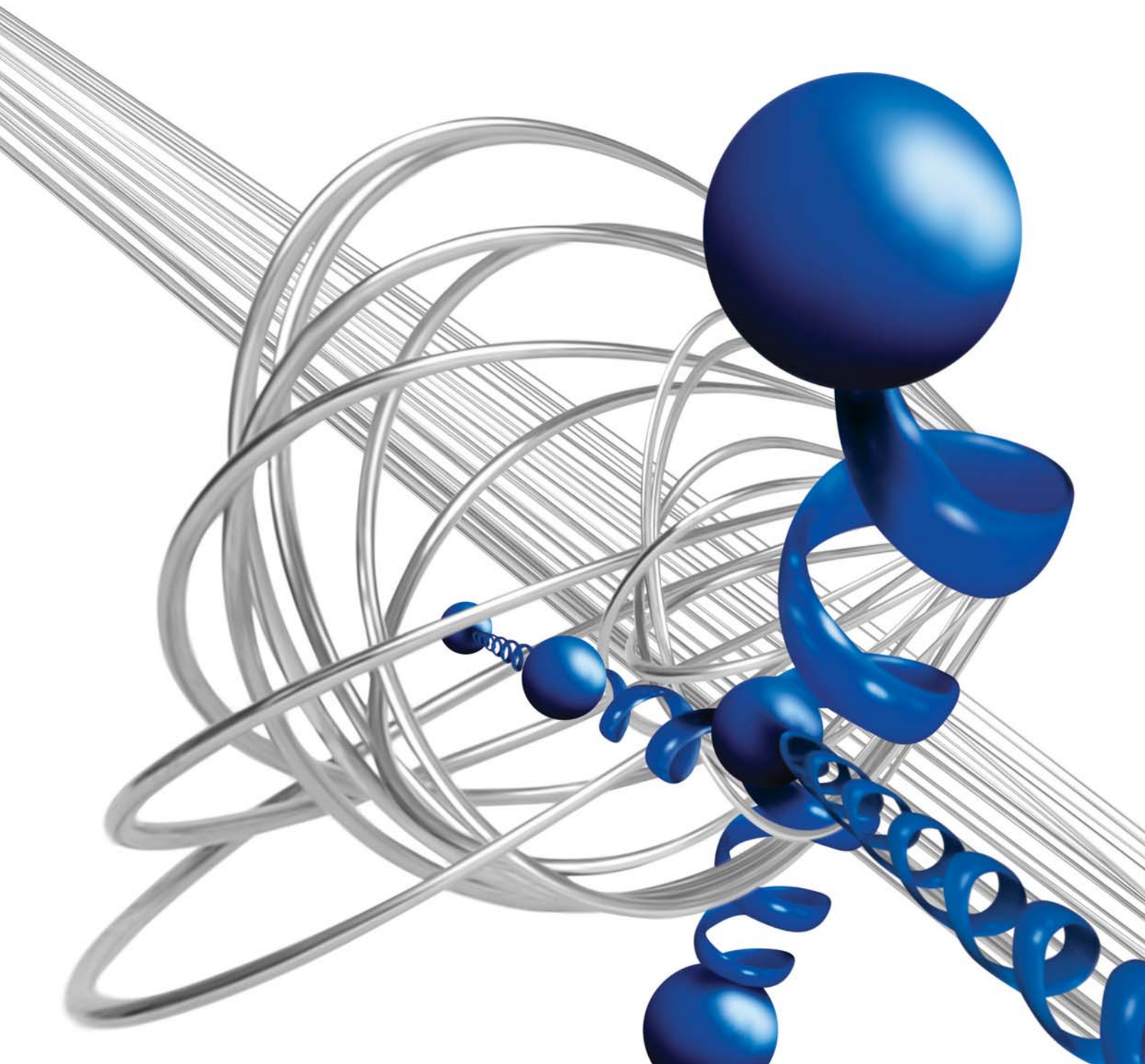




**ČEZ Distribuce, a. s.**  
**Annual Report 2007**



**ČEZ Distribuce, a. s.** (also referred to as the "Company"), with its seat in Děčín, was incorporated in the Commercial Register on 31 March 2005.

Based on the electricity distribution license granted to it, the Company operates the distribution grid in eleven regions of the Czech Republic. ČEZ Distribuce, a. s. is a member of CEZ Group, a business grouping as defined by the provisions of Section 66a of the Commercial Code.

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.

# INFINIT

**ČEZ Distribuce, a. s. in 2007:** **45.8** GWh electricity distributed, including losses, **3.5** million number of connection points,

# E POTENTIAL

CZK 6.6 billion capital expenditure, 657 CZK/MWh expense to distribute 1 MWh, including losses, CZK 8.1 billion EBITDA

**Energy without borders**

**THE FUTURE**

# OF ENERGY

Energy is strength – the source that is a crucial element in the movement of things, the functioning of objects and human life itself. Energy is all around us – difficult to grasp, not easy to see, yet it is the driving force of all events. Everything we do, everything we experience, everything we live by, is connected with energy. Energy is in everything, energy has no borders, and its possibilities are as vast as the capabilities of man and as unfathomable as the future development of the entire universe. That which can at first seem difficult to grasp – unreal, from the world of fantasy – has a surprisingly long history and a bright future. Science has been studying energy from time immemorial and today energy is taking on entirely new dimensions. Principles that are as yet little known harbor enormous potential. What is in the distant future can come true sooner than expected. Progress, courage and vision are the right path to success.

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## Selected Indicators

### Selected Economic Indicators

	Units	2005	2006	2007
Employee head count at December 31	number	869	1,150	1,153
Revenues from sale of finished products and services	CZK millions	4,687	29,193	31,341
of which: sales of electricity	CZK millions	4,662	28,999	31,133
EBITDA	CZK millions	1,257	6,621	8,120
EBIT	CZK millions	338	410	2,684
Net income	CZK millions	260	362	3,704
ROIC	%	0.53	0.63	3.27
Total assets	CZK millions	58,206	76,717	78,836
Equity	CZK millions	37,352	49,602	53,447
Financial debt	CZK millions	0	0	0
Financial debt/Equity	%	0	0	0
Capital expenditure	CZK millions	707	5,668	6,578
Operating cash flow	CZK millions	1,200	8,237	7,068

### Selected Sector-specific Indicators

	Units	2005	2006	2007
Supply area	km <sup>2</sup>	41,630	52,697	52,697
Number of connection points	number	2,520,997	3,475,044	3,495,103
of which: HV, MV – wholesale	number	9,760	13,385	13,442
LV – retail, commercial	number	357,708	481,934	483,059
LV – retail, households	number	2,153,529	2,979,725	2,998,602
Peak load	MW	4,181	6,074	6,012
Grid extended length	km	117,229	152,733	153,778
of which: HV	km	7,435	9,523	9,540
MV	km	39,563	49,781	50,136
LV	km	70,231	93,429	94,102
Number of transformer stations	number	37,768	49,211	49,963
of which: owned by Company	number	29,945	39,117	39,452
owned by others	number	7,823	10,094	10,511

# Important Events of 2007 and 2008 Up to Annual Report Closing Date

## Important Events of 2007

- January**
- damage caused by Kyrill (storm with gale-force winds) repaired,
  - plans for over CZK 350 million in capital expenditures approved.
- February**
- ČEZ Foundation donation agreement for H1 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 the Czech Republic to exchange distribution best practices,
  - Věra Kučerová resigns from the Board of Directors,
  - Petra Holomková elected to the Board of Directors,
  - Věra Kučerová steps down as Director of the Corporate Administration Section,
  - Board of Directors of ČEZ Distribuce, a. s. meets with Company employees in the North, Central, West, and Moravia regions.
- April**
- Board of Directors of ČEZ Distribuce, a. s. meets with Company employees in the East region,
  - Petra Holomková appointed Director of the Corporate Administration Section,
  - Compliance Program Report for 2006 approved,
  - Compliance Program for 2007 approved effective from 1 May 2007.
- May**
- Annual General Meeting of ČEZ Distribuce, a. s.,
  - ČEZ Foundation donation agreement for H2 2007 approved.
- June**
- Board of Directors approves plan to increase ČEZ Distribuce, a. s. stated capital by a non-monetary contribution consisting of the distribution assets of Energetika Vítkovice, a.s., capital increase proposal drafted,
  - Supervisory Board grants prior consent for drafting of proposal to increase stated capital by non-monetary contribution of portion of Energetika Vítkovice, a.s. assets.
- July**
- enlargement of 22 kV substation to accommodate connection of Nošovice industrial park completed,
  - construction of 110 kV double line between Výškov and Triangle transformer stations completed,
  - representatives of labor union and ČEZ Distribuce, a. s. management meet to discuss proposed reorganization.
- August**
- Miroslav Kekule resigns from the Supervisory Board,
  - Supervisory Board appoints Zdeněk Pasák substitute Supervisory Board member until the next General Meeting.



- September**
- Board of Directors of ČEZ Distribuce, a. s. approves draft materials concerning increase of ČEZ Distribuce, a. s. stated capital by non-monetary contribution of Energetika Vítkovice, a.s. assets for submission to the sole shareholder ČEZ, a. s.,
  - General Manager's Technical Development Council established,
  - Technical Information System put into productive operation.
- October**
- dissolution of five electricity distribution companies, which had previously been shareholders of ČEZ Distribuce, a. s., by merger with ČEZ, a. s., Duhová 2/1444, Prague 4, 140 53, ID No.: 452 74 649,
  - decision of the sole shareholder on increase of the Company's stated capital by non-monetary contribution of Energetika Vítkovice, a.s. assets recorded in the Commercial Register.
- November**
- share subscription agreement signed with Energetika Vítkovice, a.s.,
  - agreement signed on contribution of a portion of the assets of Energetika Vítkovice, a.s.,
  - Pavel Filipi elected to the Board of Directors of the Czech Federation of Power Industry Employers,
  - redesign of ČEZ Distribuce, a. s. website completed.
- December**
- sponsorship donations for 2008 to the CEZ GROUP SENIORS Foundation Fund approved,
  - Jiří Kudrnáč resigns as Chairman of the Board of Directors of ČEZ Distribuce, a. s.,
  - Josef Holub elected to the Board of Directors of ČEZ Distribuce, a. s.,
  - Josef Holub elected Chairman of the Board of Directors of ČEZ Distribuce, a. s.,
  - decision of the Energy Regulatory Authority revises Company's distribution license to include distribution of electricity over the Energetika Vítkovice, a.s. supply area,
  - Jiří Kudrnáč steps down as General Manager of ČEZ Distribuce, a. s.

