV, MV	number	9,760	13,385
retail, business – LV	number	357,708	481,934
retail, households – LV	number	2,153,529	2,979,725
Peak load	MW (megawatt)	4,181	6,074
Grid extended length	km	117,229	152,733
of which: HV	km	7,435	9,523
MV	km	39,563	49,781
LV	km	70,231	93,429
Number of transformer stations	number	37,768	49,211
of which: owned by Company	number	29,945	39,117
owned by others	number	7,823	10,094

Important Events of 2006 and 2007 Up to Annual Report Closing Date

Important Events of 2006

January

- Distribution part of Severomoravská energetika, a. s. merged into ČEZ Distribuce, a. s.

February

- protocol on handing over and acceptance of distribution part of Severomoravská energetika, a. s. signed,
- rules for electing employees to ČEZ Distribuce, a. s. Supervisory Board approved,
- CZK 63,578,396,000 increase in ČEZ Distribuce, a. s. stated capital recorded in the Commercial Register.

March

- change in Company seat from Vinohradská 325/8, Prague 2, PSČ 120 02 to Teplická 874/8, Děčín 4, PSČ 405 02 approved,
- 2005 year-end financial statements approved,
- Related Parties Report, 2005, approved.

April

- issue of ČEZ Distribuce, a. s. multiple-share certificates approved,
- strategic capital project – Nošovice Industrial Park – approved,
- employees trained on unbundling rules.

May

- Program of Measures to Prevent Discriminatory Behavior, Rules for Providing Information in a Non-disadvantaging Manner, and Measures to Ensure Organizational and Information Separation of Distribution Grid Operator (the “Program of Measures”) for 2006 approved,
- Annual General Meeting of ČEZ Distribuce, a. s. shareholders held.

June

- Pavel Filipi appointed Director of Grid Control Section,
- ČEZ Foundation Donation Agreement for 2nd half of 2006 signed,
- cash-pooling documentation discussed and Cash Pooling Agreement approved with conditions.

July

- Extraordinary General Meeting of ČEZ Distribuce, a. s. held.

September

- main points of collective bargaining on wage increase discussed,
- website www.cezdistribuce.cz goes on-line in accordance with Program of Measures 2006.

October

- request by Středočeská energetická a.s. to convene Extraordinary General Meeting of ČEZ Distribuce, a. s. discussed.

November

- Extraordinary General Meeting of ČEZ Distribuce, a. s. held,
- reduction of Company's stated capital by CZK 14,114,403,912 approved,
- reduced stated capital of ČEZ Distribuce, a. s. (CZK 49,463,992,088) recorded in Commercial Register,
- face value of shares reduced from CZK 1,000 to CZK 778.

December

- ČEZ Distribuce, a. s. multiple-share certificates replaced in conjunction with change in face value of Company's shares,
- preparation of 2007 financial plan completed.

Important Events of 2007 Up to Annual Report Closing Date

January

- extensive damage caused by Kyrill (storm with gale-force winds) repaired,
- approval of over CZK 350 million in capital expenditure plans.

February

- ČEZ Foundation donation agreement for 1st half 2007 approved.

March

- representatives of the three Bulgaria electricity distribution companies Elektrorazpredelenie Stolichno AD, Elektrorazpredelenie Sofia Oblast AD and Elektrorazpredelenie Pleven AD (all members of CEZ Group) visit to exchange distribution best practices,
- member of the Board of Directors Věra Kučerová resigns,
- Petra Holomková elected to the Board of Directors,
- Board of Directors of ČEZ Distribuce, a. s. meets with employees in North, Central, West, and Moravia regions.

April

- Board of Directors of ČEZ Distribuce, a. s. meets with employees of East region,
- Petra Holomková appointed Director of Corporate Administration Section.

The new, fully liberalized electricity market environment is bringing new power distribution requirements.

A total of 33 TWh of electricity was distributed to end customers in 2006.

In 2006, households joined the ranks of eligible customers, entitling them to select their supplier of electric power.



ČEZ Distribuce, a. s. has completed its first year of full operation in its licensed service area as the legal successor of the CEZ Group regional electricity distribution companies. We succeeding in building on the good tradition established by them, and maintaining the quality and reliability of power supply.

Letter to Shareholders

Dear shareholders, ladies and gentlemen:

ČEZ Distribuce, a. s. (the "Company") has completed its first year of full operation in its licensed service area as the legal successor of the CEZ Group regional electricity distribution companies in the area of electric power distribution. Our principal objectives in terms of stabilizing the Company and consolidating it following acquisition of over CZK 63 billion in distribution grid assets were met in early 2006.

The Company's managers and all employees and partners succeeded in building on the good tradition established by the regional electricity distribution companies and maintaining the quality of supplies and reliability. A total of 33 TWh of electricity was supplied to end customers in 2006. Starting in June 2006, we addressed the major challenge of rolling out payments of compensation relating to the quality of supplies and services pursuant to Decree of the Energy Regulatory Authority No. 540/2005 Sb. on the Quality of Electricity Supplies and Related Services in the Electrical Power Industry. We achieved extraordinarily good performance in this area, confirming that the Company's processes and external relations are well established and effective in the new, unbundled model of CEZ Group from the perspective of ČEZ Distribuce, a. s.

2006 was the second-to-last year in which employees of ČEZ Distribuce, a. s. worked actively on the VIZE 2008 Project prior to its completion.

In 2006, ČEZ Distribuce a. s. posted net income of CZK 362 million. The Company's financial performance is dominated by a revaluation and depreciation of assets, as well as by writing off of selected assets in 2006. The second factor influencing the Company's earnings is purchasing of electricity generated from renewable energy sources, mandated by an amendment of legislation in this area. This factor will be offset in future years according to established rules.

The new environment of a fully liberalized electricity market is putting new demands on electricity distributors and on Company management, which must react flexibly to these changes. Based on our medium term distribution grid renewal and development strategy, the Company invested CZK 5,668 million in plant and equipment in 2006 and incurred CZK 1,113 million in repair expenses.

On behalf of the ČEZ Distribuce, a. s. Board of Directors, I would like to thank all customers and partners for their cooperation and our employees for their dedication and hard work.



Jiří Kudrnáč

Chairman of the Board of Directors
and General Manager



Directors and Officers

The General Meeting elects and removes the members of the Supervisory Board in accordance with the Articles of Association of ČEZ Distribuce, a. s. The Supervisory Board elects and removes the members of the Board of Directors. The Board of Directors appoints and removes the General Manager and other members of the Company's executive management.

Supervisory Board

The Supervisory Board is the Company's oversight body, supervising how the Board of Directors runs the business and exercises its powers. The Supervisory Board has six members, four of which are elected and removed by the General Meeting and two are elected by the employees in accordance with the provisions of Section 200, Act No. 513/1991 Sb., the Commercial Code, as amended. Details concerning Supervisory Board meetings, deliberations and decision-making are dealt with in the Rules of Order of the ČEZ Distribuce, a. s. Supervisory Board. The Supervisory Board met 10 times in 2006.

Tomáš Pleskač (*1966)

Chairman since 31 March 2005

A graduate of the Mendel University of Agriculture and Forestry in Brno, Faculty of Operational Economics, Mr. Pleskač also holds an MBA from the Prague International Business School. Currently he is Chief Distribution Officer of ČEZ, a. s. and a member of the Supervisory Boards of ČEZData, s.r.o. and Severomoravská energetika, a. s. Until 22 September 2006 he was a member of the Supervisory Board of Bratislava-based Elektrovod Holding, a.s.

Otto Karl (*1943)

Vice Chairman since 31 March 2005

A graduate of the Czech Technical University, Prague. Currently he is director of the administration section of Středočeská energetická a.s., a member of the Supervisory Board of ELTRAF, a.s. and Chairman of the Board of Directors of Středočeská energetická a.s.

Jaroslav Janda (*1945)

Member since 11 May 2006

A graduate of the University of Mechanical and Electrical Engineering, Plzeň (today's University of West Bohemia in Plzeň), Mr. Janda currently heads up the equity stakes administration department of ČEZ, a. s. He is Chairman of the Supervisory Boards of Středočeská energetická a.s., PPC Úžín, a.s., I & C Energo a.s., ČEZ Zákaznické služby, s.r.o., and ČEZ Měření, s.r.o.

Miroslav Kekule (*1946)

Member since 31 March 2005

A graduate of the Czech Technical University, Prague. Currently he serves as director of the Distribution Control Support section at ČEZ, a. s. and is a member of the administrative board of the Foundation Fund of the Liberec Technical University, in liquidation.

Irena Klůsová (*1953)

Member elected by the employees since 9 May 2006

A civil engineering industrial secondary school graduate, Ms. Klůsová works for ČEZ Distribuce, a. s. in the Corporate Administration Section, as an assets management specialist. She is a member of the Supervisory Board of Severočeská energetika, a.s.

Pavel Kraják (*1953)

Member elected by the employees since 9 May 2006

A graduate of the Czech Technical University, Prague, Mr. Kraják works for ČEZ Distribuce, a. s. in the Grid Control Section, where he serves as a real-time control legislation specialist. He is a member of the Supervisory Boards of Východočeská energetika, a. s. and VČE - montáže, a.s.

Members of the Supervisory Board of ČEZ Distribuce, a. s. who left the Supervisory Board in 2006 or up to the Annual Report closing date 20 April 2007

Antonín Ješátko (*1950)

Member from 31 March 2005 to 31 March 2006

Martin Koch (*1959)

Member from 31 March 2005 to 31 March 2006

Lubomír Štěpán (*1955)

Member from 31 March 2005 to 31 March 2006

Board of Directors

As the statutory body, the Board of Directors directs the Company's activities and acts in its name. Members of the Board of Directors are elected and removed by the Supervisory Board. The powers and responsibilities of the Board of Directors are set forth in the Articles of Association, approved by the General Meeting. The Board of Directors decides in all Company matters that are not reserved for a different Company body by law or the Articles of Association. Details concerning Board of Directors meetings, deliberations and decision-making are dealt with in the Rules of Order of the ČEZ Distribuce, a. s. Board of Directors.

The Board of Directors has five members, who elect a Chairman and a Vice Chairman from among their ranks. The Board of Directors met 18 times in 2006. The Supervisory Board is kept informed of selected matters in accordance with the law and the Articles of Association.

Jiří Kudrnáč (*1965)

Chairman since 31 March 2005

A graduate of the Czech Technical University, Prague, Mr. Kudrnáč is a member of the Supervisory Board of ČEZ Zákaznické služby, s.r.o.

Martin Němeček (*1966)

Vice Chairman since 31 March 2005

A graduate of the Czech Technical University, Prague, Mr. Němeček is the Vice Chairman of the Supervisory Board of ČEZ Distribuční služby, s.r.o. and a member of the Supervisory Board of ESS s.r.o.



Pavel Filipi (*1953)

Member since 1 January 2006

A graduate of the Czech Technical University, Prague, Mr. Filipi completed post-graduate studies in System Control in the Electric Power Industry and a certified course of study in Corporate Governance. He is a member of the administrative board of Smetanova Litomyšl, o.p.s.



Petra Holomková (*1968)

Member since 15 March 2007

A graduate of the University of Economics, Prague, Ms. Holomková is the Vice Chairwoman of the Board of Directors of Středočeská energetická a.s.



Filip Secký (*1970)

Member since 31 March 2005

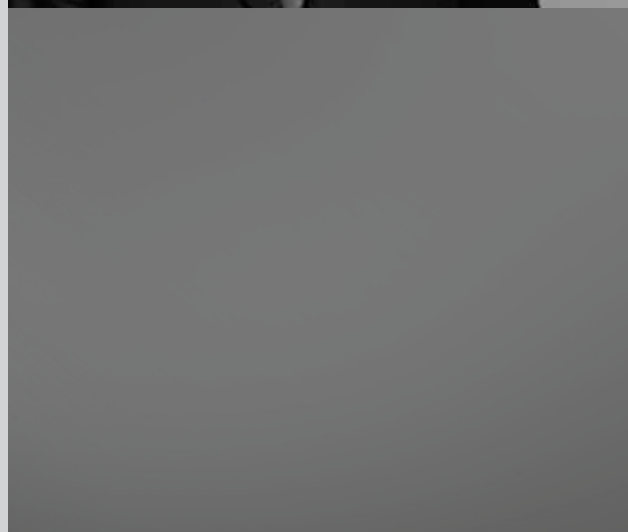
A graduate of the Czech Technical University, Prague, Mr. Secký is a member of the Supervisory Board of ČEZ Měření, s.r.o.



Members of the Board of Directors of ČEZ Distribuce, a. s. who left the Board of Directors in 2006 or up to the Annual Report closing date 20 April 2007

Věra Kučerová (*1942)

Member from 19 August 2005 to 15 March 2007



Executive Management

Jiří Kudrnáč (*1965)

General Manager

For personal data, see entry in the Board of Directors, above.

Martin Němeček (*1966)

Director, Grid Provision Section

For personal data, see entry in the Board of Directors, above.

Pavel Filipi (*1953)

Director, Grid Control Section

For personal data, see entry in the Board of Directors, above.

Petra Holomková (*1968)

Director, Corporate Administration Section

For personal data, see entry in the Board of Directors, above.

Filip Secký (*1970)

Director, Grid Renewal Section

For personal data, see entry in the Board of Directors, above.

Members of the executive management of ČEZ Distribuce, a. s. who left the executive management in 2006 or up to the Annual Report closing date 20 April 2007

Věra Kučerová (*1942)

Director, Corporate Administration Section

from 19 August 2005 to 31 March 2007

Remuneration Principles – Board of Directors and Supervisory Board

The remuneration principles for members of the Board of Directors and Supervisory Board are governed by rules approved by the General Meeting.

In 2006, the Company did not provide members of the statutory and supervisory boards any loans, guarantees, collateral, or consideration.

Remuneration Principles – Executive Management

The General Manager's contract was approved by the Company's Board of Directors. The Supervisory Board approved the General Manager's targets for purposes of the system of incentives which, in accordance with the unbundling rules, is dependent exclusively on the performance results achieved by ČEZ Distribuce, a. s. The remuneration principles and task assignments of the other members of executive management are defined in terms of the General Manager's task assignments. Each manager's task assignments are evaluated once per year.

Employee training and development expenses in 2006 totaled CZK 4.2 million.

The Company's principal and important task is to responsibly discharge its duties as manager of distribution grid assets in the supply area served by ČEZ Group.

During 2006 the Company dealt with 1,361 calamities, none of which had any substantial impact on the quality of electricity supply and related services.



The Company's stated capital of CZK 49,463,992,088 is divided into 63,578,396 registered shares, each with a par value of CZK 778.