#### **Important Events of 2008 Up to Annual Report Closing Date**

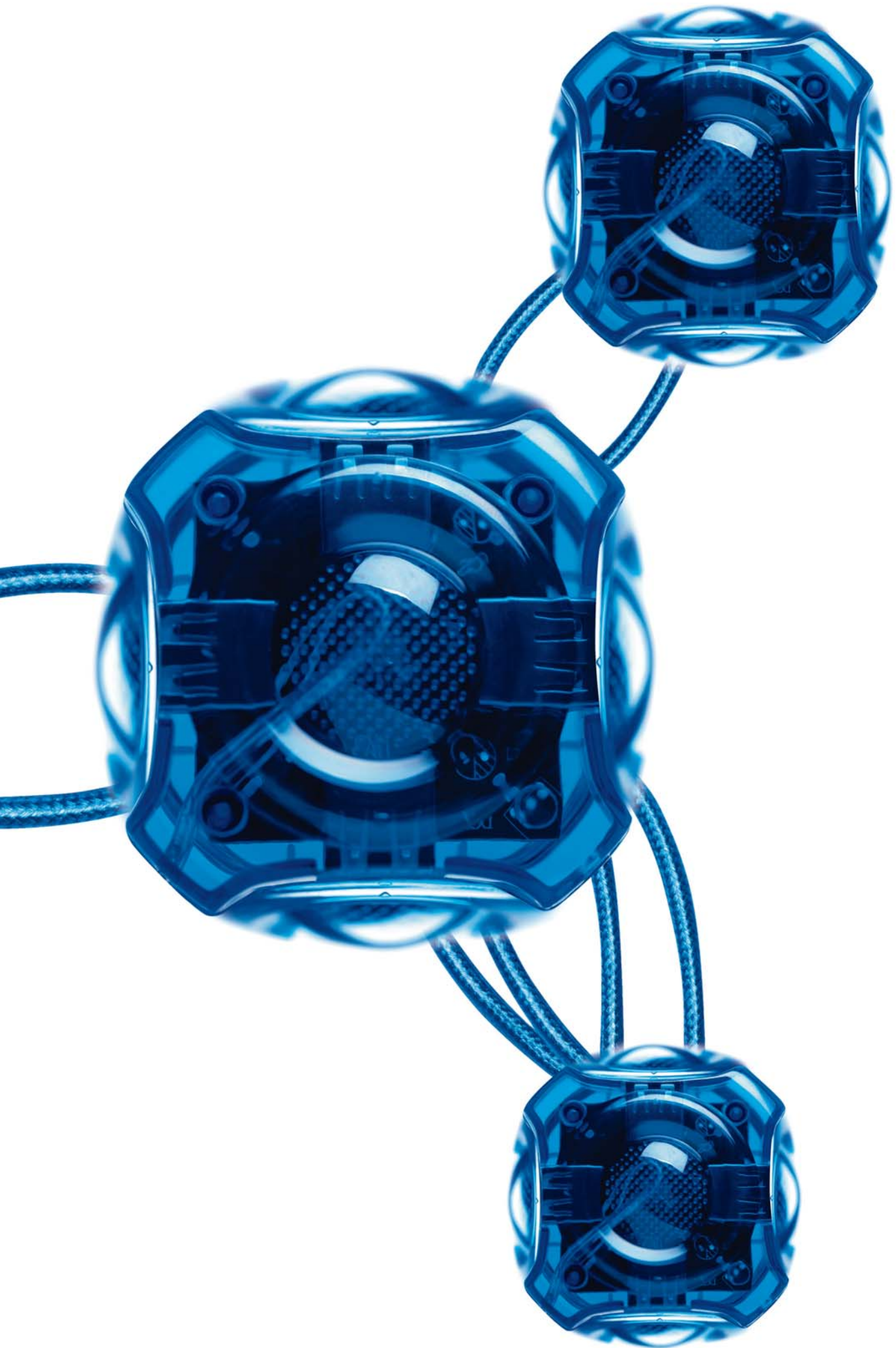
- January**
- Josef Holub begins working as General Manager of ČEZ Distribuce, a. s.,
  - protocol on hand-over and receipt of non-monetary contribution of Energetika Vítkovice, a.s. assets drawn up between ČEZ Distribuce, a. s. and Energetika Vítkovice, a.s.,
  - Zdeněk Pasák elected to the Supervisory Board of ČEZ Distribuce, a. s. by decision of the sole shareholder acting with the powers of the General Meeting of ČEZ Distribuce, a. s.,
  - change in the shareholder structure – registration of ČEZ, a. s. as sole shareholder struck from the Commercial Register,
  - increase of the Company's stated capital by amount of non-monetary contribution of Energetika Vítkovice, a.s. assets recorded in the Commercial Register.
- February**
- "Connection Terms and Conditions for Installing Measurement Devices" issued for all customer categories stipulated by applicable regulation and for generation facilities, in accordance with the Energy Act,
- March**
- damage caused by Emma windstorm in the Czech Republic repaired.
  - Board of Directors of ČEZ Distribuce, a. s. meets with Company employees in the North and Central regions.
- April**
- Board of Directors of ČEZ Distribuce, a. s. meets with Company employees in the Moravia, East, and West regions.



## **Energy Cabinets**

Ultracapacitors are the future of energy storage. Their features exceed by far the possibilities of common energy sources – i.e. the battery and the fuel cell. Large ultracapacitor units are predicted to have a particularly bright future in electromobiles and hybrid automobiles. Ultracapacitors could also be very useful for storing surplus energy generated from alternative sources – i.e. wind and solar energy. Ultracapacitor technology works on the same principle as a conventional capacitor, where a non-conducting layer between two conducting layers enables the creation of a constant electrical field.

The capacity depends on the area of the electrodes and the attributes and thickness of the non-conducting layer. Ultracapacitors have conducting layers of porous charcoal with an enormous internal surface area. The spaces in the pores are filled with electrolyte, with a so-called “separator” between the electrodes. Ultracapacitors have one to two orders of magnitude higher capacity than conventional capacitors.



## Letter from the Chairman

### Dear shareholders, ladies & gentlemen:

As the Company's third year was getting underway, we were hit by the storm Kyrill that on the night of January 18–19, 2007, affected nearly the entire territory of the Czech Republic and caused considerable damage to the distribution grid. It took the employees of ČEZ Distribuce, a. s. several months to repair all the damage. This event was the first real-world test of the Company's crisis management system and I am pleased to report that the system was up to the task, even under the extreme conditions of Kyrill, an extraordinary event with property damage seldom seen in the country's history. On behalf of the Board of Directors, I would like to thank all our employees whose dedication and hard work made it possible to repair the damage and renew electricity supplies to customers.

In 2007, ČEZ Distribuce, a. s. posted income before tax of CZK 2,796 million. Compared to the previous year, capital expenditures were up CZK 910 million, due in particular to new projects implemented in response to customer demand. Total capital expenditure in 2007 was CZK 6,578 million. The biggest projects implemented in 2007 were the Nošovice Industrial Park and refurbishment of the Kolín-East 110/22 kV transformer station. A total of 33 TWh of electricity was distributed to end customers.

This year saw the end of the VIZE 2008 project, which was a key tool for integrating and improving operating performance in the distribution segment and in related support processes as well. Currently, the Company can present itself as stabilized and fully consolidated. A significant event in 2007 was the recording in the Commercial Register of the merger of Středočeská energetická a.s., Západočeská energetika, a.s., Severočeská energetika, a.s., Východočeská energetika, a.s., and Severomoravská energetika, a. s. with ČEZ, a. s., making the latter the sole shareholder of ČEZ Distribuce, a. s.

Another important milestone of 2007 was start-up of the Technical Information System (TIS), which is the result of untold hours of work by all members of the TIS team. Very soon, this system will become a full-fledged operational tool, giving employees effective and instant access to information on ČEZ Distribuce, a. s. distribution grid plant and equipment, not only for our internal use but also for the process of connecting new customers to the grid.

In late 2007, the Company took all necessary steps to increase its stated capital by a non-monetary contribution consisting of the distribution assets of Energetika Vítkovice, a.s., with the aim of gaining not only a new shareholder, but also new customers in Energetika Vítkovice's service area.

On behalf of the Board of Directors of ČEZ Distribuce, a. s., I would like to thank all our customers for their trust, our business partners for their excellent cooperation, and the Company's employees for their good work.



**Josef Holub**  
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 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 held nine regular meetings in 2007. In addition, in 2007 the Supervisory Board took three decisions outside of regular meetings, in accordance with Article 29 of the Articles of Association.

### Members of the Supervisory Board

**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 a member of the Board of Directors of ČEZ, a. s., where he also serves as Chief International Affairs Officer.

**Otto Karl (\* 1943)**

**Vice Chairman of the Supervisory Board since 31 March 2005**

A graduate of the Czech Technical University, Prague.

**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 PPC Úžín, a.s., I & C Energo a.s., ČEZ Měření, s.r.o., and ČEZ Zákaznické služby, s.r.o.

**Zdeněk Pasák (\* 1966)**

**Member since 9 August 2007**

A graduate of the Charles University, Prague, Faculty of Philosophy & Arts, Mr. Pasák is a member of the Board of Directors of ČEZ, a. s., where he also serves as Chief Personnel Officer. He is also a member of the Board of Directors of the Czech Federation of Power Industry Employers.

**Irena Klůsová (\* 1953)**

**Member elected by the employees since 9 May 2006**

A civil engineering industrial secondary school graduate, Ms. Klůsová works in the ČEZ Distribuce, a. s. General Manager's Section as assistant – coordinator in the Corporate Administration Office. She is a member of the Board of Trustees of CEZ GROUP SENIORS Foundation Fund.

**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 is a real-time control legislation specialist.

### **List of ČEZ Distribuce, a. s. Supervisory Board members who left the Supervisory Board in 2007 or up to the Annual Report closing date (28 April 2008)**

**Miroslav Kekule (\* 1946)**

**Member from 31 March 2005 to 9 August 2007**



## 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, which is 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 for 12 regular meetings and one extraordinary meeting in 2007. The Board of Directors took four decisions outside of meetings, in accordance with Article 7 of the Articles of Association. The Supervisory Board is kept informed of selected matters in accordance with the law and the Articles of Association.

## Members of the Board of Directors

**Josef Holub (\* 1951)**

**Chairman since 14 December 2007**

A graduate of the Czech Technical University, Prague, Mr. Holub is a member of the Board of Directors and Vice President of the Federation of Industry and Transport of the Czech Republic and a member of the Board of Administration of Všeobecná zdravotní pojišťovna České republiky, elected by the Chamber of Deputies of the Parliament of the Czech Republic.



Martin Němeček (\*1966)

Vice Chairman since 31 March 2005

A graduate of the Czech Technical University, Prague, Mr. Němeček is 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 Board of Directors of the Czech Federation of Power Industry Employers and a member of the administrative board of Smetanova Litomyšl, o.p.s.

## Executive Management

Josef Holub (\*1951)

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.

### List of members of the ČEZ Distribuce, a. s. executive management who left the executive management in 2007 or up to the Annual Report closing date (28 April 2008)

Jiří Kudrnáč (\*1965)

General Manager from 31 March 2005 to 31 December 2007

Věra Kučerová (\*1942)

Director, Corporate Administration Section  
from 19 August 2005 to 15 March 2007





Petra Holomková (\*1968)

Member since 15 March 2007

A graduate of the University of Economics, Prague, Ms. Holomková has been appointed a substitute member of the Supervisory Board of ČEZ Zákaznické služby, s.r.o. until the next General Meeting.



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.

**List of members of the ČEZ Distribuce, a. s. Board of Directors who left the Board of Directors in 2007 or up to the Annual Report closing date (28 April 2008)**

Jiří Kudrnáč (\*1965)

Chairman from 31 March 2005 to 14 December 2007

Věra Kučerová (\*1942)

Member from 19 August 2005 to 15 March 2007

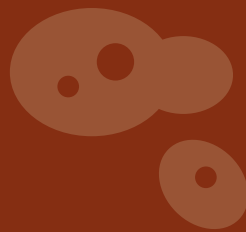
**Remuneration Principles –  
Board of Directors and Supervisory Board**

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

In 2007, the Company did not provide members of the statutory and supervisory boards any loans, guarantees, collateral, or consideration.

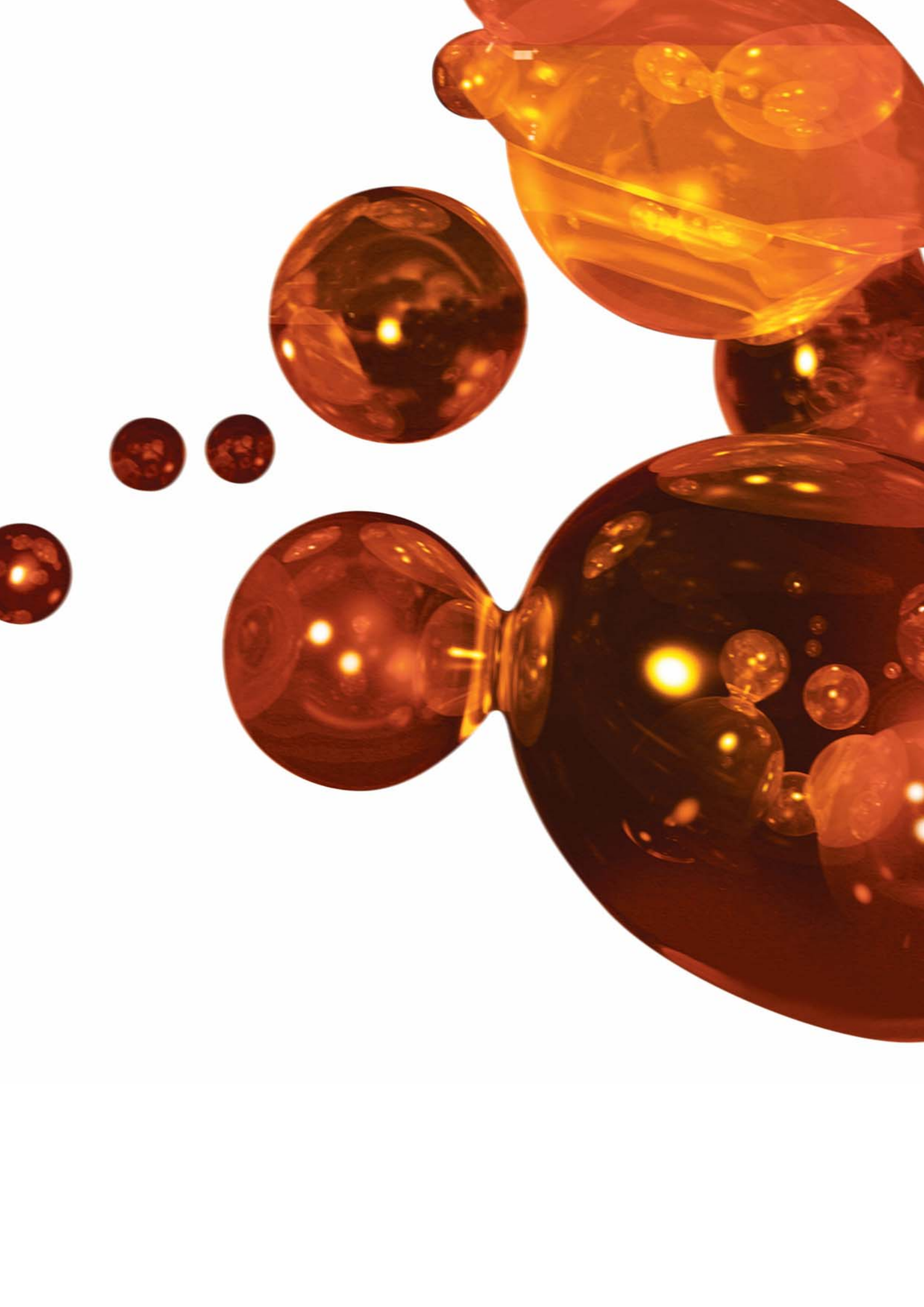
**Remuneration Principles –  
Executive Management**

The General Manager's contract was approved by the Company's Board of Directors. The Company's Personnel Committee 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 executive's task assignments are evaluated once per year.



## **Nanotechnology in the Power Industry**

Nanotechnologies make it possible to create very small structures by directly manipulating individual atoms and molecules. Nanotechnologies will be used to filter water and will help in finding a solution to the increasing global shortage of potable water sources. Nanotechnologies will also influence the modelling of water sources and help improve solar energy processing systems. These technologies will contribute to the further development of ecology and protection of the environment.



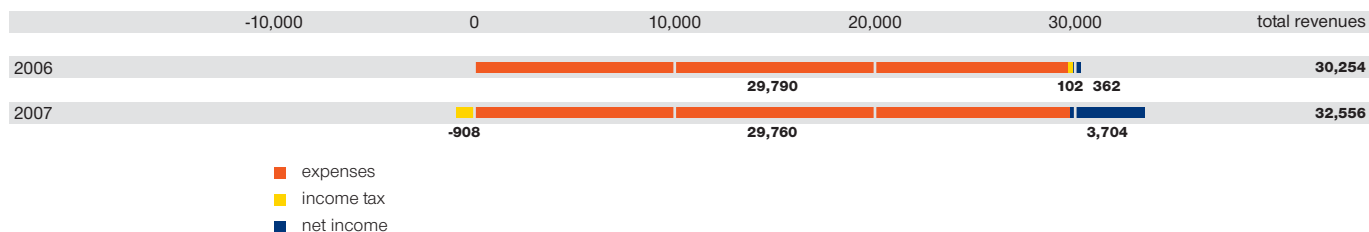
# Report on Operations

## Financial Performance

2007 was the third year of the second regulation period. The Company operates in a fully liberalized environment. The Energy Regulation Authority set the 2007 prices for purchase and sale of electric power and services in a structure similar to the one used for 2006.

### Revenues, Expenses, Income

#### Income Breakdown (CZK millions)



The Company's before-tax income in 2007 was CZK 2,796 million, which represents a year-on-year increase of CZK 2,332 million. Due to the inclusion of deferred tax, the Company's net income was higher than its before-tax income. The net income figure was CZK 3,704 million.

The operating result was CZK 2,684 million, which is CZK 2,274 million more than in 2006, due in particular to the gross margin on electricity distribution (higher by CZK 1,611 million) and depreciation and amortization (lower by CZK 776 million).

The financial result was CZK 112 million, which is CZK 57 million higher than in 2006. The increase was due to a higher amount of surplus cash during the year.

Expenses, net of income tax, totaled CZK 29,760 million in 2007 and compared to the previous year they were down CZK 31 million. The biggest expense component, at CZK 14,770 million, was purchasing of electric power to cover losses and purchasing of system and distribution services. The next largest components were other production-related consumption (CZK 8,332 million), depreciation and amortization (CZK 5,436 million), personnel expenses (CZK 778 million), other operating expenses (CZK 442 million), and finance expenses (CZK 2 million).

Revenues totaled CZK 32,556 million and consisted of revenues from sale of system and distribution services (CZK 31,133 million), other sales and service revenues (CZK 385 million), other operating revenues (CZK 924 million), and finance revenues (CZK 114 million). Compared to 2006, overall revenues were up CZK 2,302 million, of which CZK 2,135 million was attributable to increased electricity revenues.

## Structure of Assets

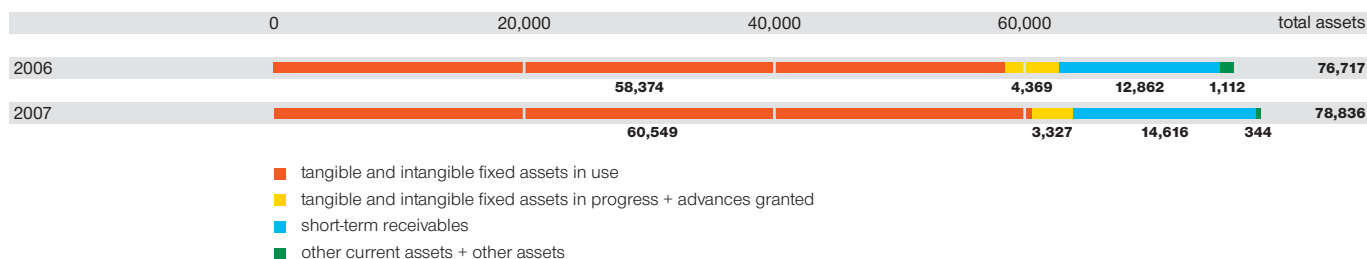
### Assets

Total assets, at CZK 78,836 million, were up CZK 2,119 million from the previous year. Growth in assets was driven mostly by fixed assets and unbilled revenue from electricity distribution services.

Fixed assets reached CZK 63,876 million, up CZK 1,133 million from 2006. The largest components in fixed assets were constructions (CZK 48,530 million), separate movable items (CZK 11,597 million), and tangible assets in progress (CZK 3,304 million).

Current assets were up CZK 844 million in 2007, compared to the previous year, and their total was CZK 14,806 million. The items with the highest values were prepaid expenses and unbilled revenue from services related to electricity distribution (CZK 8,890 million), amounts owed by the controlling entity relating to Group cash-pooling (CZK 4,639 million), short-term advances granted (CZK 527 million), and short-term trade receivables (CZK 370 million).