Report on Operations Financial Performance

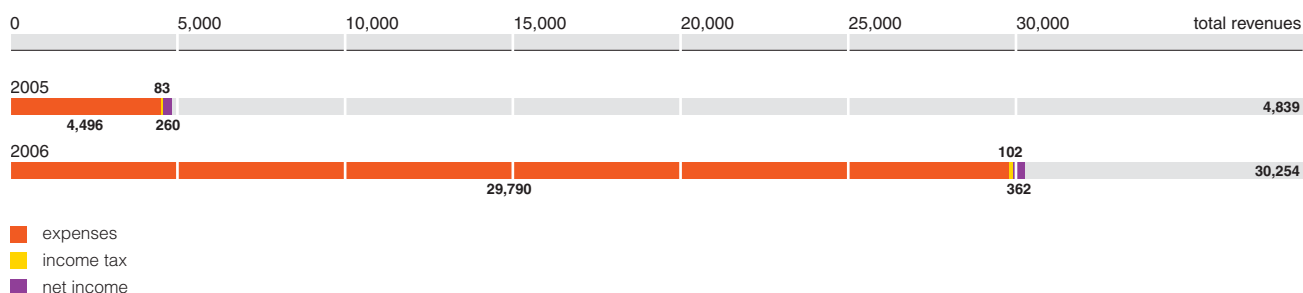
2006 was the Company's second year in existence, but the first year in which it was fully operational. The Company was formed in March 2005 with stated capital of CZK 25 million, of which each of the five CEZ Group regional electricity distribution companies contributed CZK 5 million. Starting on 1 September 2005, the distribution portions of four of the regional electricity distribution companies were merged into the Company at regular monthly intervals. The merger of the last distribution portion – that of the regional electricity distribution company Severomoravská energetika, a. s. – took place on 1 January 2006.

The Company took over activities relating to the safe and reliable operation of the distribution grid at the high voltage (HV), medium voltage (MV), and low voltage (LV) levels, including provision of electricity distribution service to end customers directly or through electricity traders.

2006 is the second year of the second regulation period, as price regulation continues in the framework of liberalization of the electric power market. 2006 saw households join the ranks of customers eligible to choose their electric power supplier. The prices set by the Energy Regulatory Authority for 2006 are unified for the entire company ČEZ Distribuce, a. s.

Revenues, Expenses, Income

Income Breakdown (CZK million)



The Company's before-tax income in the reporting year was CZK 464 million. After deduction of income tax, the net income is CZK 362 million.

The operating result was CZK 410 million. The gross margin on electricity distribution was CZK 14,761 million. The operating income, less the gross margin on electricity distribution, was a loss of CZK 14,351 million.

The financial result was CZK 54 million and is composed of interest received (CZK 50 million), returns on short-term financial assets (CZK 5 million), and financing costs (CZK 1 million).

Expenses in 2006, not including income tax, totaled CZK 29,790 million. The largest component is expenses for purchase of electric power to cover losses and expenses to purchase system and distribution services, at CZK 14,247 million. Other significant components are “other power consumption costs” (CZK 8,082 million), personnel expenses (CZK 729 million), depreciation and amortization (CZK 6,211 million), and other operating expenses (CZK 440 million).

Revenues in 2006 totaled CZK 30,254 million and were composed mostly of sales of system and distribution services (CZK 28,999 million), other sales (CZK 381 million), and other operating revenues (CZK 819 million).

Assets Structure

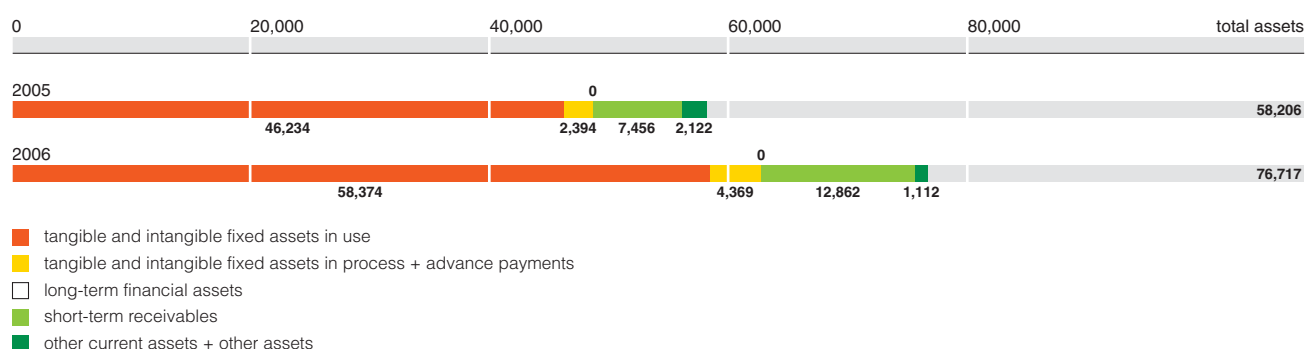
Assets

Assets totaled CZK 76,717 million.

Fixed assets totaled CZK 62,743 million. Here the largest components are structures (CZK 47,464 million), movables (CZK 10,515 million), tangible fixed assets in process (CZK 4,183 million), and long-term intangible assets (CZK 97 million).

Current assets totaled CZK 13,962 million, with the largest items being Group cash pooling receivables from the controlling entity (CZK 3,486 million), short-term trade receivables (CZK 409 million), estimated accounts of assets (CZK 8,058 million – mostly electricity distribution services yet to be invoiced), short-term advance payments (CZK 902 million), and short-term financial assets (CZK 949 million).

Structure of Assets (CZK million)



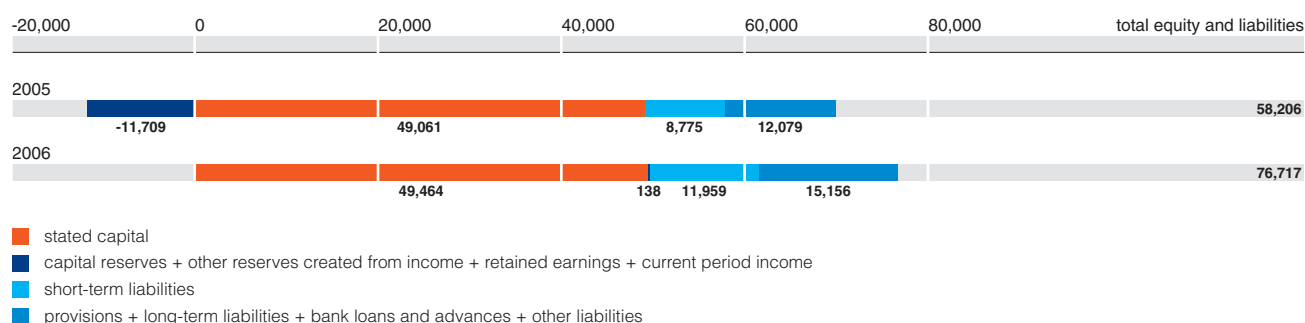
Equity and Liabilities

Equity totaled CZK 49,602 million. The stated capital as recorded in the Commercial Register is CZK 49,464 million. Other equity items included the statutory reserve (CZK 2,406 million) and losses brought forward (CZK 2,630 million). Current period net income was CZK 362 million.

Liabilities totaled CZK 21,151 million. The most significant components were the income tax provision (CZK 709 million), deferred tax liability (CZK 8,448 million), short-term trade liabilities (CZK 2,134 million), short-term advance payments received (CZK 8,159 million), and estimated payables (CZK 1,573 million).

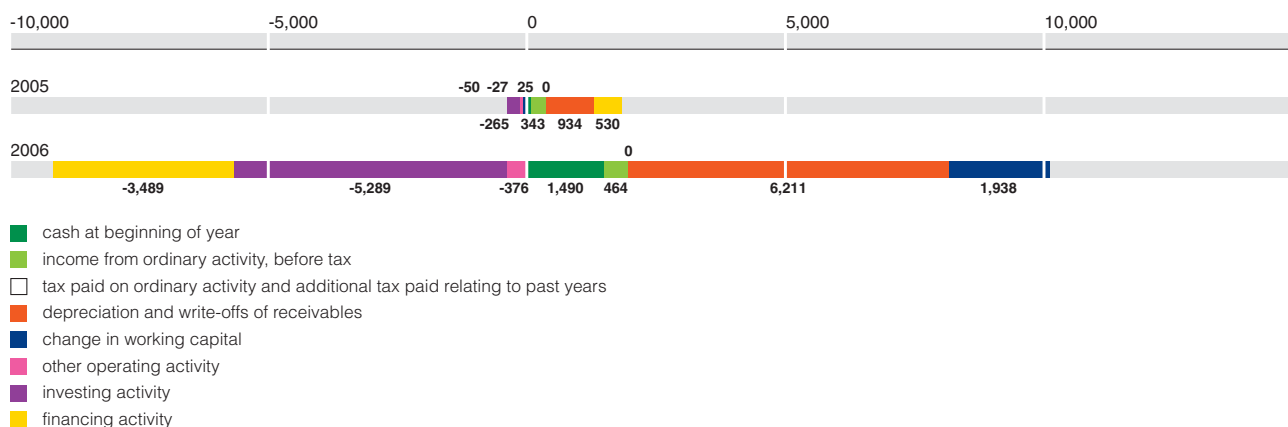
Other liabilities totaled CZK 5,963 million and consist primarily of deferred income from shares in expenses paid by applicants for connection to the grid.

Structure of Equity and Liabilities (CZK millions)



Company Financing

Cash Flows (CZK millions)



Cash Flows (CZK millions)

	2005	2006
cash at beginning of year	25	1,490
income from ordinary activity, before tax	343	464
tax paid on ordinary activity and additional tax paid relating to past years	0	0
depreciation and write-offs of receivables	934	6,211
change in working capital	(27)	1,938
other operating activity	(50)	(376)
investing activity	(265)	(5,289)
financing activity	530	(3,489)
cash at end of year	1,490	949

As at 31 December 2006, short-term financial assets totaled CZK 949 million.

The inflow of cash from operating activity (CZK 8,187 million) can be broken down as follows:

- income from ordinary activity, before tax CZK 464 million
- depreciation & amortization, write-offs of receivables CZK 6,211 million
- change in working capital CZK 1,938 million
- other operating activity CZK 376 million

The largest component in the CZK 5,289 million net outflow of cash in investing activity was the amount expended for acquisition of property, plant and equipment and long-term intangible assets in 2006 (CZK 5,393 million).

The CZK 3,489 million net outflow of cash in financing activity consisted primarily of the Company's participation in the Group cash pool (CZK 3,486 million).

Bank and Other Borrowings and Their Maturity

At 31 December 2006 the Company had no bank loans or advances.

Key Performance Indicators

	Units	2005	2006
Return on Invested Capital (ROIC)	%	0.53	0.63
Return on Equity (ROE), net	%	0.70	0.83
Return on Assets (ROA), net	%	0.45	0.54
EBIT margin	%	7.21	1.4
Financial debt / Equity	%	0	0
Financial debt / EBITDA	%	0	0
Current ratio	%	65	78
Operating cash flow-to-liabilities ratio	%	17.30	89.6
Assets turnover	1	0.08	0.43
Fixed assets coverage	%	91.07	93.71
Extent of depreciation	%	1.94	10.75

Core Business in 2006

Effective 1 January 2006 the last distribution portion – that of Severomoravská energetika, a. s. – was merged into the Company, completing the transformation of the companies Západočeská energetika, a.s., Východočeská energetika, a.s., Severočeská energetika, a.s., Středočeská energetická a.s., and Severomoravská energetika, a. s. into ČEZ Distribuce, a. s. The next phase, which has already begun, is unification of processes in the various regions, including unification of forms, from connection applications to distribution agreements. Customers were served through a unified information system not only through our own employees, but also through contractual service organizations in order to comply with the requirements set forth in the Energy Act (458/2000 Sb.). The unified information system covered service for LV customers, payment of regulated fees to support production from renewable energy sources and combined power and heat generation through our contractual partner ČEZ Zákaznické služby, s.r.o. Another contractual partner involved in this system, ČEZ Měření, s.r.o., provided meter reading services for all customers, including annual LV readings and more frequent readings at higher voltage levels. This company also has a contractual mandate from us to hand over these data to the OTE (Operátor trhu s elektřinou) in compliance with statutory disclosure requirements.

Number of connection points at 31 December 2006	
Number of connection points at 31 December 2006	3,475,044
of which: HV	129
MV	13,256
LV	3,461,659

Work on distribution grid plant and equipment (from setting up work areas through fault correction to providing alternate supplies) was contracted out to the CEZ Group regional electricity distribution companies.

Effective 1 July 2006, portions of the regional electricity distribution company enterprises were invested in ČEZ Distribuční služby, s.r.o. As of that date, ČEZ Distribuce, a. s. has only one contractual relationship with ČEZ Distribuční služby, s.r.o. in place of the previous five. ČEZ Distribuční služby, s.r.o. conducts preventive inspections of distribution grid plant and equipment according to a pre-set plan. Inspection intervals for individual facilities were unified throughout all ČEZ Distribuce, a. s. regions in order to ensure optimum utilization of funds.

Weather conditions in 2006 were favorable. The cold winter and hot summer had a positive impact on electricity demand, which was reflected in the amount of electricity distributed to customers. In late 2006, however, the weather was much warmer than usual. This also had a positive effect in that the number of related ice build-ups was low. The warmer winter months did not have a negative influence on the amount of electricity planned for distribution with regard to the previous period. A major landmark for the Company in 2006 was the introduction into practice of the long-awaited and discussed Decree of the Energy Regulatory Authority No. 540/2005 Sb. on Quality of Electricity Supplies and Related Services in the Power Industry. From a distribution grid operator's perspective, the promulgation of this decree can be characterized as a historic moment – never before has there been a regulation allowing customers to demand financial compensation for poor-quality electric power service. In the second half of 2006, when customers had the option of filing complaints under the decree, the Company paid compensation in only seven cases. None of these cases were caused directly by employees of ČEZ Distribuce, a. s. All compensation paid was subsequently reinvoiced to the service organizations. Specific service quality results according to the above decree were as follows:

Average number of interruptions – SAIFI	Number/customer/year
of which: HV	0.270
MV	2.450
LV	0.312

Average total duration of interruption – SAIDI	Minutes/customer/year
of which: HV	7.694
MV	213.694
LV	44.360

In addition to complying with operational parameters, we also fulfilled the vast majority of administrative requests relating to our position as a licensed electricity distributor. The scope of services we provide through our own employees and contractual service organizations is presented in the following table:

Number of material administrative requests	Total number
Request for assessment of connection application	125,139
Installation of electric meter (new connections and disconnections)	151,392
Statement on existence of distribution grid plant and equipment	44,590
Complaints concerning meter readings and/or invoiced values	24,432
Complaints concerning quality of distributed power	1,328

Of the total number of customer complaints, under 5% were recognized.