#### Structure of Assets (CZK millions)



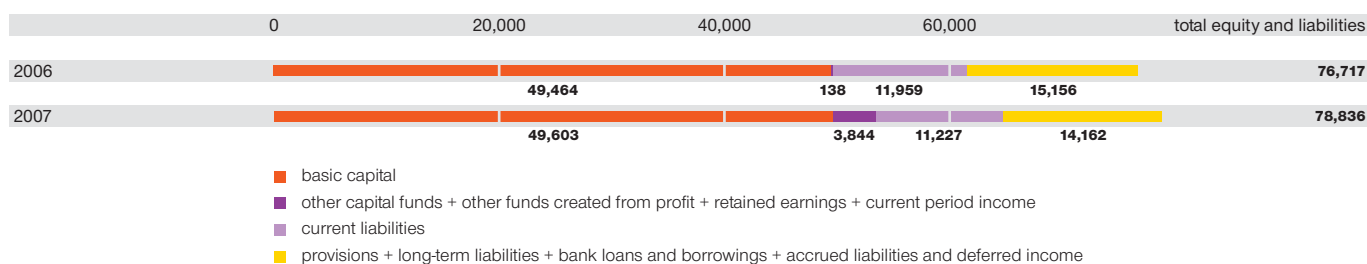
### Equity and Liabilities

Equity totaled CZK 53,447 million, having grown CZK 3,845 million from 2006. Growth was attributable to the profit for the year and the value of the subscribed capital contribution from Energetika Vitkovice, a.s. The biggest components of equity were the basic capital recorded in the Commercial Register (CZK 49,464 million) and the profit for the year (CZK 3,704).

Liabilities reached CZK 18,828 million, down CZK 2,323 million from the previous year, mostly in the deferred tax liability which decreased by CZK 1,968 million. The largest items were advances received (CZK 8,305 million), deferred tax liability (CZK 6,481 million), trade payables (CZK 1,733 million), unbilled deliveries (CZK 1,132 million), and the income tax provision (CZK 1,055 million).

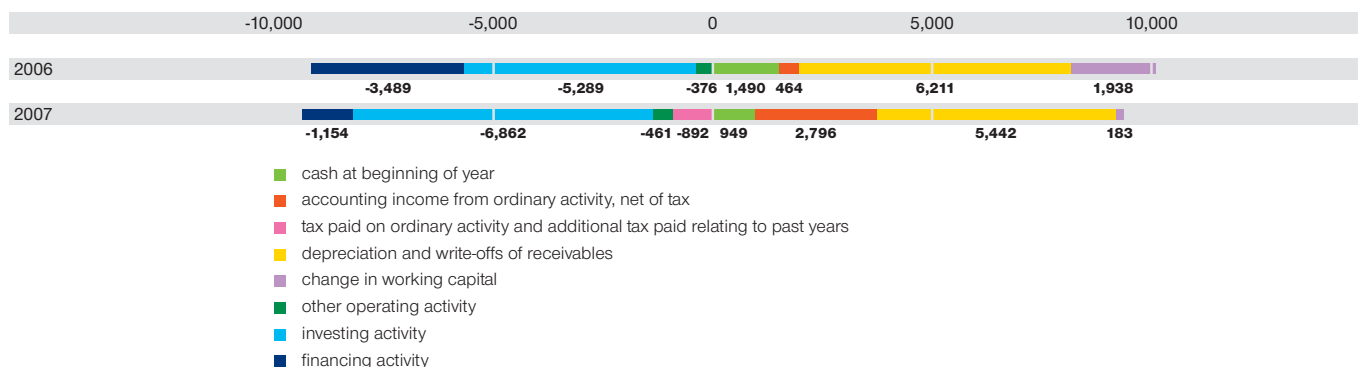
Other liabilities, consisting primarily of deferred income from applicants' shares in connection expenses, reached CZK 6,561 million, up CZK 598 million from the previous year.

#### Structure of Equity and Liabilities (CZK millions)



## Company Financing

### Cash Flows (CZK millions)



Short-term financial assets at 31 December 2007 totaled CZK 0.6 million, down CZK 948 million. The decline was caused by sale of short-term securities.

Cash provided by operating activity (CZK 7,068) consisted of the following items:

■ Profit or loss on ordinary activities before taxation	CZK 2,796 million
■ corporate income tax paid	CZK -892 million
■ depreciation, amortization and debt write-downs	CZK 5,442 million
■ change in working capital	CZK 183 million
■ other operating activity	CZK -461 million

The most significant component in cash used in investing activity (CZK 6,862 million) was expenditures for acquisition of fixed assets, at CZK 6,893 million.

Of the CZK 1,154 million in cash used in financing activity, the largest component was a CZK 1,153 million increase in our Group cash-pooling receivable.

### Bank and Other Borrowings and Their Maturity

At 31 December 2007 the Company had no outstanding bank loans or other borrowings.

### Key Performance Indicators

	Units	2006	2007
Return on Invested Capital (ROIC)	%	0.63	3.27
Return on Equity (ROE), net	%	0.83	7.19
Return on Assets (ROA), net	%	0.54	4.76
EBIT margin	%	1.40	8.56
Financial debt/Equity	%	0	0
Financial debt/EBITDA	%	0	0
Current ratio	%	78.98	83.30
Operating cash flow-to-liabilities ratio	%	89.60	92.99
Assets turnover	1	0.43	0.41
Fixed assets coverage	%	93.71	95.57
Extent of depreciation	%	10.75	16.91

## Commercial and Financial Outlook

2008 is the fourth year of the second regulation period. The prices for purchase and sale of electric power and services set by the Energy Regulation Authority for 2008 have a structure similar to the one used for 2007. The electricity distribution purchasing and sales plan is in line with anticipated electricity consumption in the ČEZ Distribuce, a. s. supply area for 2008 and assumes the Energy Regulatory Authority's price decree for that year will reflect principles of regulated prices on both sides: purchasing and sales. The purpose of these principles, which are stipulated by law, is to ensure coverage of distribution companies' justified expenses, generate funds for renewing and developing the distribution grid, and ensure returns for shareholders. The Company's plan for 2008 envisions revenues of CZK 32,232 million, income before tax of CZK 1,055 million, and capital expenditures of CZK 7,688 million.



### **Glasses as a Means of Communication**

The U.S. Army is already using a technology that uses special glasses to project an image on the retina. This technology can be expected to be released for civilian use by 2050. Then, all you will need to access the Internet will be a special set of glasses and, of course, a wireless connection. The glasses will also function as a telephone, with voice dialling which is common even on today's handsets.

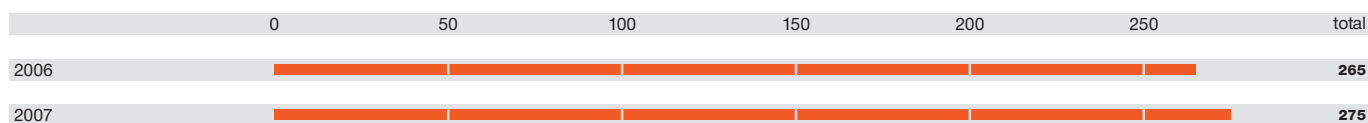




## Information on the Company's Core Business

The operation and maintenance of distribution grid plant and equipment at all voltage levels in 2007 took place in compliance with quality standards and the Rules of Preventive Maintenance. Smooth operation of the distribution grid during the year was negatively impacted primarily by six natural disasters caused by unfavorable weather conditions, the most serious of which was the storm Kyrill in January. When natural disasters are excluded, grid control recorded the following numbers of supply interruptions in 2007: 64 in the high voltage system, 6,952 in the medium-voltage system, and 34,455 in the low-voltage system. These numbers are for outages lasting longer than three minutes and affecting at least one customer. Since its inception, the Company has been monitoring and evaluating indicators relating to the quality and reliability of electricity supply and distribution, as well as other service quality indicators. One of these indicators is SAIDI (System Average Interruption Duration Index), which expresses the total average duration of electricity supply interruption per customer for the entire year. This figure includes all failures and planned interruptions that occurred during the year directly in the Company's distribution grid or were caused in the transmission grid, except for those caused by unfavorable weather conditions.

### Total Duration of Electricity Supply Interruption per Customer, 2007 (minutes)



All obligations under applicable laws and regulations, in particular monitoring of compliance with guaranteed standards in accordance with Energy Regulatory Authority Decree No. 540/2005 Sb. on the quality of supplies of electricity and related services in the power industry, were met.

ČEZ Distribuce, a. s. owns and operates the following distribution grid plant and equipment:

### Distribution Grid Plant and Equipment

	Units	2006	2007
Grid extended length	km	152,733	153,778
of which: HV	km	9,523	9,540
MV	km	49,781	50,136
LV	km	93,429	94,102
Substations	number	203	203
Transformer stations	number	49,211	49,963
of which: owned by ČEZ Distribuce, a. s.	number	39,117	39,452
other owners	number	10,094	10,511

**Analysis of Electricity Distribution (GWh)**

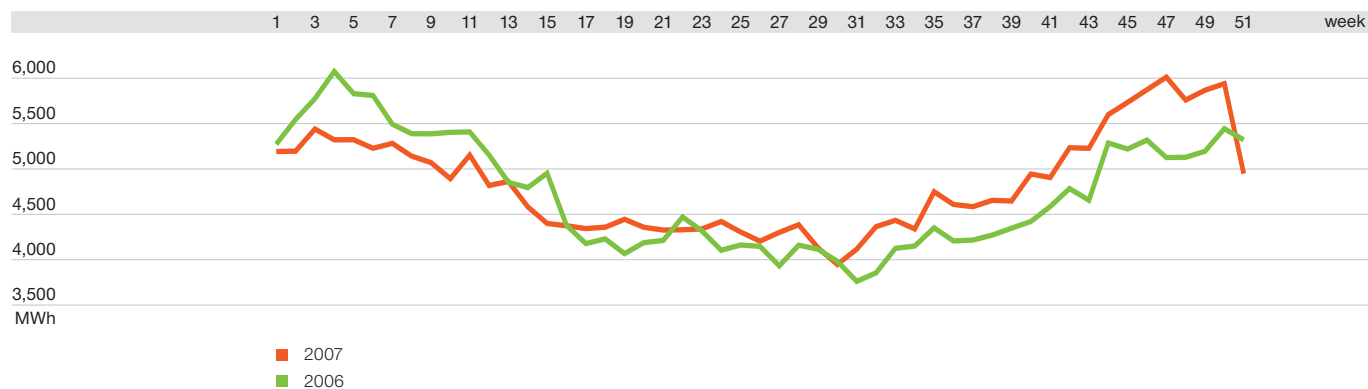
	2006	2007
<b>Input to the distribution grid</b>		
From transmission grid operators	23,089	23,171
From ČEZ, a. s. power plants	8,730	9,838
From neighboring transmission grid operators	936	861
From other producers, including private power plants	10,482	9,495
Import (from other countries) at the distribution services level	674	693
Distribution license holders (local distribution grid)	816	1,772
<b>Input to the distribution grid, total</b>	<b>44,728</b>	<b>45,830</b>
<b>Output from the distribution grid</b>		
End customers at HV and MV levels	16,955	17,015
End customers at LV level	14,334	13,908
Used by producers from grids belonging to distribution service providers	1,310	831
Supplied to neighboring distribution service providers	5,330	5,393
Supplied to transmission grid	1,118	2,286
Export (to other countries) at the distribution services level	370	479
Distribution license holders (local distribution grid)	2,557	3,243
Other consumption by distribution service providers	49	45
Losses	2,705	2,630
<b>Output from the distribution grid, total</b>	<b>44,728</b>	<b>45,830</b>

The total volume of electricity that flowed into the grid in 2007 was 45,830 GWh. Compared to 2006 this represents an increase of 2.46%. The biggest component, at 51%, was electricity from the ČEPS a. s. grid. Another 21% flowed in from ČEZ, a. s. power plants (up 13% year-on-year), while inflows from other producers accounted for 21% (down 9%).

The volume of electricity distributed to end customers at the HV and MV levels grew slightly in year-on-year terms. The amount of electricity distributed to customers at the LV level, on the other hand, was down 3% due to higher average temperatures in the winter months of 2007. Compared to the preceding year, supplies to other countries increased by 30%.

The highest one-hour peak load of 6,012 MW was recorded on 29 November 2007 at 17:00.

#### Weekly Peak Loads (MWh)



ČEZ Distribuce, a. s. distributes electricity to end customers through electricity traders or by direct sale of distribution services. In 2007 the number of active traders with framework agreements with ČEZ Distribuce, a. s. increased to 23. The total number of connection points increased by 20,059.

#### Number of Connection Points

	2006	2007
HV – wholesale	129	93
MV – wholesale	13,256	13,349
LV – retail, commercial	481,934	483,059
LV – retail, residential	2,979,725	2,998,602
<b>Total</b>	<b>3,475,044</b>	<b>3,495,103</b>

In 2007, over 20,000 new connection points were added to the grid and reserved capacity was increased for another 30,000 connection points. CZK 1.1 billion in shares for connection and capacity increases was collected from customers in 2007 pursuant to Decree No. 51/2006 Sb. on Conditions for Connection to the Power System, and CZK 2.7 billion was expended to meet the new demand.

#### New Connections and Connection Capacity Increases

Voltage level	Distribution grid expenditures (CZK millions)	Shares collected (CZK millions)	New connections and capacity increases (MW)
HV	338	11	22
MV	470	276	363
LV	1,862	767	930
<b>Total</b>	<b>2,670</b>	<b>1,054</b>	<b>1,315</b>

# Strategic Objectives

## **Business Policy**

The Company's principal task is to act responsibly as the administrator of distribution grid assets in the CEZ Group supply area, generating returns for shareholders from the regulated activity of electricity distribution while complying with the terms of Act No. 458/2000 Sb. (the Energy Act) and rules promulgated 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 recoverability and reliability principles,
- optimum distribution grid management with objective of steadily reducing power outage durations 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 the 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 distribution system operation in order to standardize technologies used and manage grid development expenditures.

## **ČEZ Distribuce, a. s. Strategic Development Objectives**

Our most important plans for 2008 are the following:

- optimize the organization and business processes through implementation of best practices,
- effectively manage distribution grid renewal and expansion costs,
- 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 a privilege 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.

# Capital Expenditure

## Capital Projects

In 2007, the Company invested CZK 6,578 million in renewing and upgrading the distribution system. In response to increased customer demand, the actual volume of capital expenditure in 2007 exceeded the original plan figure by CZK 797 million.

In terms of distribution grid development, this year was characterized by preparations and, subsequently, construction of distribution grid plant and equipment for connecting additional major industrial parks.

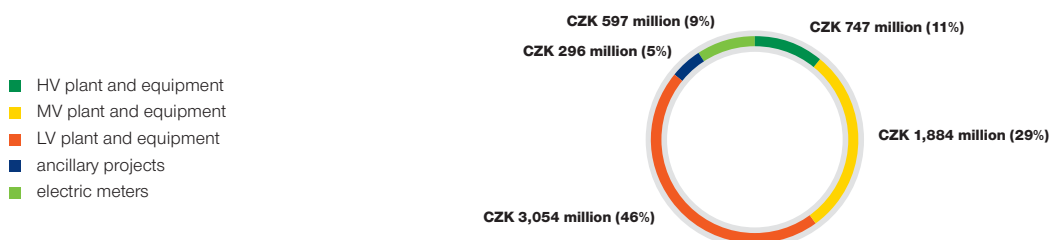
### Principal Capital Expenditure Policy Objectives

Capital expenditure 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.

### Overview of Capital Expenditure in 2007, Plan for 2008 (CZK millions)

	2007 (Actual)	2008 (Plan)
HV plant and equipment	747	1,167
MV plant and equipment	1,884	2,956
LV plant and equipment	3,054	2,622
Ancillary projects	296	449
Electric meters	597	494
<b>Total</b>	<b>6,578</b>	<b>7,688</b>

### Capital Expenditure in 2007



### Distribution Grid Upgrades

The bulk of capital expenditure went on MV and LV projects (CZK 4,938 million total). These projects were mostly renovations of underground and overhead lines and construction of MV/LV distribution transformer stations. A total of CZK 747 million was expended on HV projects: mostly renovations and construction of HV/MV transformer stations. A considerable portion of the overall capital expenditure figure at the HV, MV and LV levels was dedicated to projects initiated by customer demand (CZK 2,699 million). Most importantly, these included construction of industrial parks, development of suburban localities, and individual construction of new single-family homes.

### Most Significant MV and LV Projects

#### Central Region

- Kolín East 110/22 kV transformer station – Phase 2,
- Slaný 110/22 kV transformer station,

#### West Region

- Horní Bříza 22 kV substation,
- Rotava 110/22 kV transformer station,

#### North Region

- North section switchgear remote control,
- MV underground loop, transformer station, and LV underground line Teplice Dubí – Bystrice,

#### East Region

- new 35 kV substation at Ústí nad Orlicí transformer station,
- renovation of Semily 35 kV transformer station – start of Phase 1,

#### Moravia Region

- Ostrava Rudná 110/22 kV transformer station,
- Mošnov Industrial Park 110/22 kV transformer station,

#### Most Significant HV Projects

##### Central Region

- Jesenice – Příbram 110 kV line,
- Týnec 110 kV substation,

##### West Region

- 110 kV substation: Škoda, Coal-fired Power Plant III,
- Tuhnice – replacement of 110 kV switchgears,

##### North Region

- Hamr-Jeřmanice 110 kV overhead line,
- Triangle Industrial Park, Žatec – new 110/22 kV transformer station,

##### East Region

- Mírovka 400/110 kV transformer station – renovation of 110 kV substation, including control systems – Phase 1,
- Tuněchody 110/35 kV transformer station – renovation of 110/35 kV substation, including control systems,

##### Moravia Region

- Nošovice Industrial Park – grid connection,
- Odry – Vítkov 110 kV spur.

## Research & Development Expenditures

During the year, work continued on several R&D projects in cooperation with the specialized laboratories of EGÚ Brno, a.s. and the Technical University of Ostrava.

These studies and analyses included:

- a study entitled “Long-term Plan for Development Grid Provision in the Northwest Area of Bohemia”,
- analysis of 110 kV power supply to Nošovice, Lískovec area while respecting power requirements of new industrial parks,
- update of method used to determine LV grid load via work – output conversion (W over P method),
- structural analysis of new ČEZ Distribuce, a. s. Technical Information System database with concurrent design of interface between the new TIS database system and the RCM software,
- gathering elemental reliability data for evaluating the reliability of individual elements,
- optimizing the use of remote control on selected 22 kV outputs and analysis of the operational utilization of switching elements.

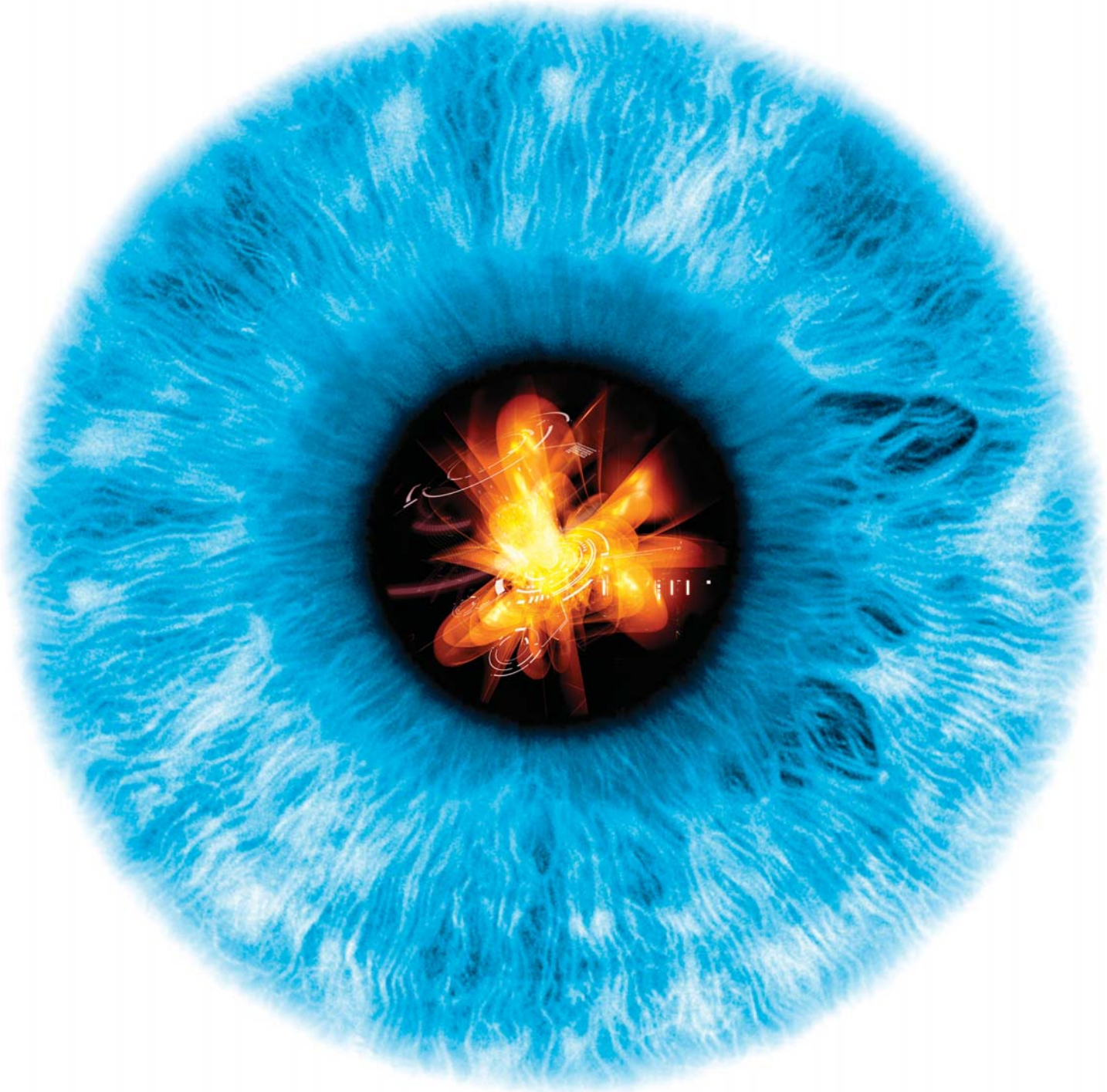
ČEZ Distribuce, a. s. continued to participate in the committees that decide which university applicants will receive grants from the Czech Republic Grant Agency, as well as the State examination committees. In addition, in 2007 we played a role in assigning master's and bachelor's thesis topics to university students studying electrical engineering.