In 2006, framework agreements were signed with 17 traders with whom customers decided to exercise their legal right to enter into contracts for supplies of electricity and related services. During the year, conditions were created for aggregated invoicing under these framework agreements pursuant to the Terms and Conditions for Operating the Distribution System. The contractual relationships are as follows:

Number of connection points under Aggregation Agreements contract as at 31 December 2006	3,472,359
Number of connection points with individual distribution contract	2,685

Existing distribution plant and equipment is not unified and varies in extent. Among other things, this affected ownership relationships between the Company and its partners. More demands were made by both individuals and legal entities to enter into lease or other arrangements to deal with legacy ownership matters. The Company's strategy in these cases remains unchanged: to proceed in accordance with the provisions of the Energy Act (458/2000 Sb., as amended), with preference for one-time payments under agreements on creation of encumbrance and/or agreements on creation and termination of encumbrances and other rights in rem registered in the Cadastre of Immovable Property. Due to the large extent of distribution grid plant and equipment, this activity will continue for the long term. However, the process by which the Company will work toward resolution of these cases has been clearly stated and 2006 saw the beginning of its systematic implementation.

In the grid control area, ČEZ Distribuce, a. s. worked within the framework of the license granted in April 2005 towards implementation of the proposed optimum grid control structure. The grid control organization structure was put in place on time, effective 1 February 2006. Based on an evaluation of its operation in the initial period from 1 February to 30 April 2006 and taking into account the latest legislative and operational changes relating to operation of the Czech Republic Power System, process and organizational changes were proposed. A substantial portion of these operations were unified, as was reporting of quality standards for supplies of electricity and related services under Decree of the Energy Regulatory Authority No. 540/2005 Sb. on the Quality of Supplies of Electricity and Related Services in the Power Industry. Much emphasis was placed in 2006 on continuation of the Automated Grid Control System Project, preparations for which began in April 2006. Implementation of the project was completed in December.

During the year a total of five calamities arose in operation of the distribution system, all due to inclement weather.

2006 calamities reported to the Energy Regulatory Authority:

- Snow calamity in Moravia Region in January: 148 unplanned supply interruptions,
- Floods from March 27 to April 6: 289 unplanned interruptions,
- Passage of a cold front, accompanied by storms and gales, May 20–21: 627 unplanned interruptions,
- Repeat local flooding on May 28–29: 11 unplanned interruptions,
- Heavy rains in August, accompanied by a gale on August 7–8: 286 unplanned interruptions.

Aside from the calamities, our grid control centers recorded the following numbers of faults in 2006 ("fault" is defined as an interruption of supply lasting longer than three minutes and affecting at least one customer):

- 70 faults at HV,
- 4,948 faults at MV,
- 42,908 faults at LV.

In 2006, the Company began monitoring compliance with guaranteed standards in accordance with Decree of the Energy Regulatory Authority No. 540/2005 Sb. on the Quality of Electricity Supplies and Related Services in the Electrical Power Industry. Pursuant to Section 5 (Faults) of said Decree, there were 126 interruptions (0.27%) that did not comply with the standard and pursuant to Section 6 (Planned Interruptions), 117 interruptions (0.62%) did not comply. The year 2006 confirmed that unified IT support is crucial to process management. Accordingly, we are focusing on unifying all the information systems in use at the Company. Our priority is active participation in the roll-out of the unified technical information system with maximum support for reporting and documenting supply quality parameters under applicable legislation, including in particular Decree No. 404/2005 Sb. (regulatory reporting) as well as Decree of the Energy Regulatory Authority No. 540/2005 Sb. (supply quality reports). One of the key tenets of the Company is to build a unified corporate identity not only in terms of ownership of distribution assets, but also in view of our obligations as an electricity distribution license holder. In accordance with the provisions of Act No. 458/2000 Sb. (the Energy Act), ČEZ Distribuce, a. s. intends to implement the principle of equal access for all participants in the electricity market. Emphasis will be placed on the internal enforcement system for maintaining a non-disadvantaging approach to individual end customers, producers, local distributors, and traders.

Strategic Objectives

Business Policy

The Company's mission is to responsibly discharge our role as steward of the distribution grid assets in the CEZ Group supply area and generate income for the shareholder by engaging in the regulated electricity distribution business while complying with the terms of Act No. 458/2000 Sb. (the Energy Act) and rules set by the Energy Regulatory Authority.

Business objectives:

- sustained improvements in quality of services offered to customers in the area of electricity distribution and connection to the distribution grid,
- reliable operation of the distribution grid pursuant to standards set by the Energy Regulatory Authority,
- growth in shareholder value.

Principles for attaining these objectives:

- grid development utilizing detailed analyses of investment return and reliability principles,
- optimum distribution grid management with objective of steadily reducing outages and, at the same time, minimizing losses while maintaining maximum reliability of operation,
- outsourcing of services to minimize maintenance and fault correction costs.

The core business of ČEZ Distribuce, a. s. is management of assets entrusted to our care, including related exercise of ownership rights, provision of distribution services to customers at all voltage levels, and real-time grid control. The Company's operations are based on balanced processes and utilize best practices in the area of asset management. At the same time, we use and introduce new cost management principles in conjunction with operating the distribution system to standardize technologies used and manage grid development expenditures.

The goal is to create a company that is attractive to shareholders, management, and employees alike.

ČEZ Distribuce, a. s. Strategic Objectives

Our plans for 2007 include:

- optimize the organization and business processes through implementation of best practices,
- leverage connections with other CEZ Group members,
- implement financial performance management tools,
- implement a unified technical and grid control system.

The objective is to build a company that is successful at the European level, a company that will be prestigious to work for, and at the same time a company that is among the best in terms of financial performance and long-term stability in the area of electricity distribution asset management.

Anticipated Economic and Financial Situation of ČEZ Distribuce, a. s. in 2007

2007 is the second year of the regulation period. As of 1 January 2006, all customers – including households – are eligible to choose their supplier of electric power. The distribution plan was drawn up with regard to forecasted power consumption in the ČEZ Distribuce, a. s. distribution area, taking into account the price regulation principles stipulated by the Energy Regulatory Authority for both purchase and sale. These principles exist to ensure coverage of justified distribution company costs, including building of capital to finance distribution grid renewal and development and to generate returns for shareholders.

The plan was drawn up during what was the first year of full operation for the Company. The plan is based on the actual ČEZ Distribuce, a. s. figures for 2006.

The Company's plan for 2007 calls for sales revenues of CZK 30,002 million, income before tax of CZK 1,594 million, and capital expenditures of CZK 5,808 million.

Capital Expenditure

CAPEX Projects

In 2006, the Company invested CZK 5,668 million in renewing and upgrading the distribution system. In terms of distribution grid development, the past year also saw the commencement of preparations for and, subsequently, construction of distribution grid plant and equipment for connecting major industrial parks.

Principal CAPEX Policy Objectives

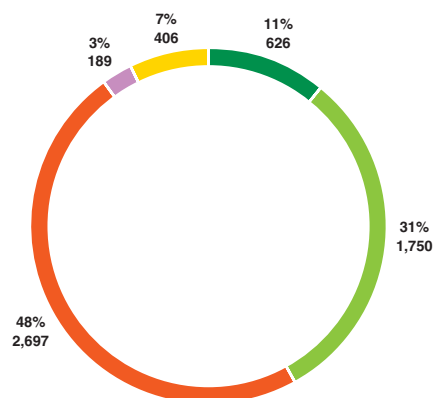
CAPEX activity focused primarily on distribution grid plant and equipment, with the objective of developing the Company's assets in the most effective possible manner, and improving the quality, reliability, and safety of distribution grid operation. Development projects were prepared and implemented in accordance with applicable legislation, in particular Decree of the Energy Regulatory Authority No. 540/2005 Sb. on the Quality of Electricity Supplies and Related Services in the Electrical Power Industry and the Rules for Operating Distribution Grids.

CAPEX Overview – Actual Figures for 2006, Plan Figures for 2007 (CZK millions)

	2006 (Actual)	2007 (Plan)
HV plant and equipment	626	887
MV plant and equipment	1,750	1,648
LV plant and equipment	2,697	2,421
Ancillary projects	189	255
Electric meters	406	597
Total	5,668	5,808

Capital Expenditure in 2006 (CZK millions)

- HV plant and equipment
- MV plant and equipment
- LV plant and equipment
- ancillary projects
- electric meters



Distribution Grid Upgrades

As in the year 2005, CAPEX activity in the entire distribution system focused on MV and LV plant and equipment. Projects were for new connections and transfers of existing connections based on customer requests, i.e. projects made necessary by the grid unification program. Of fundamental importance is the ongoing renovation and renewal of underground and overhead medium- and low-voltage power lines and, last but not least, construction of MV/LV distribution transformer stations. HV projects consisted mainly of HV/MV transformer facilities. Of the total distribution CAPEX amount, CZK 4,447 million was invested in MV and LV projects, while outlays for HV totaled CZK 626 million.

Most Significant MV and LV Projects

Central Region

- renovation of 22kV power line at Kralupy – Úžice transformer station,
- Nymburk industrial park 22 kV,

West Region

- new-build double MV power line to increase capacity of supply to Haas Fertigbau Chanovice (Horažďovice area),
- connection of Domažlice industrial park to grid,

North Region

- Česká Lípa – MV (35 kV) renovation Česká Lípa – Mimoň,
- LV renovation Horní Chříbská,

East Region

- new 35 kV substation at Ústí nad Orlicí transformer facility,
- renovation of 35 kV transformer facility in Semily – commencement of Phase I,

Moravia Region

- Nošovice – supply of power to industrial park, expansion of 110 kV transformer and new-build 22 kV transformer,
- Ostrava – Hrabová industrial park, new-build 22 kV switching station.

Most Significant HV Projects

Central Region

- new-build Rakovník 110/22kV transformer facility,
- new 110kV power line Lišany – Rakovník,

West Region

- renovation of Jindřichov 110 kV substation,
- renovation of Plzeň-South 110 kV substation – Phase II

North Region

- 110 kV overhead power line Česká Lípa – Noviny,
- Žatec, Triangle Zone – new 110/22 kV transformer facility,

East Region

- renovation of 110 kV substation at Neznášov 400/110 kV transformer facility,
- renovation of 110 kV substation at Krasíkov 400/110 kV transformer facility,

Moravia Region

- renovation of Liskovec 110 kV substation,
- renovation of HV (110 kV) power line no. 601/602 Albrechtice – Ropice.

Other CAPEX Projects

The CZK 189 million invested in ancillary assets represents mainly upgrades of operational and control systems and purchase of devices for measuring electricity quality.

Research & Development Expenditures

During the year, work continued on several R&D projects in cooperation with the specialized laboratories of EGÚ Brno,a.s., EGC - EnerGoConsult ČB s.r.o., the Czech Technical University in Prague, and the University of West Bohemia in Plzeň.

These projects included, in particular:

- ongoing study – imaging of ice build-ups on power lines,
- methodology for preparing and drafting CAPEX plan,
- methods and models for correcting MV grid calculation based on measurements taken at HV/MV transformer terminals,
- grid control development and optimizing,
- metering quality evaluation tools and methods,
- alternative sources of electrical energy (wind, cogen),
- optimizing HV grid operation,
- methods for assessing regressive influences on equipment connected to the distribution grid.

ČEZ Distribuce, a. s. continued to be a participant in evaluation committees for grants distributed to universities by the Czech Republic Grant Agency as well as in final State examinations. Also, we continued to assign Master's and Bachelor's thesis topics to electrical engineering students.

Safety, Quality and Environmental Management

Safety and OHS Management System

The ČEZ Distribuce Safety and OHS Management System is based on the Company's strategy and safety policies, programs for implementing the occupational health and safety strategy, the management organization structure, and the accountability system. The system includes training, auditing, and inspection plans. Important principles in the OHS area include feedback as a guarantee of effective OHS management.

To implement the system it was necessary to:

- include OHS as an integral part of Company management, including methodological management of cooperating associates,
- identify and evaluate factors that could put employee health and safety at risk, planning and implementing measures to reduce and eliminate these risks at the distribution grid plant and equipment level,
- take measures to prevent social risks, accidental injuries and sickness with regard to demographic changes in the work force,
- improve health protection while emphasizing organization of work and training employees to work safely,
- increase employees' awareness of necessity to protect their own health,
- implement the approved OHS policy and create conditions for employees to put forward suggestions addressing OHS issues, leading to sustained improvements in the level of occupational health and safety.

Management of OHS Risk

The Company has adopted a risk management methodology that stipulates a procedure for analyzing and assessing risks. The goal of this process is to identify measures to reduce or, preferably, completely eliminate the risk inherent in specific work procedures. Risk assessment and taking of related measures are mandatory components of the Local Operating and Work Regulations in all distribution grid facilities.

Quality Management System

The Company's quality management objective in 2006 was to maintain a high level of quality of all processes relating to the licensed core business – electricity distribution.

The primary objective of all Company executives, technicians and other employees responsible for the quality management system was to eliminate the potential risk of organizational changes and any unfavorable impacts of the corporate transformation on customers and equipment operation. In the context of this objective we can report that, despite the great demands placed on Company employees, there was no decrease in the quality of services for end customers.

Protection of the Environment

In accordance with applicable legislation, ČEZ Distribuce, a. s. is constantly engaged in creating conditions for protection of the environment. Authorized Company environmental specialists dealt with all aspects of the environment – in particular, waste and water management, handling of chemicals, and air protection.

A total of 78 sites with legacy environmental burdens have been identified in the ČEZ Distribuce, a. s. distribution area. In 2006, clean-up of two of these sites was completed and clean-up work began at another eight sites. A total of CZK 65.082 million was drawn from the State fund designated for remedying legacy environmental burdens.

The key topic in nature protection was protecting birds from injury from electric shock. The Company complied with applicable legislation in this area and collaborated with both ornithologists and the Ministry of the Environment of the Czech Republic. Above and beyond our statutory obligations, we drew up documentation dealing with bird protection in selected areas. Another major area in legislative compliance is handling of polychlorinated biphenyls. Here, we dealt with coordination of sampling equipment to determine the presence of these substances.

Fire Protection

In the past year, the objective of the Company's fire protection efforts was continual creation of technical and organizational conditions for safe operation and protection of property and employees. The Company's fire protection process was run centrally by the Integrated Quality Management department, which regularly assessed the current situation in this area, including the situation in contractor companies working on plant and equipment owned by the electricity distribution license holder.

OHS, Environmental, and Fire Protection Services

In the course of 2006, contractual arrangements were entered into with other CEZ Group companies concerning the provision of OHS, environmental, and fire protection services. Based on these arrangements, employees of ČEZ Distribuce, a. s. provide these services to ČEZ Zákaznické služby, s.r.o. and ČEZData, s.r.o., including drawing up master documentation.

Shares, Shareholders and Securities

The stated capital of ČEZ Distribuce, a. s. recorded in the Commercial Register as at 31 December 2006 totaled CZK 49,463,992,088.

In February 2006, the Company's stated capital was increased from its original level of CZK 25,000,000 to CZK 63,578,396,000 as a result of the taking over of non-monetary capital contributions from Severočeská energetika, a.s., Středočeská energetická a.s., Severomoravská energetika, a. s., Východočeská energetika, a.s., and Západočeská energetika, a.s. consisting of the distribution portions of these companies. The increased stated capital was divided into 63,578,396 registered shares of par value CZK 1,000, which can only be transferred with the consent of the Board of Directors and a statement from the Supervisory Board. In November 2006, an extraordinary General Meeting decided to reduce the stated capital by CZK 14,114,403,912. The reason for the reduction was to cover the loss posted in the 2005 accounting year and voluntarily replenish the capital reserve in accordance with Section 216a of the Commercial Code (Act No. 513/1991 Sb., as amended). The reduction of the stated capital was carried out by reducing the par value of shares in accordance with Section 213a of the Commercial Code. The par value of each share was reduced to CZK 778 per share, bringing the stated capital to CZK 49,463,992,088. ČEZ Distribuce, a. s. has five shareholders: the regional electricity distribution companies of CEZ Group.

Shareholder Structure

Shareholder	Number of Shares	%
Severočeská energetika, a.s.	12,787,748	20.11
Severomoravská energetika, a. s.	14,522,308	22.85
Středočeská energetická a.s.	14,498,120	22.81
Východočeská energetika, a.s.	13,694,105	21.53
Západočeská energetika, a.s.	8,076,115	12.70

Types and Volumes of Shares Outstanding

The Company has issued five multiple-share certificates numbered HL3 000001 to HL3 000005. Each multiple-share certificate represents the number of registered, CZK 778 par value shares owned by a particular shareholder. The par value of the multiple-share certificate held by each shareholder is equal to that shareholder's stake in the Company's stated capital. Shareholders are entitled to a share in the Company's profits (i.e., dividends). So far, ČEZ Distribuce, a. s. has not paid any dividends.

Shareholder Relations

ČEZ Distribuce, a. s. convenes its general meetings in accordance with applicable law and the Company's Articles of Association, proceeds in accordance with the Commercial Code provisions relating to protection of shareholder rights, and upholds the principle of equal treatment of all shareholders. It allows all shareholders and investors unlimited access to information through the Internet at the Internet address www.cezdistribuce.cz. Important information on the Company is also made public through press releases.

ČEZ Distribuce, a. s. General Meetings

The Annual General Meeting was held on 11 May 2006. It discussed and passed resolutions on the following agenda points:

- report on the Company's business activity and the state of its assets for 2005,
- report of the Supervisory Board on its activity during the past year,
- the year-end financial statements for 2005,
- the allocation of ČEZ Distribuce, a. s. income and the manner of allocations to the Company's reserve funds,
- donorship budget,
- financial plan for 2006,
- change in the Company's seat,
- an amendment to the Company's Articles of Association,
- decision on changes in the Supervisory Board (under law, the term of the first Supervisory Board ended on 31 March 2006; the General Meeting elected for the next term four new Supervisory Board members – Tomáš Pleskač, Otto Karel, Jaroslav Janda and Miroslav Kekule).

An extraordinary General Meeting was held on 26 July 2006. It approved the following:

- decision on ČEZ Distribuce, a. s. participation in CEZ Group's cash pool, including decision on entering into cash pool agreements among ČEZ, a. s. and selected CEZ Group companies and Komerční banka, a.s. and agreements on mutual credit lines for purposes of and in conjunction with cash pooling between ČEZ Distribuce, a. s. and ČEZ, a. s.

An extraordinary General Meeting was convened at the request of a shareholder on 7 November 2006. It approved the following:

- an amendment to the Articles of Association,
- reduction of the Company's stated capital.

Number of Employees

The Company work force head count at 31 December 2006 was 1,150 employees. The average adjusted number of employees in 2006 was 1,125.

Effective 1 January 2006, 235 employees from Severomoravská energetika, a. s. were transferred to the Company in accordance with Section 249 of the Labor Code (Act No. 65/1965 Sb.) as part of the process of transforming the regional electricity distribution companies into the process-driven companies of CEZ Group. During the year a total of 134 new employees joined the Company and 88 employees left the Company.

Collective Bargaining

The Collective Agreement was signed on 1 September 2005 and is valid until 31 December 2008. Last year, six amendments to the Collective Agreement were signed. Although the Company and the labor unions do not always see eye-to-eye on all issues, compromises have always been reached and the Company enjoys long-term labor peace.

Social Policy

Social policy funds were drawn in accordance with the Collective Agreement in a total amount of CZK 55.6 million. The dominant components of the social program were Supplemental Pension Insurance, private life assurance, personal accounts, and the employee meal plan.

Training

Expenditures for training and employee development totaled CZK 4.2 million.

In addition to basic and periodical training in second professions necessary to secure activities relating to the Company's core business, training activities included qualification courses on amended legislation, new work procedures, and technologies. Employees also attended computer and language skills courses. In addition, 70 employees are currently studying at universities and secondary schools, while another 49 employees are studying to improve their qualifications in electrical engineering.

Donorship and Sponsorship Program

The bulk of sponsorship donations went through ČEZ Foundation, which commenced operations in 2003 under its original name “Duhová energie” Foundation. The CZK 64 million donated to ČEZ Foundation was distributed to support children and youth programs, programs for the handicapped, donations to public-benefit projects in education, science, culture & the arts, research, sports, the environment, and other projects.

Donorship ČEZ Distribuce, a. s.

Another CZK 4.2 million was donated directly by ČEZ Distribuce, a. s. to support various projects. The Company focused in particular on social projects, i.e. support for the handicapped, social care facilities and healthcare facilities that serve the needs of the general public. Another major area was support for children's and youth education projects. The Company's primary criterion was to support long-term projects that contribute to development of the above areas in regions where CEZ Group has a strong presence.

Distribution of ČEZ Distribuce, a. s. Donations in 2006 (CZK thousands)



The largest project by volume implemented directly by ČEZ Distribuce, a. s. supports student scientific research at the Technical University of Ostrava, Faculty of Electrical Engineering and Information Sciences.

Litigation

As at the Annual Report closing date, ČEZ Distribuce, a. s. was not involved in any litigation that that could have a material impact on its financial performance.

Litigation that deserves mention here for its seriousness and extent includes a dispute, represented by an outside attorney, brought by complainant Multidisplay s.r.o., with its seat at Olomoucká 306, postcode 753 01, Hranice, Přerov district, ID No. 26166453 (formerly LG.Philips Displays Czech Republic s.r.o., with its seat at Hranice, Tovární 605, postcode 753 01), against respondent Severomoravská energetika, a. s. with its seat in Ostrava, Moravská Ostrava, 28. října 3123/152, postcode 709 02, ID No. 47675691 ("SME") in the matter of payment of the customer's share in justified costs incurred by a distribution grid operator in conjunction with fulfilling a connection capacity request. The receivable in question, belonging to the distribution portion of SME, passed to ČEZ Distribuce, a. s. in accordance with the agreement on merging the distribution portion of SME, which was entered into on 24 November 2005 between SME and ČEZ Distribuce, a. s. Because the complainant did not ask for ČEZ Distribuce, a. s. to replace SME as a participant in the court proceedings, SME was forced to remain in the proceedings as the respondent even though the dispute relates to the part of SME acquired by ČEZ Distribuce, a. s. Proceedings in the case took place at the Přerov District Court and subsequently at the Olomouc branch of the Ostrava Regional Court. In September 2006 the case was appealed to the Supreme Court of the Czech Republic. Another court case brought by complainants Mr. Roman Minarik and KOR BUSINESS LTD. seeking for the court to declare null and void a resolution of the General Meeting of Středočeská energetická a.s., with its seat in Prague 2, Vinohradská 325/8, postcode 120 21, ID No. 60193140 held on 17 October 2005 and agreements on merging of part of enterprise. The case is currently before the Prague Municipal Court. Although this suit is not against ČEZ Distribuce, a. s. directly, a negative outcome could force the Company to address changes in ownership titles and impact the Company's financial performance.

Auditors' Report



To the Shareholders of ČEZ Distribuce, a. s.:

- I. We have audited the financial statements of ČEZ Distribuce, a. s. ("the Company") as at 31 December 2006 presented in the annual report of the Company on pages 32–48 and our audit report dated 31 January 2007 stated the following:

We have audited the accompanying financial statements of ČEZ Distribuce, a. s., which comprise the balance sheet as at 31 December 2006, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on ČEZ Distribuce, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Management of ČEZ Distribuce, a. s., is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s., as at 31 December 2006, and its financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

We have also audited the prior year financial statements of ČEZ Distribuce, a. s. as at 31 December 2005 and issued an unqualified report thereon dated 20 February 2006.

II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of ČEZ Distribuce, a. s., is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

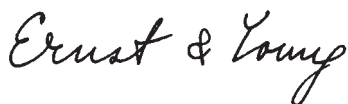
We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We have checked that the accounting information presented in the annual report on pages 3–31 is consistent with that contained in the audited financial statements as at 31 December 2006. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the above-mentioned financial statements.

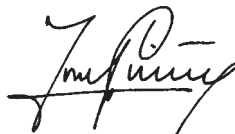
III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of ČEZ Distribuce, a. s., for the year ended 31 December 2006 presented in the annual report of the Company on pages 54–58. The management of ČEZ Distribuce, a. s., is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with applicable International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of ČEZ Distribuce, a. s., for the year ended 31 December 2006 is materially misstated.



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



Josef Pivoňka
Auditor, License No. 1963

20 April 2007
Prague, Czech Republic

Auditors' Report



To the Board of Directors of ČEZ Distribuce, a. s.:

We have audited the accompanying financial statements of ČEZ Distribuce, a. s. which comprise the balance sheet as at 31 December 2006, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on ČEZ Distribuce, a. s. see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Management of ČEZ Distribuce, a. s. is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s. as at 31 December 2006, and its financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

We have also audited the prior year financial statements of ČEZ Distribuce, a. s. as at 31 December 2005 and issued an unqualified report thereon dated 20 February 2006.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

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

A handwritten signature of 'Josef Pivoňka' in black ink.

Josef Pivoňka
Auditor, License No. 1963

31 January 2007
Prague, Czech Republic

Balance Sheet

as of 31 December 2006 and 2005

(in CZK thousands)

ASSETS	2006		2005	
	Gross	Provision	Net	Net
TOTAL ASSETS	83,820,145	(7,103,236)	76,716,909	58,205,727
STOCK SUBSCRIPTION RECEIVABLE				531,303
FIXED ASSETS	69,811,416	(7,067,956)	62,743,460	48,628,209
Intangible assets	137,757	(40,431)	97,326	70,050
Foundation and organization expenses				
Research and development	2,005	(1,306)	699	1,794
Software	57,911	(29,997)	27,914	36,772
Patents, royalties and similar rights	17,957	(8,176)	9,781	865
Goodwill				
Other intangible assets	2,754	(952)	1,802	1,991
Intangible assets in progress	57,130		57,130	28,628
Advances granted for intangible assets				
Tangible assets	69,673,659	(7,027,525)	62,646,134	48,558,159
Land	348,121		348,121	245,675
Constructions	51,854,912	(4,390,912)	47,464,000	37,420,428
Separate movable items and groups of movable items	13,151,573	(2,636,132)	10,515,441	8,526,182
Perennial crops				
Livestock				
Other tangible assets	7,062	(481)	6,581	41
Tangible assets in progress	4,182,792		4,182,792	2,304,692
Advances granted for tangible assets	129,199		129,199	61,141
Gain or loss on revaluation of acquired property				
Financial investments				
Subsidiaries				
Associates				
Other long-term securities and interests				
Loans to subsidiaries and associates				
Other long-term investments				
Long-term investments in progress				
Advances granted for long-term investments				
CURRENT ASSETS	13,997,730	(35,280)	13,962,450	9,035,391
Inventory	151,839		151,839	89,685
Materials	709		709	742
Work in progress and semi-finished production	148,527		148,527	86,340
Finished products				
Livestock				
Goods				
Advances granted for inventory	2,603		2,603	2,603
Long-term receivables	282		282	290
Trade receivables				
Receivables from group companies with majority control				
Receivables from group companies with control of 20% – 50%				
Receivables from partners, co-operative members and participants in association				
Long-term advances granted				
Unbilled revenue				
Other receivables	282		282	290
Deferred tax asset				
Short-term receivables	12,897,101	(35,280)	12,861,821	7,455,598
Trade receivables	442,881	(34,129)	408,752	1,131,394
Receivables from group companies with majority control	3,485,791		3,485,791	
Receivables from group companies with control of 20% – 50%				
Receivables from partners, co-operative members and participants in association				
Social security and health insurance				
Due from government – tax receivables				
Short-term advances granted	901,510		901,510	15,847
Unbilled revenue	8,057,765		8,057,765	6,305,665
Other receivables	9,154	(1,151)	8,003	2,692
Short-term financial assets	948,508		948,508	1,489,818
Cash	5,508		5,508	5,389
Bank accounts				1,484,429
Short-term securities and interests	943,000		943,000	
Short-term financial assets in progress				
Accrued assets and deferred liabilities	10,999		10,999	10,824
Prepaid expenses	5,565		5,565	8,618
Prepaid expenses (specific-purpose expenses)				
Unbilled revenue	5,434		5,434	2,206

(in CZK thousands)

EQUITY & LIABILITIES	2006	2005
TOTAL EQUITY & LIABILITIES	76,716,909	58,205,727
EQUITY	49,602,424	37,352,369
Basic capital	49,463,992	49,061,088
Registered capital	49,463,992	25,000
Own shares and own ownership interests (-)		
Changes in basic capital		49,036,088
Capital funds	163	
Share premium (agio)		
Other capital funds	163	
Gain or loss on revaluation of assets and liabilities		
Gain or loss on revaluation of company transformations		
Reserve funds and other funds created from profit	2,405,684	
Legal reserve fund	2,405,684	
Statutory and other funds		
Profit (loss) for the previous years	(2,629,507)	(11,968,364)
Retained earnings for the previous years		
Accumulated loss of previous years	(2,629,507)	(11,968,364)
Profit (loss) for the year (+/-)	362,092	259,645
LIABILITIES	21,151,226	15,710,402
Reserves	743,868	
Reserves created under special legislation		
Reserve for pensions and similar obligations		
Reserve for corporate income tax	708,543	
Other reserves	35,325	
Long-term liabilities	8,448,833	6,935,766
Trade payables		
Liabilities to group companies with majority control		
Liabilities to group companies with control of 20% – 50%		
Liabilities to partners, co-operative members and participants in association		
Advances received		
Bonds payable		
Notes payable		
Unbilled deliveries		
Other liabilities	400	3,304
Deferred tax liability	8,448,433	6,932,462
Current liabilities	11,958,525	8,774,636
Trade payables	2,134,110	1,641,687
Liabilities to group companies with majority control		
Liabilities to group companies with control of 20% – 50%		
Liabilities to partners, co-operative members and participants in association		
Liabilities to employees	26,338	34,278
Liabilities arising from social security and health insurance	17,479	11,890
Due to government – taxes and subsidies	44,206	205,552
Advances received	8,159,393	6,418,995
Bonds payable		
Unbilled deliveries	1,572,592	158,315
Other liabilities	4,407	303,919
Bank loans and borrowings		
Long-term bank loans		
Short-term bank loans		
Borrowings		
Accrued liabilities and deferred assets	5,963,259	5,142,956
Accruals		1,712
Deferred income	5,963,259	5,141,244