### **End of the Language Barrier**

In 2025, real-time translation technology will be built into mobile telephones, PDAs, and cars, making the language barrier a thing of the past. 2035 will be the year of 3D Internet. In 2050, communication will take place via glasses that will project an image directly on the retina, enabling voice-controlled videophone communication as well as access to virtual worlds.





# 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. The system includes training, auditing, and inspection plans. The principle of applying feedback is one of the important principles in the occupational safety and health area.

To keep the system up-to-date, the following steps were taken in 2007:

- introduction of a new, unified OHS methodology that treats this area comprehensively throughout all of ČEZ Distribuce,
- development of training programs focused on laws and other regulations relating to occupational safety,
- update of work categories, including stipulation of measures. This categorization was accepted by the relevant Regional Public Health Stations,
- the Company set up a system for organizing OHS coordinators' preparatory and implementation procedures at construction sites,
- investigating each and every extraordinary event that took place on ČEZ Distribuce, a. s. plant and equipment, including processing of feedback for injury prevention purposes,
- including occupational safety and health in the corporate management function, including methodological management of cooperating affiliates,
- enforcing the updated OHS policy and creating conditions for employees to submit proposals and suggestions concerning this subject matter.

### Management of OHS Risk

We increased the effectiveness of risk management by introducing feedback mechanisms. New risks are periodically evaluated and included in the existing risk protocols. 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. The process of analyzing and assessing risk is never-ending. Its goal is to keep uncovering risks while rolling out new technologies in work areas. The elimination of these risks is an integral part of creating optimal work conditions.

## Quality Management System

The Company's quality management objective in 2007 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. Five of these sites were cleaned up in 2007. A total of CZK 26 million (net of VAT) was drawn from the State fund designated for remedying legacy environmental burdens. During the year, contracts for dealing with legacy environmental burdens were transferred from the former regional distribution companies to the successor organization, ČEZ Distribuce, a. s.

Protecting birds from sustaining injuries by electric shock has become a standard and key component of our nature protection efforts. Above and beyond compliance with requirements given by applicable law, the Company decided to invest over CZK 100 million in protecting birds. In conjunction with this plan, environmentalists worked last year in cooperation with ornithologists to prepare all necessary implementation documentation. The preparations included identifying specific power lines for installation of bird protectors. The overall investment will be distributed over the years 2008-2013 and will help to make approximately 2,500 km of high voltage lines safe for birds.

One of the first steps taken in conjunction with this decision was an April meeting with leading ornithological organizations combined with a press conference where the avian protection cooperation was clarified and a timeline was set for preparations. In the months that followed, similar meetings and press conferences were held in each of the regions in the ČEZ Distribuce, a. s. supply area.

One concrete result of activities in this area is a list of locations determined by ornithologists to pose the highest risk for birds. The 2008 capital expenditure budget includes approximately CZK 20 million for avian protection on high voltage lines. That is approximately CZK 4 million for each region.

Another area of environmental legislation compliance was PCB handling. Here, the main development in 2007 was coordination of collaboration between ČEZ Distribuce, a. s., ČEZ Distribuční služby, s.r.o., and the laboratories that test samples. The result was 6,600 pieces of equipment tested for the presence of PCBs. The priority for the coming year is to roll out unified electronic record-keeping for the entire ČEZ Distribuce, a. s. supply area.

## 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 fire protection function was managed centrally for the entire Company. Regular inspections were conducted to determine the current state of affairs in this area, including inspections at contractor companies that work on equipment owned by the electricity distribution license holder.

Fire protection activities focused particularly on prevention. Fire protection documentation was updated and Company functions were categorized by degree of fire risk. Outside experts were hired to inspect the Company's fire protection assets and fire alarm systems.

### **OHS, Environmental, and Fire Protection Services Conducted Under Contract with CEZ Group Companies**

In the course of 2007, contractual relations were updated with the companies ČEZ Zákaznické služby, s.r.o. and ČEZData, s.r.o., and a new contractual relationship was entered into with our affiliate ČEZ Správa majetku, s.r.o. Based on these arrangements, employees of ČEZ Distribuce, a. s. conduct certain activities in the areas of OHS, fire protection, and environmental systems on behalf of our contractual partners.

# Shares, Shareholders and the General Meeting

## Shareholders and Securities Issued

The total basic capital of ČEZ Distribuce, a. s. recorded in the Commercial Register as at the Annual Report closing date was CZK 49,603,413,578.

Effective 1 October 2007, ČEZ, a. s., with its seat at Duhová 2/1444, Prague 4, postcode 140 53, Czech Republic, ID No.: 452 74 649, became the sole shareholder of ČEZ Distribuce, a. s. as a result of the dissolution of the Company's previous five shareholders (Středočeská energetická a.s., Severočeská energetika, a.s., Severomoravská energetika, a. s., Východočeská energetika, a.s., and Západočeská energetika, a.s.) by merger with ČEZ, a. s. As of the aforementioned date, these five companies were dissolved without liquidation and ČEZ, a. s. became the owner of a 100% stake in the equity of ČEZ Distribuce, a. s.

An increase in the Company's basic capital by CZK 139,421,490 took place upon approval of a plan to increase the Company's basic capital by contribution of movable and immovable assets of the company Energetika Vítkovice, a.s. to ČEZ Distribuce, a. s. On 16 October 2007, the capital increase plan was approved by the ČEZ, a. s., which at the time this decision was taken was the sole shareholder of ČEZ Distribuce, a. s., owning 100% of the Company's shares and acting with the powers of the General Meeting.

The increase in the basic capital was implementing by the subscription of one registered share of common stock with a nominal value of CZK 139,421,490. The share issued to increase the Company's basic capital was offered to a predetermined party – the subscriber, i.e. Energetika Vítkovice, a.s.

The share was issued in documentary form, with limited transferability. The share may be transferred only with the consent of the Board of Directors, which can only be given after the Supervisory Board considers the matter and issues a statement.

## Shareholder Structure

Shareholder		Number of shares pcs	Stake in basic capital %
ČEZ, a. s.		63,578,396	99.72
Multiple-share certificate no.	HL3000001	12,787,748	
	HL3000005	14,522,308	
	HL3000004	14,498,120	
	HL3000003	13,694,105	
	HL3000002	8,076,115	
Energetika Vítkovice, a.s.		1	0.28
Registered share	C000001		

### **Types and Volumes of Securities Issued**

The Company has issued five multiple-share certificates numbered HL3000001 to HL3000005. The multiple-share certificates replace individual registered, CZK 778 par value shares.

One registered share in documentary form with a nominal value of CZK 139,421,490.

All the Company's shares have limited transferability. They can only be transferred with the consent of the Board of Directors, which can only be given only after the Supervisory Board considers the matter and issues a statement.

Shareholders have the right to a share in the Company's profits (i.e. a dividend). To date, ČEZ Distribuce, a. s. has not paid out any dividends.

### **Shareholder Relations**

ČEZ Distribuce, a. s. convenes and holds 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 unlimited access to information through the Internet at the Internet address [www.cezdistribuce.cz](http://www.cezdistribuce.cz). Important information on the Company is also made public through press releases.

#### **General Meetings of ČEZ Distribuce, a. s.**

The Annual General Meeting was held on 13 May 2007. It discussed and passed resolutions on the following agenda points:

- the report on the Company's operations and the state of its assets in 2006,
- the report of the Supervisory Board on its activity during the past period,
- the financial statements for the year ended 31 December 2006,
- the financial plan for 2007,
- the settlement of the Company's loss and distribution of the 2006 profit,
- a decision on the total amount of sponsorship donations to be distributed in 2007,
- and a decision on remuneration of members of the Board of Directors and Supervisory Board,
- an amendment to the Company's Articles of Association,
- election of the personnel committee.

#### **Decisions of the Sole Shareholder Acting with the Powers of the General Meeting of ČEZ Distribuce, a. s.**

- 16 October 2007: approval of decision to increase the Company's basic capital by a non-monetary contribution of movable and immovable assets from the company Energetika Vítkovice, a.s.,
- 5 December 2007: decision on the total volume of sponsorship donations to the CEZ GROUP SENIORS Foundation Fund for 2008,
- 15 January 2008: election of Zdeněk Pasák to the Supervisory Board, with term of office to begin as of the date of the decision.

# Human Resources

The corporate culture of ČEZ Distribuce, a. s. correlates with the corporate culture of CEZ Group and further develops the principles adopted. The corporate culture focuses on performance and is based on the following seven key principles:

1. creating value safely,
2. responsibility for results,
3. playing as one team,
4. developing our potential,
5. growing beyond borders,
6. seeking new solutions,
7. playing fair.

## Labor Relations

In the area of labor relations and social policy, the Company has always strived to uphold labor peace and respect the Labor Code, including related legislation, and the valid Collective Agreement.

Collective bargaining took place in late 2007, concerning an increase in wage tariffs in particular. The Collective Agreement for the 2008–2010 period was signed on 18 December 2007 in Prague. It will expire on 31 December 2010.

A key feature of the new Collective Agreement is that growth in wage tariffs and extra pay items is agreed for two years in advance, i.e. for 2008 and 2009.

The Collective Agreement also includes new provisions such as a CZK 200/day employer contribution for the first three calendar days of sickness, a provision entitling employees to one paid personal day per calendar year to do volunteer work for public-benefit causes or for a non-profit organization.

## Hires and Terminations in 2007 (number of employees)

Hires	48
Terminations	45

The work force headcount at 31 December 2007 was 1,153 employees.

### **Social Policy**

The Company's social policy includes providing employees monetary and non-monetary consideration. Non-monetary compensation is provided in the form of reduced work hours, one extra week of paid vacation above the statutory amount, etc. Monetary consideration was provided by the Company in the approximate amount of CZK 55 million. The employer contributed primarily to employees' pension and life insurance plans, meals, and health care. All full-time employees received a personal account that can be used to pay for items such as recreational sojourns.