Income Statement

as of 31 December 2006 and 2005

(in CZK thousands)

	2006	2005
Revenue from sale of goods		
Cost of goods sold		
Gross margin		
Production	29,315,940	4,697,822
Revenue from sale of finished products and services	29,192,926	4,686,538
Change in inventory produced internally	49,166	823
Own work capitalized	73,848	10,461
Production related consumption	22,328,724	3,367,947
Consumption of material and energy	5,699,676	655,651
Services	16,629,048	2,712,296
Value added	6,987,216	1,329,875
Personnel expenses	729,291	136,291
– Wages and salaries	499,619	96,084
– Bonuses to members of company or cooperation bodies	2,137	1,342
– Social security and health insurance	174,549	31,570
– Other social costs	52,986	7,295
Taxes and charges	2,833	231
Amortization and depreciation of intangible and tangible fixed assets	6,211,423	918,542
Revenue from sale of intangible and tangible fixed assets and materials	63,503	1,916
– Revenues from sale of intangible and tangible fixed assets	41,104	1,716
– Revenue from sale of materials	22,399	200
Net book value of intangible and tangible fixed assets and materials sold	34,821	2,673
– Net book value of intangible and tangible fixed assets sold	34,821	2,673
– Materials sold		
Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	41,672	10,887
Other operating revenues	819,257	134,682
Other operating expenses	440,415	59,720
Transfer of operating revenues		
Transfer of operating expenses		
Profit or loss on operating activities	409,521	338,129
Revenue from sale of securities and interests		
Securities and interests sold		
Income from financial investments		
– Income from subsidiaries and associates		
– Income from other long-term securities and interests		
– Income from other financial investments		
Income from short-term financial assets	5,158	124
Expenses related to financial assets		
Gain on revaluation of securities and derivatives		
Loss on revaluation of securities and derivatives		
Change in reserves and provisions relating to financial activities		
Interest income	50,479	4,637
Interest expense		
Other finance income	80	15
Other finance cost	903	186
Transfer of finance income		
Transfer of finance cost		
Profit or loss on financial activities	54,814	4,590
Tax on profit or loss on ordinary activities	102,243	83,074
– due	708,543	
– deferred	(606,300)	83,074
Profit or loss on ordinary activities after taxation	362,092	259,645
Extraordinary gains		
Extraordinary losses		
Tax on extraordinary profit or loss		
– due		
– deferred		
Extraordinary profit or loss		
Transfer of share of profit or loss to partners		
Profit or loss for the year (+/-)	362,092	259,645
Profit or loss before taxation (+/-)	464,335	342,719

Cash Flow Statement for 2006 and 2005

(in CZK thousands)

	2006	2005
Cash and cash equivalents at beginning of year	1,489,818	25,000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss on ordinary activities before taxation (+/-)	464,335	342,719
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	5,784,534	879,062
Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	6,211,423	933,705
Depreciation and amortization of fixed assets	6,211,423	918,542
Write-off of receivables		15,163
Change in provisions and reserves	(370,127)	(50,963)
Change in provisions	6,347	10,887
Change in reserves	35,325	
Change in accrued and deferred assets and liabilities	(411,799)	(61,850)
(Gain)/Loss on disposal of fixed assets	(6,283)	957
Interest expense and interest income	(50,479)	(4,637)
Interest expense		
Interest income	(50,479)	(4,637)
Other non-cash movements		
Income from dividends and profit sharing		
Net cash from operating activities before taxation, changes in working capital and extraordinary items	6,248,869	1,221,781
Change in non-cash components of working capital	1,937,704	(26,855)
Change in trade receivables	933,204	(782,524)
Change in trade payables	1,053,633	756,529
Change in inventory	(49,133)	(860)
Net cash from operating activities before taxation, interest paid and extraordinary items	8,186,573	1,194,926
Interest paid		
Interest received	50,479	4,637
Tax paid		
Gains and losses on extraordinary items		
Dividends received		
Net cash provided by (used in) operating activities	8,237,052	1,199,563
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(5,392,614)	(266,156)
Purchase of tangible assets	(5,667,732)	(718,763)
Purchase of intangible assets	(32,090)	
Change in financial investments		
Change in liabilities from investing activities	307,208	452,607
Proceeds from sale of fixed assets	103,347	1,647
Proceeds from sale of tangible assets	41,104	1,716
Proceeds from sale of intangible assets		
Proceeds from sale of financial investments		
Change in receivables from sale of fixed assets	62,243	(69)
Net cash provided by (used in) investing activities	(5,289,267)	(264,509)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in long-term liabilities and long-term, resp. short-term, loans	(3,304)	3,304
Change in long-term loans		
Change in short-term loans and borrowings		
Change in other long-term liabilities	(3,304)	3,304
Change in receivables/payables related to group cash-pooling	(3,485,791)	
Effect of changes in equity on cash		526,460
Effect of changes in basic capital on cash		
Cash donations recorded in equity		526,460
Cash payments from equity funds		
Dividends or profit sharing paid		
Acquisition/sale of own shares		
Net cash provided by (used in) financing activities	(3,489,095)	529,764
Net increase (decrease) in cash and cash equivalents	(541,310)	1,464,818
Cash and cash equivalents at end of year	948,508	1,489,818

ČEZ Distribuce, a. s.

Financial Statements for the Year Ended 31 December 2006

Together with Auditors' Report

1. Description of the Company

ČEZ Distribuce, a. s. ("the Company") is a joint stock company incorporated on 31 March 2005 in the Czech Republic. The Company's registered office is located at Děčín 4, Teplická 874/8, postcode: 405 02, Czech Republic, and the business registration number (IČ) is 272 32 425. The Company is involved in the operation of the power grid and the distribution of electricity to both individuals and legal entities.

Shareholders who hold interest in the Company's basic capital are as follows

Partners	Interest
Severočeská energetika, a.s.	20.11%
Severomoravská energetika, a. s.	22.85%
Středočeská energetická a.s.	22.81%
Východočeská energetika, a.s.	21.53%
Západočeská energetika, a.s.	12.70%

During 2005 and 2006, "Distribution" parts of enterprise of the following companies were contributed to the Company in the form of non-cash capital contribution (see Note 9):

Company	Contribution date
Západočeská energetika, a.s.	1 September 2005
Východočeská energetika, a.s.	1 October 2005
Severočeská energetika, a.s.	1 November 2005
Středočeská energetická a.s.	1 December 2005
Severomoravská energetika, a. s.	1 January 2006

The Company is included in the ČEZ Group. The ultimate parent company is ČEZ, a. s.

The Company is included in the consolidated group of the parent company.

The Company has no foreign branch.

Members of the statutory bodies as at 31 December 2006 were as follows

Board of Directors	
Chair:	Jiří Kudrnáč
Vice-chair:	Martin Němeček
Member:	Pavel Filipi
Member:	Filip Secký
Member:	Věra Kučerová

Pavel Filipi was appointed a member of the Board of Directors on 1 January 2006. The respective entry in the Commercial Register was made on 6 February 2006.

Supervisory Board	
Chair:	Tomáš Pleskač
Vice-chair:	Otto Karl
Member:	Miroslav Kekule
Member:	Jaroslav Janda
Member:	Irena Klůsová
Member:	Pavel Kraják

The membership in the Supervisory Board of Antonín Ješátko and Lubomír Štěpán terminated on 9 May 2006. Irena Klůsová and Pavel Kraják were appointed new members of the Supervisory Board. The respective entry in the Commercial Register was made on 2 June 2006.

The term of office of Tomáš Pleskač, the Chair of the Supervisory Board; Otto Karl, the Vice-chair of the Supervisory Board; and Martin Koch and Miroslav Kekule, both members of the Supervisory Board, terminated on 11 May 2006. Jaroslav Janda and Miroslav Kekule were appointed new members of the Supervisory Board. Tomáš Pleskač, and Otto Karl were re-appointed as members of the Supervisory Board on 11 May 2006, and re-elected as the Chair and the Vice-chair of the Supervisory Board on 19 May 2006. The changes were entered in the Commercial Register on 2 June 2006.

An increase in the basic capital from CZK 25,000 thousand to CZK 63,578,396 thousand was recorded on 28 February 2006, and a decrease of the basic capital to CZK 49,463,992 thousand was recorded on 14 November 2006 (see Note 9).

The change of the Company's registered office was entered in the Commercial Register on 31 March 2006.

The Company's organizational structure is as follows:

- CEO Office
- Network Management Division
- Company Administration Division
- Network Renewal Division
- Network Providing Division

2. Basis of Presentation of the Financial Statements

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2006 and 2005.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in preparing the 2006 and 2005 financial statements are as follows:

a) Intangible Fixed Assets

Intangible fixed assets are recorded at their acquisition cost and related expenses.

Intangible fixed assets with a cost exceeding CZK 60 thousand are amortized over their estimated useful lives (3–6 years).

b) Tangible Fixed Assets

Tangible and intangible fixed assets acquired via the contributions of part of enterprise were contributed to the Company at the cost according to the expert appraisal by HZ Praha, spol. s r.o. These costs were used to set up the basis for depreciation and amortization for accounting purposes. The Company continues the depreciation and amortization of tangible and intangible fixed assets pursuant to Section 26 of Act No. 586/92 Coll., on Income Taxes, as the taxpayer's legal successor.

Tangible fixed assets with a cost exceeding CZK 20 thousand are recorded at their acquisition cost, which consists of purchase price, freight, customs duties and other related costs. Internally-developed tangible fixed assets are recorded at their accumulated cost, which consists of direct material, labor costs and production overheads.

Tangible fixed assets acquired free of charge are valued at their replacement cost and are recorded with a corresponding credit to the "Other capital funds account" on the date of acquisition.

The costs of technical improvements are capitalized. Repairs and maintenance expenses are expensed as incurred.

Depreciation

Depreciation of contributed tangible fixed assets was determined on an individual basis based on the estimated useful lives:

	Years
Constructions	20–50
Machinery and equipment	4–30
Vehicles	4–8
Furniture and fixtures	4–25

Depreciation is calculated based on the acquisition cost and the estimated useful life of the related asset. The estimated useful lives are as follows:

	Years
Constructions	1–50
Machinery and equipment	1–30
Vehicles	1–7
Furniture and fixtures	1–27

c) Financial Assets

Short-term financial assets consist of liquid valuables, cash in hand and at bank, and held-to-maturity debt securities falling due within one year.

Held-to-maturity securities are securities with a defined maturity that the Company intends and is able to hold to maturity.

Interests and securities are valued at their acquisition cost, which includes the purchase price and direct costs related to the acquisition, e.g. fees and commissions paid to agents and stock exchanges. In respect of debt securities, interest income is recorded observing the matching and accrual principles. Accrued interest income is included in the relevant securities account.

As at 31 December, held-to-maturity securities and interests are adjusted for the difference between the acquisition cost without coupon and the nominal value; the difference is recognized as a revenue or an expense under accrual accounting.

d) Inventory

Purchased inventory is stated at actual cost being determined using the weighted average method. Costs of purchased inventory include acquisition-related costs (freight, customs, commission, etc.).

Finished goods and work-in-progress (services) are valued at actual cost. The cost of inventory produced internally includes direct material and labor costs and production overhead costs. Production overhead costs include externally-purchased relaying transferred in the full amount to work-in-progress and are allocated on the basis of planned overheads for centers (the basis for allocation are wages).

e) Receivables

Both long- and short-term receivables are carried at their realizable value after provision for doubtful accounts. Additions to the provision account are charged to income.

f) Equity

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Municipal Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting which was not entered in the Commercial Register as at the financial statements date is recorded through changes in basic capital.

In accordance with the Commercial Code, the Company creates a legal reserve fund from profit.

In the first year in which profit is generated, a joint-stock company should allocate 20% of profit after tax (however, not more than 10% of basic capital) to the legal reserve fund. In subsequent years, the legal reserve fund is allocated 5% of profit after tax until the fund reaches 20% of basic capital. These funds can only be used to offset losses.

g) Reserves and Liabilities

The Company creates legal reserves within the meaning of the Act on Reserves and reserves for losses and risks if the related purpose amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term liabilities and current liabilities are carried at their nominal values.

Liabilities or contingent liabilities that are not recorded in the balance sheet because significant uncertainties exist with respect to the amount, title or timing of the expected outflow of benefits are described in Note 15.

h) Financial Leases

The Company records leased assets by expensing the lease payments and capitalizing the residual value of the leased assets when the lease contract expires and the purchase option is exercised. Lease payments paid in advance are recorded as prepaid expenses and amortized over the lease term.

i) Foreign Currency Transactions

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate prevailing as at the transaction date. On the balance sheet date monetary items are adjusted to the exchange rates as published by the Czech National Bank as at 31 December.

Realized and unrealized exchange rate gains and losses were charged or credited, as appropriate, to income for the year.

j) Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

The Company recognizes as an expense any additions to reserves for or provisions against risks, losses or physical damage that are known as at the financial statements' date.

Revenues from the provided distribution services are recorded at the time of the distributed electricity delivery. Total revenues from provided services comprise the billing and changes in unbilled distribution services. The Company records these revenues as revenues from sales of own products and services. Costs of electricity distribution and the power grid operation are recorded as service consumption (mainly system and transmission services) and consumption of material and energy.

k) Income Tax

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible reserves and provisions, entertainment expenses, differences between book and tax depreciation, etc.).

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes, taking into consideration the period of realization.

Differences arising from the contributions of a part of enterprise in the basic capital were recorded directly in equity at the contribution date.

4. Fixed Assets

a) Intangible Fixed Assets (in CZK thousands)

Cost

	At beginning of year	Additions – contribution	Additions	Disposals	Transfers	At end of year
Research and development	2,005	–	–	–	–	2,005
Software	40,362	7,888	–	(341)	10,002	57,911
Patents, royalties and similar rights	990	17,038	–	(71)	–	17,957
Other intangibles	2,063	–	–	–	691	2,754
Intangibles in progress	28,628	7,105	32,09	–	(10,693)	57,130
2006 Total	74,048	32,031	32,09	(412)	–	137,757
2005 Total	–	74,048	–	–	–	74,048

Accumulated Amortization

	At beginning of year	Amortization during year	Cost of sales or liquidation	Disposals	At end of year	Net book value
Research and development	(211)	(1,095)	–	–	(1,306)	699
Software	(3,590)	(26,747)	(1)	341	(29,997)	27,914
Patents, royalties and similar rights	(125)	(8,122)	–	71	(8,176)	9,781
Other intangibles	(72)	(880)	–	–	(952)	1,802
Intangibles in process	–	–	–	–	–	57,130
2006 Total	(3,998)	(36,844)	(1)	412	(40,431)	97,326
2005 Total	–	(3,998)	–	–	(3,998)	70,050

Patents, royalties and similar rights are amortized over their useful lives as specified in the relevant contract.

b) Tangible Fixed Assets (in CZK thousands)

Cost

	At beginning of year	Additions – contribution	Additions	Disposals	Transfers	At end of year
Land	245,675	97,060	–	(52)	5,438	348,121
Constructions	37,985,778	11,483,991	–	(42,410)	2,427,553	51,854,912
Separate movables items	8,875,328	2,956,917	508	(56,646)	1,375,466	13,151,573
Art works and collections	41	46	–	(11)	254	330
Other tangibles	–	6,843	–	–	(111)	6,732
Tangibles in progress	2,304,692	137,302	5,225,611	(7,149)	(3,477,664)	4,182,792
Advances for tangibles	61,141	832	398,162	–	(330,936)	129,199
2006 Total	49,472,655	14,682,991	5,624,281	(106,268)	–	69,673,659
2005 Total	–	48,756,613	718,763	(2,721)	–	49,472,655

Accumulated Depreciation

	At beginning of year	Amortization during year	Cost of sales or liquidation	Disposals	At end of year	Net book value
Land	–	–	–	–	–	348,121
Constructions	(565,350)	(3,841,168)	(26,804)	42,410	(4,390,912)	47,464,000
Separate movables items	(349,146)	(2,332,930)	(10,702)	56,646	(2,636,132)	10,515,441
Art works and collections	–	–	–	–	–	330
Other tangibles	–	(481)	–	–	(481)	6,251
Tangibles in progress	–	–	–	–	–	4,182,792
Advances for tangibles	–	–	–	–	–	129,199
2006 Total	(914,496)	(6,174,579)	(37,506)	99,056	(7,027,525)	62,646,134
2005 Total	–	(914,544)	(1,417)	1,465	(914,496)	48,558,159

5. Receivables

Provisions against outstanding receivables that are considered doubtful were charged to income based on their collectibility and ageing analysis in 2006 (see Note 6).

Receivables overdue for more than 30 days totaled CZK 69,625 thousand and CZK 167,262 thousand as at 31 December 2006 and 2005, respectively.

Receivables from related parties (see Note 18).

Unbilled revenues represent, in particular, unbilled distribution services.

Changes in unbilled distribution services are as follows (in CZK thousands)

Unbilled energy (UE)	Total	Retail business customers	Retail household customers
Opening balance at 31 March 2005	–	–	–
Changes in UE balance in 2005 through contributions of part of enterprise	5,580,576	2,225,876	3,354,700
Changes in 2005	718,159	(22,836)	740,995
Closing balance at 31 December 2005	6,298,735	2,203,040	4,095,695
Changes in UE balance in 2006 through contribution of part of enterprise	2,016,160	630,390	1,385,770
Changes in 2006	(263,760)	(202,906)	(60,854)
Closing balance at 31 December 2006	8,051,135	2,630,524	5,420,611

6. Provisions

Provisions reflect a temporary diminution in the value of assets (see Note 5).

Changes in the provision accounts (in CZK thousands)

	Balance at 31 March 2005	Contribution	Additions	Deductions	Balance at 31 December 2005	Contribution	Additions	Deductions	Balance at 31 December 2006
Receivables	–	15,395	28,817	(17,930)	26,282	2,651	60,649	(54,302)	35,280
of which: legal	–	4,055	4,322	(4,057)	4,320	1,844	10,317	(3,022)	13,459
other	–	11,340	24,495	(13,873)	21,962	807	50,332	(51,280)	21,821

Legal provisions are created in compliance with the Act on Reserves and are tax deductible.

7. Short-term Financial Assets

Since 1 August 2006, the Company has been a part of “cash-pooling” system for the companies in the ČEZ Group managed by Komerční banka, a.s. The cash balance transferred to ČEZ, a. s., the parent company, within the “cash-pooling” bears an interest rate of PRIBID-0.15% p.a., and amounted to CZK 3,485,791 thousand as at 31 December 2006. As at 31 December 2006, the balance is recorded in the balance sheet in short-term receivables in the line Receivables from group companies with majority control.

Short-term securities and interests as at 31 December 2006 represent depository notes with Komerční banka, a.s.

8. Other Assets

Prepaid expenses include in particular lease installments, which are charged to income for the year in which they were incurred.

Unbilled revenues include in particular interest from cash-pooling maintained with Komerční banka, a.s., for the month of December, which are recognized into income for the year in which they were earned.

9. Equity

The basic capital of the Company consists of 63,578,396 registered shares fully subscribed and paid, with a nominal value of CZK 778 per share.

The movements in the capital accounts during 2006 and 2005 were as follows (in CZK thousands):

	Opening balance at 31 March 2005	Increase	Decrease	Balance at 31 December 2005	Increase	Decrease	Balance at 31 December 2006
Number of shares	25,000	49,036,088	–	49,061,088	14,517,308	–	63,578,396
Basic capital	25,000	–	–	25,000	63,553,396	(14,114,404)	49,463,992
Changes in basic capital	–	49,036,088	–	49,036,088	(49,036,088)	–	–
Accumulated loss of previous years	–	(11,968,364)	–	(11,968,364)	(2,629,507)	11,968,364	(2,629,507)
Other capital funds	–	–	–	–	163	–	163
Legal reserve fund	–	–	–	–	2,405,684	–	2,405,684

In 2005, the Company increased its basic capital via non-cash contributions of the “Distribution” part of enterprise of Západočeská energetika, a.s., Východočeská energetika, a.s., Severočeská energetika, a.s., and Středočeská energetická a.s., valued at 31 December 2004 by an expert appraisal in the total amount of CZK 49,036,088 thousand. The basic capital increase was entered in the Commercial Register in 2006.

As at 1 January 2006, the Company increased its basic capital via a non-cash contribution of the “Distribution” part of enterprise of Severomoravská energetika, a. s., valued at 31 December 2004 by an expert appraisal in the total amount of CZK 14,517,308 thousand.

The basic capital increase in 2006 and 2005 was done by subscription of shares via non-cash contributions allocated by individual contributors as follows (in CZK thousands):

	Západočeská energetika, a.s.	Východočeská energetika, a.s.	Severočeská energetika, a.s.	Středočeská energetická a.s.	Severomoravská energetika, a. s.
Date of non-cash contribution	1 September 2005	1 October 2005	1 November 2005	1 December 2005	1 January 2006
Total assets	9,137,695	15,569,530	14,400,228	17,044,393	17,331,734
Total liabilities	(1,137,590)	(1,954,550)	(2,009,298)	(2,249,619)	(2,548,139)
Total net assets contributed	8,000,105	13,614,980	12,390,930	14,794,774	14,783,595
Financial settlement	71,010	74,125	391,818	(301,654)	(266,287)
Basic capital increase value	8,071,115	13,689,105	12,782,748	14,493,120	14,517,308

As at 31 December 2005, the positive value of the financial settlement is recorded in the balance sheet as an asset in the line Stock subscription receivable. As at 31 December 2005, the negative value of the financial settlement is recorded in Other liabilities.

The accumulated loss of previous years in the amount of CZK 2,629,507 thousand arose as a result of the recognition of deferred tax liability of Severomoravská energetika, a. s., as at the contribution date, in the amount of CZK 2,122,271 thousand (see Note 13) and a one-off recognition of the contributed deferred income in the amount of CZK 507,236 thousand (see Note 12), as valued by a court appraiser.

The Company's Extraordinary General Meeting of Shareholders held on 7 November 2006 decided on a basic capital decrease of CZK 14,114,404 thousand by decreasing the nominal value of shares from CZK 1,000 to CZK 778. The amount of CZK 11,760,648 thousand was used to compensate accumulated loss of previous years, the remaining amount of CZK 2,353,756 thousand was assigned to cover future losses of the Company and was transferred to the legal reserve fund.

The Annual General Meeting held on 11 May 2006 approved the following profit distribution for 2005 (in CZK thousands):

Profit for 2005	259,645
Allocation to legal reserve fund	(51,929)
Payment of accumulated loss of previous years	(207,716)
Retained earnings as at 31 December 2006	–

10. Reserves

The movements in the reserve accounts were as follows (in CZK thousands)

Reserves	Opening balance at 31 March 2005	Additions	Deductions	Balance at 31 December 2005	Additions	Deductions	Balance at 31 December 2006
Reserve for income tax	–	–	–	–	708,543	–	708,543
Other reserves	–	–	–	–	35,325	–	35,325

Other reserves in the amount of CZK 35,325 thousand were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement.

11. Current Liabilities

As at 31 December 2006 and 2005, the Company had overdue current payables for more than 30 days totaling CZK 21,284 thousand and CZK 30,667 thousand, respectively.

As at 31 December 2006, the Company had liabilities of CZK 17,479 thousand owing to social security and health insurance premiums.

Unbilled deliveries represent, in particular, unbilled services related to electricity distribution, unbilled deliveries of electricity purchased to cover power grid losses and unpaid bonuses for 2006.

Payables to related parties (see Note 18).

12. Other Liabilities

Movements in deferred income in 2006 and 2005 (in CZK thousands)

Opening balance at 31 March 2005	–
Additions via contributions of part of enterprise 2005	5,118,976
Additions in 2005	84,118
Released to revenues in 2005	(61,850)
Balance at 31 December 2005	5,141,244
Additions via contribution of part of enterprise 2006	507,236
Additions in 2006	726,391
Released to revenues in 2006	(411,624)
Balance at 31 December 2006	5,963,247

Deferred income includes in particular connection fees within the meaning of Act No. 458/2000 Coll. (the Energy Act) and Decrees No. 297/2001 Coll. and 18/2002 Coll. of Energy Regulatory Authority (Energetický regulační úřad). These fees are credited to income by the Company in compliance with its internal regulations in the amount of 1/20 of collected fees per annum.

The non-cash contribution of “Distribution” part of enterprise and the valuation thereof by a court appraiser (see Note 9) in 2006 and 2005 comprised connection fees in the total net book value of CZK 507,236 thousand and CZK 5,118,976 thousand, respectively. According to the appraiser’s valuation, the value of the connection fees was not included in the liability valuation and therefore did not decrease the value of the non-cash contribution. At the same time, the deferred income were valued by the appraiser alternatively at the net book value, and recognized as a part of contributed liabilities. Given the fact that the above transaction is not specifically addressed by the Czech accounting regulations, the Company has recorded the value of the contributed connection fees in accumulated losses of previous years in their net book value, similarly as recognition of deferred tax at the contribution date.

13. Income Taxes

	2006 (in CZK thousands)	2005 (in CZK thousands)
Profit before taxes	464,335	342,719
Non-taxable revenues	(72,932)	(15,163)
Difference between book and tax depreciation	2,470,919	(488,972)
Difference between net book values of disposed fixed assets for accounting and tax purposes	49,713	–
Non-deductible expenses		
Creation of reserves	35,325	–
Creation (release) of provisions	(948)	10,624
Other (e.g. entertainment expenses, shortages and losses)	126,022	31,390
Tax loss claimed	(117,635)	–
Taxable income	2,954,799	(119,402)
Current income tax rate	24%	26%
Tax	709,152	–
Tax relief	(609)	–
Current tax expense	708,543	–

The income tax calculation for 2006 is preliminary. The Company shall submit its regular tax return by 30 June 2007.

The Company quantified deferred taxes as follows (in CZK thousands):

Deferred tax items	2006		2005	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	–	8,465,818	–	6,968,300
Other temporary differences:				
Provision against receivables	5,238	–	5,271	–
Reserves	8,478	–	–	–
Other	3,669	–	1,911	–
Tax loss carryforward	–	–	28,656	–
Total	17,385	8,465,818	35,838	6,968,300
Net		8,448,433		6,932,462

As at 31 December 2006, the Company recorded a deferred tax liability of CZK 8,448,433 thousand. A part of the deferred tax liability which arose as at the date of contributions of parts of enterprises in 2006 and 2005 in the amount of CZK 2,122,271 thousand and CZK 6,849,388 thousand, respectively, (see Note 9) was recorded against accumulated loss from previous years. The change of the deferred tax in 2006 in the amount of CZK 606,300 thousand is recorded in the income statement.

14. Leases

The Company leases fixed assets, which are not recorded on the balance sheet (see Note 3h).

Assets which are being used by the Company under finance leases (i.e. the assets are transferred to the Company when the lease term expires) as at 31 December 2006 consist of the following (in CZK thousands)

Description	Terms/Conditions	Total lease	Payments made at 31 December 2006	Remaining payments at 31 December 2006	
				Due within one year	Due after one year
Transformers	72 months	30,450	27,514	2,413	523

Assets which are being used by the Company under finance leases (i.e. the assets are transferred to the Company when the lease term expires) as at 31 December 2005 consist of the following (in CZK thousands)

Description	Terms/Conditions	Total lease	Payments made at 31 December 2005	Remaining payments at 31 December 2005	
				Due within one year	Due after one year
Transformers	72 months	90,150	80,114	7,291	2,745

15. Commitments and Contingencies

The Company has taken out insurance within the following scope:

- Insurance of buildings and constructions, selected movable items and inventory (transformer stations, administrative buildings, warehouses),
- Insurance of civil engineering structures (very high voltage and high voltage power grids).

Other types of insurance include general liability insurance, insurance for damage caused by defective products and liability insurance of management and board members.

As at 31 December 2006, the Company had concluded contracts for future supplies of fixed assets in the amount of approx. CZK 1,141,328 thousand.

16. Revenues

The breakdown of revenues from the sale of own products and services is as follows (in CZK thousands)

	2006	2005
Provided reserved capacity	5,283,724	800,940
Provision of system services	5,550,201	896,667
Use of grids	18,024,727	2,916,842
Other energy services	139,854	47,081
Other non-energy services	194,420	25,008
Total	29,192,926	4,686,538

In 2006 the revenues of the Company comprised primarily sales from the provision of network distribution services to electricity producers and traders. The prices for services related to providing of distribution network are subject to price regulations of Energy Regulatory Authority and were determined by the Energy Regulatory Authority's price decision for 2006.

17. Personnel and Related Expenses

The breakdown of personnel expenses is as follows (in CZK thousands)

	Total personnel	2006 Members of managerial bodies	Total personnel	2005 Members of managerial bodies
Average number of employees	1,125	26	182	8
Wages and salaries	499,619	43,692	96,084	9,831
Bonuses to board members	2,137	1,104	1,342	–
Social security and health insurance	174,549	15,330	31,570	3,238
Social costs	52,986	1,590	7,295	418
Total personnel expenses	729,291	61,716	136,291	13,487

18. Related Party Information

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other benefits in 2006 and they do not hold any shares of the Company.

Related parties specified in the tables below are companies of ČEZ Group.