### **Training**

Training and development of ČEZ Distribuce, a. s. employees can be divided into several basic areas. The first form of employee development, legislative training, consists of periodic "second profession" training. Specific periods are stipulated by law and employees are subject to re-examination or re-training in those second professions that they actively pursue in their work, as part of their job description.

Employee qualifications are increased and otherwise developed primarily through studies at universities and secondary schools. The fields and programs studied by Company employees are chosen on the basis of job description or the planned direction of future career growth. In the 2006/2007 academic year, a total of 83 Company employees were involved in work-study programs: 56 at secondary schools and 27 at universities. Development of language skills at the Company focused primarily on English. In 2007, approximately 160 employees participated in foreign language courses.

In the second half of 2007, management skills training was organized for approximately 130 executives at the middle management level. The primary aim of this three-week program was to develop basic managerial skills in the areas of performance management, effective communication, work organization, change management, etc. The total expense incurred by the Company for all employee development and training activities in 2007 was CZK 8 million.

### **Labor Union Relations**

Five regional associations of basic organizations and one independent labor organization operate at the Company. These labor organizations are part of two labor unions: the ECHO Labor Union and the Czech Union of Power Industry Employees.

During the course of the year, the Company's personnel and social policies were managed in the context of the valid Collective Agreement. Also, changes to the Company's organization and selected management documents were consulted with the labor organizations. When employees were laid off, the extensive social program was fully utilized.

Although both social partners have differing interests, in most cases a path to agreement was found and labor peace was upheld.

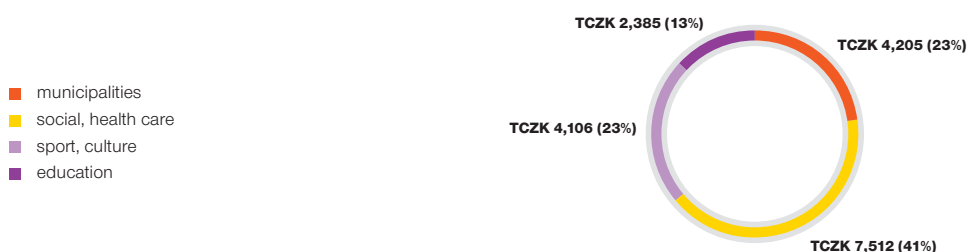
## Donorship and Sponsorship Program

Sponsorship donations made through ČEZ Foundation totaled CZK 60 million in 2007.

The donations made in this way contributed to the development of science, education, sports, protection of human health, protection of cultural monuments and the environment over the entire ČEZ Distribuce, a. s. service area.

In addition, sponsorship donations totaling CZK 18 million were made by the Company directly in 2007. This sum was distributed amongst approximately 70 various projects.

### Distribution of ČEZ Distribuce, a. s. Donations in 2007



ČEZ Distribuce, a. s. dedicated an amount of TCZK 742 to advertising projects in 2007.

This amount was distributed amongst 11 advertising projects. Seven projects were in the area of sports (youth and professional), and another four projects were nationwide or international in scope.

Sponsorship and advertising activities relating to the ČEZ Distribuce, a. s. service area accounted for 90% of all outlays in this area.



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# Auditor's 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 2007 presented in the annual report of the Company on pages 40–56 on which we have issued an auditors' report dated January 25, 2008, presented in the annual report on page 39.
- 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 3–36 is consistent with that contained in the audited financial statements as at 31 December 2007. 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 2007 presented in the annual report of the Company on pages 63–67. 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 2007 is materially misstated.

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

Josef Pivoňka  
Auditor, License No. 1963

April 28, 2008  
Prague, Czech Republic

# Auditor's Report on the Financial Statement of ČEZ Distribuce, a. s.



## 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 December 31, 2007, 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

The management 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 December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

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

Josef Pivoňka  
Auditor, License No. 1963

January 25, 2008  
Prague, Czech Republic

# ČEZ Distribuce, a. s.

## Balance Sheet as of 31. 12. 2007

(in CZK thousands)

ASSETS	Gross	2007 Provision	Net	2006 Net
<b>Total assets</b>	<b>91,239,095</b>	<b>(12,403,420)</b>	<b>78,835,675</b>	<b>76,716,909</b>
Stock subscription receivable	140,910	0	140,910	0
<b>Fixed assets</b>	<b>76,257,162</b>	<b>(12,380,759)</b>	<b>63,876,403</b>	<b>62,743,460</b>
<b>Intangible assets</b>	<b>136,136</b>	<b>(68,527)</b>	<b>67,609</b>	<b>97,326</b>
Foundation and organization expenses	0	0	0	0
Research and development	6,302	(2,455)	3,847	699
Software	92,084	(49,087)	42,997	27,914
Patents, royalties and similar rights	23,727	(15,324)	8,403	9,781
Goodwill	0	0	0	0
Other intangible assets	5,713	(1,661)	4,052	1,802
Intangible assets in progress	8,310	0	8,310	57,130
Advances granted for intangible assets	0	0	0	0
<b>Tangible assets</b>	<b>76,121,026</b>	<b>(12,312,232)</b>	<b>63,808,794</b>	<b>62,646,134</b>
Land	356,826	0	356,826	348,121
Constructions	56,433,895	(7,903,870)	48,530,025	47,464,000
Separate movable items and groups of movable items	16,004,392	(4,407,400)	11,596,992	10,515,441
Perennial crops	0	0	0	0
Livestock	0	0	0	0
Other tangible assets	7,069	(962)	6,107	6,581
Tangible assets in progress	3,304,415	0	3,304,415	4,182,792
Advances granted for tangible assets	14,429	0	14,429	129,199
Gain or loss on revaluation of acquired property	0	0	0	0
<b>Financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Subsidiaries	0	0	0	0
Associates	0	0	0	0
Other long-term securities and interests	0	0	0	0
Loans to subsidiaries and associates	0	0	0	0
Other long-term investments	0	0	0	0
Long-term investments in progress	0	0	0	0
Advances granted for long-term investments	0	0	0	0
<b>Current assets</b>	<b>14,828,680</b>	<b>(22,661)</b>	<b>14,806,019</b>	<b>13,962,450</b>
<b>Inventory</b>	<b>189,358</b>	<b>0</b>	<b>189,358</b>	<b>151,839</b>
Materials	534	0	534	709
Work in progress and semi-finished production	186,221	0	186,221	148,527
Finished products	0	0	0	0
Livestock	0	0	0	0
Goods	0	0	0	0
Advances granted for inventory	2,603	0	2,603	2,603
<b>Long-term receivables</b>	<b>264</b>	<b>0</b>	<b>264</b>	<b>282</b>
Trade receivables	0	0	0	0
Receivables from group companies with majority control	0	0	0	0
Receivables from group companies with control of 20% - 50%	0	0	0	0
Receivables from partners, co-operative members and participants in association	0	0	0	0
Long-term advances granted	0	0	0	0
Unbilled revenue	0	0	0	0
Other receivables	264	0	264	282
Deferred tax asset	0	0	0	0
<b>Short-term receivables</b>	<b>14,638,446</b>	<b>(22,661)</b>	<b>14,615,785</b>	<b>12,861,821</b>
Trade receivables	391,417	(21,853)	369,564	408,752
Receivables from group companies with majority control	4,638,906	0	4,638,906	3,485,791
Receivables from group companies with control of 20% - 50%	0	0	0	0
Receivables from partners, co-operative members and participants in association	0	0	0	0
Social security and health insurance	0	0	0	0
Due from government - tax receivables	189,735	0	189,735	0
<b>Short-term advances granted</b>	<b>526,575</b>	<b>0</b>	<b>526,575</b>	<b>901,510</b>
Unbilled revenue	8,889,518	0	8,889,518	8,057,765
Other receivables	2,295	(808)	1,487	8,003
<b>Short-term financial assets</b>	<b>612</b>	<b>0</b>	<b>612</b>	<b>948,508</b>
Cash	612	0	612	5,508
Bank accounts	0	0	0	0
Short-term securities and interests	0	0	0	943,000
Short-term financial assets in progress	0	0	0	0
<b>Accrued assets and deferred liabilities</b>	<b>12,343</b>	<b>0</b>	<b>12,343</b>	<b>10,999</b>
Prepaid expenses	1,198	0	1,198	5,565
Prepaid expenses (specific-purpose expenses)	0	0	0	0
Unbilled revenue	11,145	0	11,145	5,434

(in CZK thousands)

EQUITY & LIABILITIES	2007	2006
TOTAL EQUITY & LIABILITIES	78,835,675	76,716,909
<b>EQUITY</b>	<b>53,446,958</b>	<b>49,602,424</b>
Basic capital	49,603,413	49,463,992
Registered capital	49,463,992	49,463,992
Own shares and own ownership interests (-)	0	0
Changes in basic capital	139,421	0
<b>Capital funds</b>	<b>1,689</b>	<b>163</b>
Share premium (agio)	1,489	0
Other capital funds	200	163
Gain or loss on revaluation of assets and liabilities	0	0
Gain or loss on revaluation of company transformations	0	0
<b>Reserve funds and other funds created from profit</b>	<b>18,105</b>	<b>2,405,684</b>
Legal reserve fund	18,105	2,405,684
Statutory and other funds	0	0
<b>Profit (loss) for the previous years</b>	<b>120,164</b>	<b>(2,629,507)</b>
Retained earnings for the previous years	120,164	0
Accumulated loss of previous years	0	(2,629,507)
<b>Profit (loss) for the year (+ / -)</b>	<b>3,703,587</b>	<b>362,092</b>
<b>LIABILITIES</b>	<b>18,827,846</b>	<b>21,151,226</b>
<b>Reserves</b>	<b>1,119,692</b>	<b>743,868</b>
Reserves created under special legislation	0	0
Reserve for pensions and similar obligations	0	0
Reserve for corporate income tax	1,055,058	708,543
Other reserves	64,634	35,325
<b>Long-term liabilities</b>	<b>6,480,856</b>	<b>8,448,833</b>
Trade payables	0	0
Liabilities to group companies with majority control	0	0
Liabilities to group companies with control of 20% – 50%	0	0
Liabilities to partners, co-operative members and participants in association	0	0
Advances received	0	0
Bonds payable	0	0
Notes payable	0	0
Unbilled deliveries	0	0
Other liabilities	0	400
Deferred tax liability	6,480,856	8,448,433
<b>Current liabilities</b>	<b>11,227,298</b>	<b>11,958,525</b>
Trade payables	1,732,823	2,134,110
Liabilities to group companies with majority control	0	0
Liabilities to group companies with control of 20% – 50%	0	0
Liabilities to partners, co-operative members and participants in association	0	0
Liabilities to employees	27,403	26,338
Liabilities arising from social security and health insurance	18,600	17,479
Due to government – taxes and subsidies	6,318	44,206
Advances received	8,305,099	8,159,393
Bonds payable	0	0
Unbilled deliveries	1,131,791	1,572,592
Other liabilities	5,264	4,407
<b>Bank loans and borrowings</b>	<b>0</b>	<b>0</b>
Long-term bank loans	0	0
Short-term bank loans	0	0
Borrowings	0	0
<b>Accrued liabilities and deferred assets</b>	<b>6,560,871</b>	<b>5,963,259</b>
Accruals	26	0
Deferred income	6,560,845	5,963,259