The Company sells services to related parties in the ordinary course of business. In 2006 and 2005, volumes of those sales were as follows (in CZK thousands):

Related party	2006	2005
ČEZ Prodej, s.r.o.	24,838,889	4,151,423
ČEZ, a. s.	40,751	45,705
Východočeská energetika, a.s.	10,983	1,710
ČEZ Obnovitelné zdroje, s.r.o.	16	–
Západočeská energetika, a.s.	23,557	–
Severomoravská energetika, a. s.	5,142	38,328
MSEM, a.s.	77	–
Energetika Vítkovice, a.s.	149,047	–
ČEZnet, a.s.	63,209	11,358
Středočeská energetická a.s.	3,105	10,643
ČEZData, s.r.o.	3,606	989
ČEZ Zákaznické služby, s.r.o.	2,559	623
VČE - montáže, a.s.	544	468
ČEZ Správa majetku, s.r.o.	366	–
ČEZ Měření, s.r.o.	2,070	–
ČEZ Logistika, s.r.o.	10	–
ČEZ Distribuční služby, s.r.o.	17,185	–
SEG s.r.o.	1,380	1,387
Energetická montážní společnost Česká Lípa, s.r.o.	1,069	3,792
Energetická montážní společnost Liberec, s.r.o.	500	180
Energetická montážní společnost Ústí nad Labem, s.r.o.	392	–
Severočeská energetika, a.s.	8,999	6,216
Total	25,173,456	4,272,822

As at 31 December 2006 and 2005, advances granted to related parties amounted to a total of CZK 493,909 thousand and CZK 45,227 thousand, respectively.

Receivables from group companies with majority control in the amount of CZK 3,485,791 thousand represent the balance of cash in “cash-pooling” system (see Note 7).

Short-term receivables from related parties as at 31 December were as follows (in CZK thousands)

Related party	2006	2005
ČEZ Prodej, s.r.o.	8,034,688	6,938,023
ČEZ Logistika, s.r.o.	4	–
ČEZ Zákaznické služby, s.r.o.	224	741
ČEZ Data, s.r.o.	192	1,176
ČEZ správa majetku, s.r.o.	106	2
Severomoravská energetika, a. s.	–	4,452
Západočeská energetika, a.s.	92	73,221
Východočeská energetika, a.s.	473	76,363
Středočeská energetická a.s.	4,250	5,382
Severočeská energetika, a.s.	1,485	389,469
ČEZ, a. s.	8,941	7,691
ČEZ Měření, s.r.o.	552	–
ČEZ Distribuční služby, s.r.o.	5,780	–
ČEZnet, a.s.	6,768	12,195
VČE - montáže, a.s.	189	40
SEG s.r.o.	654	–
MSEM, a.s.	7	–
Energetika Vítkovice, a.s.	5,658	–
Total	8,070,063	7,508,755

As at 31 December 2006 and 2005, advances received from related parties amounted to a total of CZK 7,980,318 thousand and CZK 6,278,696 thousand, respectively. The advances mostly comprised of advances for distribution services received from ČEZ Prodej, s.r.o.

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2006 and 2005 were as follows (in CZK thousands):

Related party	2006	2005
ČEZ, a. s.	401,661	71,201
Severomoravská energetika, a. s.	437,307	3,968
Středočeská energetická a.s.	413,102	67,437
Východočeská energetika, a.s.	401,178	196,326
Západočeská energetika, a.s.	323,687	194,525
Severočeská energetika, a.s.	341,475	100,206
ČEZ Obnovitelné zdroje, s.r.o.	114,408	16,636
ČEZnet, a.s.	291,456	46,200
ČEZ Měření, s.r.o.	1,306,736	182,001
VČE - montáže, a.s.	311,798	116,084
ČEZ Prodej, s.r.o.	2,859,381	338,240
ČEZ Zákaznické služby, s.r.o.	700,712	115,332
ČEZData, s.r.o.	1,040,560	176,922
ČEZ Správa majetku, s.r.o.	55,775	925
I & C Energo, a.s.	15	18,611
Energetika Vítkovice, a.s.	7,821	–
MSEM, a.s.	519,917	–
Ústav jaderného výzkumu Řež a.s.	1,283	–
SEG s.r.o.	250,859	132,212
AZ Elektrostav, a.s.	215,089	37,284
Energetická montážní společnost Česká Lípa, s.r.o.	149,654	30,920
Energetická montážní společnost Liberec, s.r.o.	38,718	15,270
Energetická montážní společnost Ústí nad Labem, s.r.o.	89,567	17,787
ČEZ Logistika, s.r.o.	1,463,583	51,893
ČEZ Distribuční služby, s.r.o.	1,763,864	–
Total	12,036,023	1,929,980

Short-term payables to related parties as at 31 December were as follows (in CZK thousands)

Related party	2006	2005
ČEZ, a. s.	67,398	44,192
ČEZData, s.r.o.	293,782	150,986
ČEZnet, a.s.	46,566	32,693
ČEZ Logistika, s.r.o.	438,001	48,177
ČEZ Distribuční služby, s.r.o.	628,603	–
MSEM, a.s.	42,343	–
I & C Energo, a.s.	–	2,206
Severomoravská energetika, a. s.	31	85
Západočeská energetika, a.s.	18	56,320
Východočeská energetika, a.s.	322	70,408
Středočeská energetická a.s.	1,527	377,197
Severočeská energetika, a.s.	20,281	93,953
ČEZ Obnovitelné zdroje, s.r.o.	18,543	8,886
ČEZ Měření, s.r.o.	112,376	68,382
VČE - montáže, a.s.	34,451	51,700
ČEZ Prodej, s.r.o.	375,138	180,002
ČEZ Zákaznické služby, s.r.o.	69,288	51,013
SEG s.r.o.	25,984	61,122
AZ Elektrostav, a.s.	19,492	18,718
Energetická montážní společnost Česká Lípa, s.r.o.	24,995	29,974
Energetická montážní společnost Liberec, s.r.o.	8,647	12,271
Energetická montážní společnost Ústí nad Labem, s.r.o.	15,756	16,574
Ústav jaderného výzkumu Řež a.s.	214	–
ČEZ Správa majetku, s.r.o.	13,242	303
Total	2,256,998	1,375,162

19. Significant Items of Income Statement

Other operating revenues include in particular the released part of connection fees (see Note 12) and re-invoiced costs of relaying.

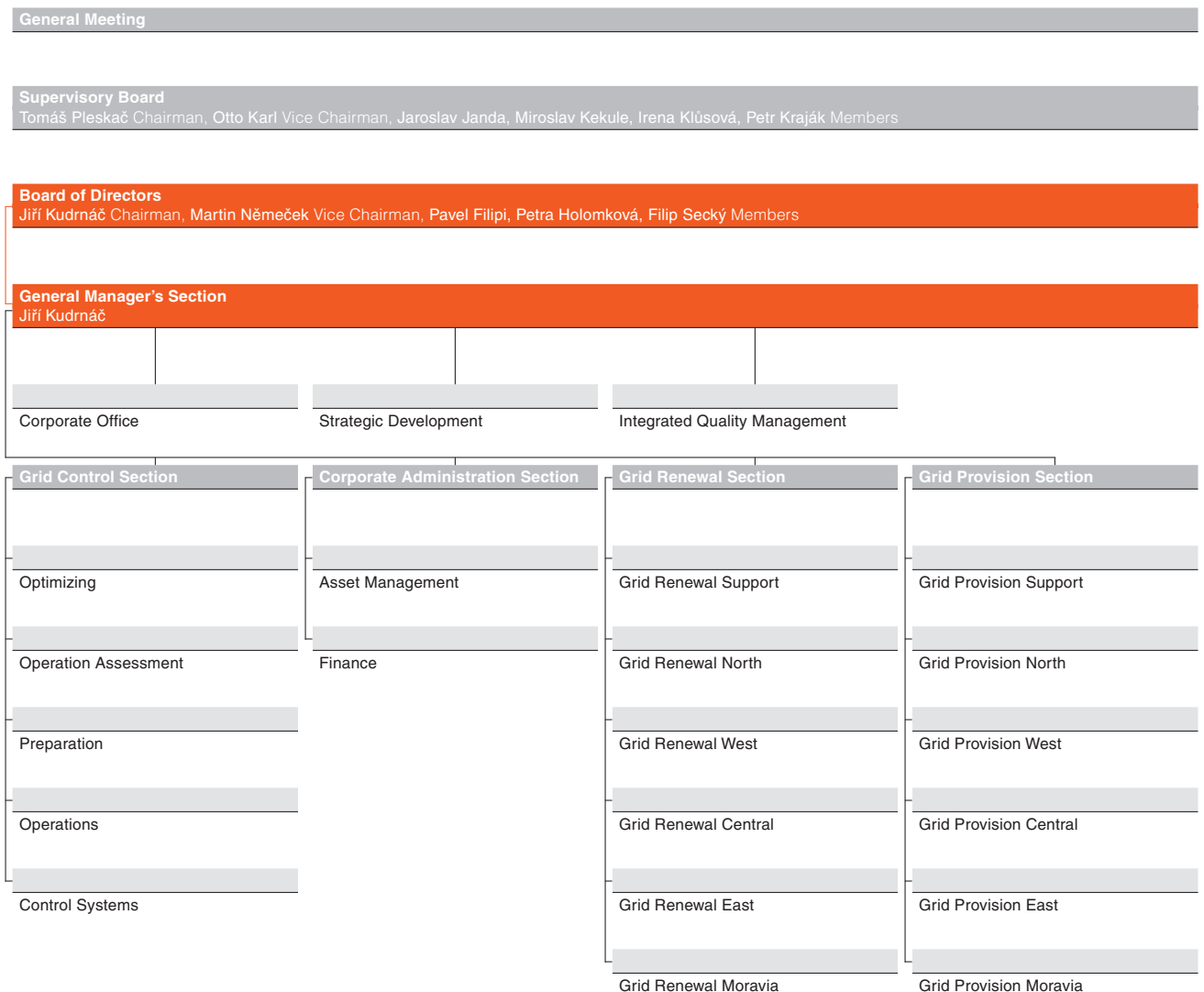
Other operating expenses include in particular costs of relaying and costs of property and liability insurance taken out for the given period.

20. Statement of Cash Flows (See Schedule)

The cash flow statement was prepared under the indirect method.

Organization Chart

as at 20 April 2007



Glossary of Terms and Abbreviations

Term	Commentary
AGCS project	An information system for real-time distribution grid control. AGCS stands for Automated Grid Control System.
Aggregated Invoice	An invoice sent by the distributor to a trader containing invoiced amounts for all customers who have an aggregation agreement with the trader in question.
Aggregation Agreement	An agreement signed by a trader with a customer. Through this agreement the trader collects money from the customer on behalf of the distributor and the customer receives only one invoice. By entering into an aggregation agreement, the customer gains the benefit of having only one contractual relationship within the liberalized electricity market, instead of two contractual relationships, i.e. one with an electricity supplier and one with the distributor, which would entail receiving invoices from each contractual relationship. A trader that enters into aggregation agreements with customers must have a framework agreement on distribution services with the distributor.
Ancillary services	Activities carried on by private individuals and/or legal entities to provide for system services.
Cash pooling	A service under which the balances on all accounts of a particular client belonging to a given group are summed at the end of each day and the client receives a higher interest rate on its primary account based on that sum.
ČEPS, a.s.	Operator of the Czech Republic Transmission Grid.
Distribution grid	A mutually interconnected set of 110 kV power lines and equipment – with the exception of 110 kV power line and equipment that are part of the transmission grid, and power lines and equipment with voltages 0.4/0.23 kV, 3 kV, 6 kV, 10 kV, 22 kV and 35 kV that serves purposes of distributing electricity in a designated area of the Czech Republic, including metering, protective, control, security, information and telecommunications systems and technologies.
Eligible customer	And end customer who has the right to choose their electricity supplier from among holders of licenses to generate and/or trade in electricity. An eligible customer may also purchase electricity directly on the market organized by the OTE.
End customer	A customer that uses electricity supplied only for the customer's own consumption, not for resale.
Energy Regulatory Authority (ERA)	Administrative office responsible for regulating the energy sectors; has its own separate category in the Czech Republic national budget. The Energy Regulatory Authority supports competition and protects consumer interests in those areas of the energy industries where competition is not possible, with the aim of satisfying all reasonable demand for energy.
Framework Agreement	An agreement entered into between a trader and the distributor in cases when the trader has at least one customer with an aggregation agreement.

Term	Commentary
OTE (Operátor trhu s elektřinou, a.s.)	A State-established joint-stock company whose purpose is to operate the Czech Republic electricity market, draw up the reconciliation of agreed and actual amounts of electricity supplied and purchased by market players, see to the settlement of deviations of actual supply amounts from contracted-for amounts, and operate the electricity spot market.
Predicted electricity consumption	Amount of electricity consumed, predicted in advance based on weather forecasts, type of day, etc.
Regulated third party grid access	This principle means that all entities that meet the stipulated technical conditions have access to grids (at regulated prices) for the purposes of settling electricity trades. Prices for grid use are set by the Energy Regulatory Authority and are made public.
Renewable energy sources	Energy resources that renew themselves naturally. This category includes hydro, geothermal, solar and wind energy as well as energy obtained by firing biomass.
Retail electricity customer	An electricity consumption category, members of which are connected to the low-voltage grid (1 kV and under). The category is further subdivided into households and businesses.
System services	Activities of the transmission grid operator (ČEPS, a.s.) and distribution grid operators to ensure reliable operation of the Czech Republic Power System with consideration for the operation of interconnected power systems.
Transmission grid	A mutually interconnected system of 400 kV, 220 kV power lines and equipment and selected power lines and equipment of the 110 kV grid, which serves the purpose of electricity transmission throughout the entire Czech Republic and that of interconnection with power systems of neighboring countries, including metering, protective, control, safety, information and telecommunications equipment; the transmission grid is built and operated in the public interest.
Unbundling	The separation, for accounting and legal purposes, of transmission and distribution grid operation from other activities (e.g. electricity generation, trading, etc.). European Union Member States are subject to this requirement under EU Directive No. 2003/54/EC. In the Czech legal system, this requirement is given by Sections 24a and 25a of Act No. 91/2005 Sb. It takes effect on 1 January 2005 for transmission grid operators and on 1 January 2007 for distribution grid operators.
VIZE 2008 project	In 2004–2006, CEZ Group's VIZE 2008 project served as a tool for integration and improving operational performance in the sales and distribution segment, including related ancillary processes.
Wholesale electricity customer	A customer who purchases electricity from the medium- and high-voltage grids.

Method Used to Calculate Key Figures

Name of indicator	Calculation
Assets turnover	$(\text{Sales of merchandise} + \text{Sales of own products and services} + \text{Change in own products on hand} + \text{Capitalization}) / \text{Average total assets}$
Coverage of fixed assets	$(\text{Equity} + \text{Long-term liabilities} + \text{Provisions} + \text{Long-term bank loans}) / \text{Fixed assets}$
Current ratio	$(\text{Current assets} + \text{Prepayments and accruals} - \text{Long-term receivables}) / (\text{Short-term liabilities} + \text{Short-term bank loans and advances} + \text{Accruals and deferred income})$
EBIT	Operating income
EBIT margin	$\text{Operating income} / (\text{Sales of merchandise} + \text{Sales of own products and services})$
EBITDA	Operating income + Depreciation and amortization
Extent of depreciation	Accumulated depreciation and impairment allowances on property, plant and equipment / Property, plant and equipment in use, gross
Financial debt	Long-term debt including current portion + Debentures + Short-term borrowings
Financial debt / EBITDA	$(\text{Long-term debt including current portion} + \text{Debentures} + \text{Short-term borrowings}) / \text{EBITDA}$
Financial debt / Equity	$(\text{Long-term debt including current portion} + \text{Debentures} + \text{Short-term borrowings}) / \text{Average equity}$
Net income	Income after tax
Operating cash flow	Net cash flow from operating activities
Operating cash flow-to-liabilities ratio	$\text{Net cash flow from operating activities} / (\text{Long-term liabilities} + \text{Provisions} + \text{Long-term borrowings})$
Return on Assets (ROA), net	$\text{Income after tax} / \text{Average total assets}$
Return on Invested Capital (ROE), net	$\text{Income after tax} / \text{Average equity}$
Return on Invested Capital (ROIC)	$(\text{EBIT} + \text{Net change in operating provisions and impairment allowances}) * (1 - \text{Income tax rate}) / (\text{Average tangible and intangible fixed assets} + \text{Average net working capital})$

Information on Persons Responsible for the Annual Report

Responsibility for the Annual Report

Statutory Declaration:

The information presented in the 2006 Annual Report of ČEZ Distribuce, a. s. is factual and no material circumstances were omitted or distorted that could influence an accurate and correct assessment of ČEZ Distribuce, a. s.

In Děčín, 20 April 2007

Editorial Section:



Tomáš Truxa
Head of Corporate Office

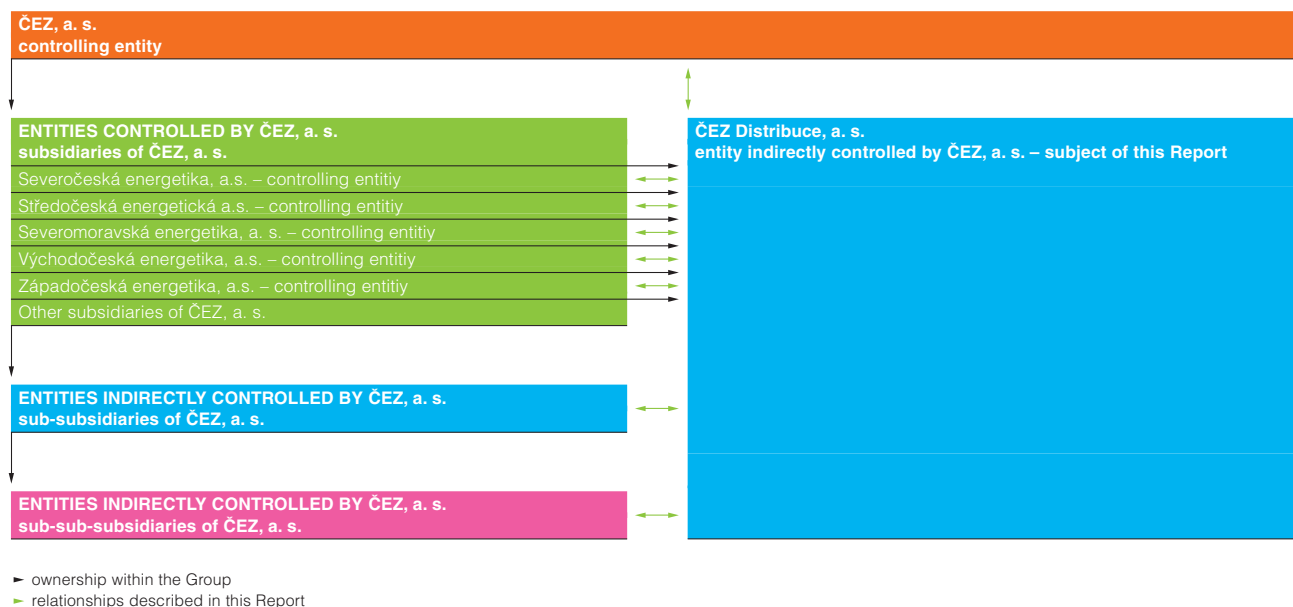
Financial Section:



Ivana Kolská
Head of Finance Department

ČEZ Distribuce, a. s. Related Parties Report 2006

1. Chart Showing Relationships Within the Group



2. Group Structure Chart

See separate annex under back cover flap.

3. Controlling Entity and Subject of Related Entities Report

Controlling Entity

The Controlling Entity pursuant to Section 66a(2) of the Commercial Code (Act No. 513/1991 Sb., as amended) is ČEZ, a. s.

Company name:	ČEZ, a. s.
With its seat at (address):	Duhová 2/1444, 140 53 Praha 4
ID No.:	452 74 649
Registered in Commercial Register maintained by:	Prague Municipal Court, Part B, Entry No. 1581

Manner of control:

The Controlling Entity exercises de facto control over the management of the Controlled Entity indirectly through the following entities that own equity stakes in ČEZ Distribuce, a. s.

Subject:	Severočeská energetika, a.s.
Seat in:	Děčín IV, Teplická 874/8, postcode 405 49
ID No.:	499 03 179
Registered in the Commercial Register maintained by:	Ústí nad Labem Regional Court, Part B, Entry No. 512,
holds:	20.11% equity stake in ČEZ Distribuce, a. s.
Subject:	Severomoravská energetika, a. s.
Seat in:	Ostrava – Moravská Ostrava, 28. října 3123/152, postcode 709 02
ID No.:	476 75 691, registered in the Commercial Register maintained
Registered in the Commercial Register maintained by:	Ostrava Regional Court, Part B, Entry No. 745
holds:	22.85% equity stake in ČEZ Distribuce, a. s.
Subject:	Středočeská energetická a.s.
Seat in:	Prague 2, Vinohradská 325/8, postcode 120 21
ID No.:	601 93 140
Registered in the Commercial Register maintained by:	Prague Municipal Court, Part B, Entry No. 2356
holds:	22.81% equity stake in ČEZ Distribuce, a. s.
Subject:	Východočeská energetika, a.s.
Seat in:	Hradec Králové, Sladkovského 215, postcode 501 03
ID No.:	601 08 720
Registered in the Commercial Register maintained by:	Hradec Králové Regional Court, Part B, Entry No. 1008
holds:	21.53% equity stake in ČEZ Distribuce, a. s.
Subject:	Západočeská energetika, a.s.
Seat in:	Plzeň, Guldenerova 19, postcode 303 28
ID No.:	497 90 463
Registered in the Commercial Register maintained by:	Plzeň Regional Court, Part B, Entry No. 390
holds:	12.70% equity stake in ČEZ Distribuce, a. s.

Controlled Entity – Subject of this Report

Company name:	ČEZ Distribuce, a. s.
With its seat at (address):	Děčín 4, Teplická 874/8, postcode 405 02
ID No.:	272 32 425
Registered in Commercial Register maintained by:	Ústí nad Labem Regional Court, Part B, Entry No. 1704

The Controlled Entity is a business company involved, in particular, in distributing electricity and providing related services. The Controlled Entity also carries on other activities under the relevant business authorizations recorded in the Commercial Register. The complete extent of the businesses the Controlled Entity is entitled to engage in is set forth in the Articles of Association of the Controlled Entity.

The Related Parties Report, unlike the rest of the 2006 Annual Report, contains data only for the period January 1 – December 31, 2006.

4. Alphabetical List of Companies in Group

See separate annex under back cover flap.

5. Contractual Relationships

List of valid contracts

The following list contains contracts entered into by ČEZ Distribuce, a. s. with related parties within CEZ Group. The companies are listed alphabetically, regardless of amount of consideration.

1. ČEZ, a. s.

Total of 8 contracts: 1 framework agreement on provision of accounting, tax, and financial services, 1 agreement on mutual credit lines, 1 agreement on conducting of environmental due diligence, 1 agreement on language skills training, 1 agreement on provision of promotional and information disclosure services, 1 agreement on provision of the ancillary service of regulation, 1 agreement on due diligence in a Macedonian distribution company, 1 trademark license agreement.

2. ČEZ Distribuční služby, s.r.o.

Total of 180 contracts: 177 contracts for project documentation and construction work, 2 leases of non-residential space, 1 framework agreement on provision of ŘPÚ services, minor repairs and operation of DG plant and equipment and DG fault correction.

3. ČEZ Logistika, s.r.o.

Total of 2,720 contracts: 2,715 contracts for supply of materials, 1 SLA (Service Level Agreement) for materials purchasing services, 4 service agreements.

4. ČEZ Měření, s.r.o.

Total of 3 contracts: 2 contracts for project documentation and construction work, 1 framework agreement on purchase of metering equipment.

5. ČEZ Prodej, s.r.o.

Total of 2 contracts: 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignee) , 1 agreement on supply of electricity and losses in the DG.

6. ČEZ Správa majetku, s.r.o.

Total of 18 contracts: 1 SLA containing 7 subagreements covering: real property management, lease of passenger cars, full service leasing, mailroom services, document archival and shredding services, copying services, and lease of non-residential space, 6 leases of non-residential space, 4 contracts for project documentation and construction work.

7. ČEZ Zákaznické služby, s.r.o.

Two leases of non-residential space.

8. ČEZData, s.r.o.

Total of 2 contracts: 1 contract for project documentation and construction work, 1 agreement on purchase of movable property.

9. ČEZnet, a.s.

Total of 12 contracts: 10 contracts for project documentation and construction work, 1 contract for servicing work, 1 fiber-optic cable lease.

10. Elektrovod, a.s.

Seven contracts for project documentation and construction work.

11. ELTRAF, a.s.

72 contracts for project documentation and construction work.

12. Energetická montážní společnost Česká Lípa, s.r.o.

273 contracts for project documentation and construction work.

13. Energetická montážní společnost Liberec, s.r.o.

73 contracts for project documentation and construction work.

14. Energetická montážní společnost Ústí nad Labem, s.r.o.

121 contracts for project documentation and construction work.

15. ENPRO, a.s.

408 contracts for project documentation and construction work.

16. ENPROSPOL, s.r.o.

534 contracts for project documentation and construction work.

17. MSEM, a.s.

Total of 362 contracts: 1 lease of non-residential space, 361 contracts for project documentation and construction work.

18. ESS s.r.o.

One contract for project documentation and construction work.

19. OSC, a.s.

One contract for project documentation and construction work.

20. PRO ENERGO Plzeň spol. s r.o.

(merged into SEG s. r. o., struck from the Commercial Register 1 July 2006)

Two contracts for project documentation and construction work.

21. SEG s.r.o.

882 contracts for project documentation and construction work.

22. Severočeská energetika, a.s.

Total of 42 contracts: 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignor), 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignee), 2 leases of non-residential space, 1 agreement on document archival and shredding services, 1 agreement on correspondence handling, 1 purchase contract – for property described in Expert Appraisal No. B 22/2006 prepared by court-appointed appraiser HZ Praha, s. r. o., 35 contracts for project documentation and construction work.

23. Severomoravská energetika, a. s.

Total of 166 contracts: 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignor), 1 framework agreement on provision of preventive maintenance services, operation of DG plant and equipment, and correction of DG faults, 1 agreement on management of real property and related services, 1 lease of non-residential space, 162 contracts for project documentation and construction work.

24. SINIT,a.s.

Total of 46 contracts: 1 agreement on servicing of control systems, 45 contracts for project documentation and construction work.

25. STE - obchodní služby spol. s r.o. in liquidation

One contract for project documentation and construction work.

26. Středočeská energetická a.s.

Total of 9 contracts: 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignor), 1 lease of non-residential space, 1 agreement on correspondence handling, 6 contracts for project documentation and construction work.

27. Ústav jaderného výzkumu Řež a.s.

One contract for project documentation and construction work.

28. VČE - montáže, a.s.

Total of 700 contracts: 1 lease of non-residential space, 699 contracts for project documentation and construction work.

29. VČE - transformátory, s.r.o.

40 contracts for project documentation and construction work.

30. Východočeská energetika, a. s.

Total of 55 contracts: 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignor), 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignee), 1 agreement on provision of environmental services, 1 agreement on correspondence handling, 1 agreement on copying services, 2 leases, 48 contracts for project documentation and construction work.

31. Západočeská energetika, a.s.

Total of 20 contracts: 1 agreement on assignment of receivables (ČEZ Distribuce, a. s. was assignee), 1 agreement on correspondence handling, 1 lease of non-residential space, 17 contracts for project documentation and construction work.

6. Other Relations

ČEZ Distribuce, a. s. did not take any legal actions in the interests of related parties nor did it accept or perform any other measures in the interests of related parties or at their behest.

7. Other Information

7.1. Confidentiality

Within CEZ Group, information is considered confidential if it constitutes:

- part of a business secret of ČEZ, a. s.,
- part of a business secret of other related parties,
- information that has been declared confidential by any entity that is part of the Group and all commercial information that could be, by itself or in conjunction with other information or facts, injurious to any of the entities constituting the Group.

For the above reasons, the Report for 2006 does not include:

- information on prices, installments, interest rates, currency rates, and other financial amounts, provided such non-disclosure does not restrict the information value of this Report
- information on quantities.

7.2. Auditor's opinion on the Related Parties Report

The Report was audited by the auditor as part of the 2006 Annual Report of ČEZ Distribuce, a. s.

7.3. Abbreviations used:

DG	distribution grid
SLA	service level agreement

7.4. The Controlled Entity is not involved in any litigation with any of the related parties in matters beyond the framework of ordinary business.

8. Conclusion

The Report was compiled according to the best knowledge and awareness of the subject, best efforts were used to obtain the documentation from which the information was drawn, and due care was taken to include all material circumstances that could influence an accurate and correct assessment of this Report.

The statutory body hereby states that the contracts entered into among related parties in the past accounting period did not cause any damage to ČEZ Distribuce, a. s. in the sense of Commercial Code Section 66a(9).

The statutory body of ČEZ Distribuce, a. s. approved this Report at its meeting of 19 March 2007.

The Report was submitted to the Supervisory Board for review. The Supervisory Board will present its opinion at the Company's Annual General Meeting.

Děčín, 30 March 2007



Jiří Kudrnáč
Chairman of the Board of Directors



Martin Němeček
Vice Chairman of the Board of Directors

Group Structure Chart

Alphabetical List of Companies in Group

ČEZ Distribuce, a. s.

Teplická 874/8
405 02 Děčín 4
Czech Republic

Registered in the Commercial Register maintained
by the Ústí nad Labem Regional Court, Part B, Entry No. 1704

Year of inception: 2005

Legal form: joint-stock company

ID No.: 272 32 425

Tax ID: CZ27232425

Bankers: Komerční banka, a.s., account no. 35-4544580267/0100

Tel.: +420 411 121 111

Fax: +420 411 122 997

Internet: <http://www.cezdistribuce.cz>

E-mail: cezdistribuce@cezdistribuce.cz

License No.: 120504641

OTE Registration No.: 715

Closing date of the 2006 Annual Report: 20 April 2007