# ČEZ Distribuce, a. s.

## Income Statement as of 31. 12. 2007

(in CZK thousands)

	Accounting period	
	2007	2006
Revenue from sale of goods	0	0
Cost of goods sold	0	0
<b>Gross margin</b>	<b>0</b>	<b>0</b>
Production	31,518,641	29,315,940
Revenue from sale of finished products and services	31,341,279	29,192,926
Change in inventory produced internally	37,692	49,166
Own work capitalized	139,670	73,848
<b>Production related consumption</b>	<b>23,101,799</b>	<b>22,328,724</b>
Consumption of material and energy	6,737,078	5,699,676
Services	16,364,721	16,629,048
<b>Value added</b>	<b>8,416,842</b>	<b>6,987,216</b>
<b>Personnel expenses</b>	<b>778,341</b>	<b>729,291</b>
Wages and salaries	527,450	499,619
Bonuses to members of company or cooperation bodies	2,137	2,137
Social security and health insurance	187,288	174,549
Other social costs	61,466	52,986
Taxes and charges	6,155	2,833
Amortization and depreciation of intangible and tangible fixed assets	5,435,713	6,211,423
Revenue from sale of intangible and tangible fixed assets and materials	54,978	63,503
Revenues from sale of intangible and tangible fixed assets	29,361	41,104
Revenue from sale of materials	25,617	22,399
Net book value of intangible and tangible fixed assets and materials sold	14,626	34,821
Net book value of intangible and tangible fixed assets sold	14,626	34,821
Materials sold	0	0
Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	16,689	41,672
Other operating revenues	868,210	819,257
Other operating expenses	404,376	440,415
Transfer of operating revenues	0	0
Transfer of operating expenses	0	0
<b>Profit or loss on operating activities</b>	<b>2,684,130</b>	<b>409,521</b>
Revenue from sale of securities and interests	0	0
Securities and interests sold	0	0
Income from financial investments	0	0
Income from subsidiaries and associates	0	0
Income from other long-term securities and interests	0	0
Income from other financial investments	0	0
Income from short-term financial assets	5,624	5,158
Expenses related to financial assets	0	0
Gain on revaluation of securities and derivatives	0	0
Loss on revaluation of securities and derivatives	0	0
Change in reserves and provisions relating to financial activities	0	0
Interest income	106,707	50,479
Interest expense	0	0
Other finance income	1,200	80
Other finance cost	1,813	903
Transfer of finance income	0	0
Transfer of finance cost	0	0
<b>Profit or loss on financial activities</b>	<b>111,718</b>	<b>54,814</b>
Tax on profit or loss on ordinary activities	(907,739)	102,243
– due	1,059,837	708,543
– deferred	(1,967,576)	(606,300)
<b>Profit or loss on ordinary activities after taxation</b>	<b>3,703,587</b>	<b>362,092</b>
Extraordinary gains	0	0
Extraordinary losses	0	0
Tax on extraordinary profit or loss	0	0
– due	0	0
– deferred	0	0
<b>Extraordinary profit or loss</b>	<b>0</b>	<b>0</b>
Transfer of share of profit or loss to partners (+/-)	0	0
<b>Profit or loss for the year (+/-)</b>	<b>3,703,587</b>	<b>362,092</b>
<b>Profit or loss before taxation</b>	<b>2,795,848</b>	<b>464,335</b>

# ČEZ Distribuce, a. s.

## Cash Flow Statement for 2007 and 2006

(in CZK thousands)

	Accounting period	
	2007	2006
Cash and cash equivalents at beginning of year	948 508	1,489,818
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit or loss on ordinary activities before taxation (+/-)	2,795,848	464,335
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	4,879,311	5,784,534
Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	5,442,075	6,211,423
Depreciation and amortization of fixed assets	5,435,828	6,211,423
Write-off of receivables	6,247	0
Change in provisions and reserves	(441,351)	(370,127)
Change in provisions	(12,620)	6,347
Change in reserves	29,309	35,325
Change in accrued and deferred assets and liabilities	(458,040)	(411,799)
(Gain)/Loss on disposal of fixed assets	(14,735)	(6,283)
Interest expense and interest income	(106,707)	(50,479)
Interest expense	0	0
Interest income	(106,707)	(50,479)
Other non-cash movements	29	0
Income from dividends and profit sharing	0	0
<b>Net cash from operating activities before taxation, changes in working capital and extraordinary items</b>	<b>7,675,159</b>	<b>6,248,869</b>
Change in non-cash components of working capital	183,395	1,937,704
Change in trade receivables	(411,849)	933,204
Change in trade payables	632,763	1,053,633
Change in inventory	(37,519)	(49,133)
<b>Net cash from operating activities before taxation, interest paid and extraordinary items</b>	<b>7,858,554</b>	<b>8,186,573</b>
Interest paid	0	0
Interest received	100,997	50,479
Tax paid	(891,653)	0
Gains and losses on extraordinary items	0	0
Dividends received	0	0
<b>Net cash provided by (used in) operating activities</b>	<b>7,067,898</b>	<b>8,237,052</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(6,893,080)	(5,392,614)
Purchase of tangible assets	(6,581,447)	(5,667,732)
Purchase of intangible assets	(1,835)	(32,090)
Change in financial investments	0	0
Change in liabilities from investing activities	(309,798)	307,208
Proceeds from sale of fixed assets	30,801	103,347
Proceeds from sale of tangible assets	29,361	41,104
Proceeds from sale of intangible assets	0	0
Proceeds from sale of financial investments	0	0
Change in receivables from sale of fixed assets	1,440	62,243
<b>Net cash provided by (used in) investing activities</b>	<b>(6,862,279)</b>	<b>(5,289,267)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in long-term liabilities and long-term, resp. short-term, loans	(400)	(3,304)
Change in long-term loans	0	0
Change in short-term loans and borrowings	0	0
Change in other long-term liabilities	(400)	(3,304)
Change in receivables/payables related to group cashpooling	(1,153,115)	(3,485,791)
Effect of changes in equity on cash	0	0
Effect of changes in basic capital on cash	0	0
Cash donations recorded in equity	0	0
Cash payments from equity funds	0	0
Dividends or profit sharing paid	0	0
Acquisition/sale of own shares	0	0
<b>Net cash provided by (used in) financing activities</b>	<b>(1,153,515)</b>	<b>(3,489,095)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(947,896)</b>	<b>(541,310)</b>
Cash and cash equivalents at end of year	612	948,508

# ČEZ Distribuce, a. s.

## Financial Statements for the Year Ended 31 December 2007

### 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.

The sole shareholder and 100% owner is ČEZ, a. s.

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

The Company is included in the parent company's consolidated group.

The Company has no foreign branch.

#### Members of statutory bodies as at 31 December 2007

Board of Directors		Supervisory Board	
Chair	Josef Holub	Chair	Tomáš Pleskač, MBA
Vice-chair	Martin Němeček	Vice-chair	Otto Karl
Member	Pavel Filipi	Member	Zdeněk Pasák
Member	Filip Secký	Member	Jaroslav Janda
Member	Petra Holomková	Member	Irena Klůsová
		Member	Pavel Kraják

On 14 December 2007 the Supervisory Board appointed Josef Holub a new member of Board of Directors. At the same date he was elected chairman of the Board on extraordinary meeting of Board of Directors. The respective entry in the Commercial Register was made on 21 December 2007. At the same time Jiří Kudrnáč resigned from the position of the Board chairman and Board member.

Petra Holomková was appointed a member of the Board of Directors on 15 March 2007. The respective entry in the Commercial Register was made on 12 April 2007. At the same time Věra Kučerová resigned from the position of the Board member.

On 9 August 2007 Miroslav Kekule resigned from the position of Supervisory Board member. Zdeněk Pasák was appointed a new member of the Supervisory Board till first General Meeting. This fact was entered in the Commercial Register on 19 October 2007.

On 16 October 2007, the parent company ČEZ, a. s., as the sole shareholder of ČEZ Distribuce, a.s., executing the powers of the general meeting approved by notarial registration an increase in the Company's basic capital in the form of non-monetary contribution of movable and immovable assets of Energetika Vítkovice, a.s., effective as of 1 January 2008. The General Meeting's resolution was entered in the Commercial Register on 24 October 2007. The basic capital increase was entered in the Commercial Register on 22 January 2008 (see Note 10).

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 2007 and 2006.

### 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 2007 and 2006 financial statements are as follows:

### a) Intangible Fixed Assets

Intangible fixed assets are valued 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. Pursuant to Section 26 of Act 586/92 Coll., the Income Taxes Act, the Company, as a legal successor of the taxpayer, continues the depreciation and amortization of tangible and intangible fixed assets.

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

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

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

Depreciation of contributed tangible fixed assets was stipulated individually based on their expected useful lives 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.

At the year-end, 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 labour costs and production overhead. 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 of 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 it 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.

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 16.

#### **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 existing at the transaction date. On the balance sheet date monetary items are adjusted to the exchange rates published by the Czech National Bank 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.

Changes in unbilled distribution services are set monthly on the basis of an estimation. The estimation of monthly change of unbilled distribution services is based on assumptions and comes from deliveries of electricity in the given month after deduction of actual billing and estimation of distribution network losses. The total estimation is verified by calculation which is based on consumption projection based on historical consumption for individual electricity meter points. The actual billed distribution service amounts may differ from the estimation.

#### **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. Receivables from Subscribed Basic Capital**

Receivables from subscribed basic capital totalling CZK 140,910 thousand include receivables from Energetika Vítkovice, a.s. on the basis of the Agreement for share subscription signed between the Company and Energetika Vítkovice, a.s. on 19 November 2007 (see Note 10).

## 5. 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	–	–	–	4,297	6,302
Software	57,911	–	–	(3,226)	37,399	92,084
Patents, royalties and similar rights	17,957	–	–	(67)	5,837	23,727
Other intangible fixed assets	2,754	–	–	(163)	3,122	5,713
Intangibles in progress	57,130	–	1,835	–	(50,655)	8,310
2007 Total	137,757	–	1,835	(3,456)	–	136,136
2006 Total	74,048	32,031	32,090	(412)	–	137,757

#### Accumulated Amortization

	At beginning of year	Amortization during year	Sales	Disposals	At end of year	Net book value
Research and development	(1,306)	(1,149)	–	–	(2,455)	3,847
Software	(29,997)	(22,316)	–	3,226	(49,087)	42,997
Patents, royalties and similar rights	(8,176)	(7,215)	–	67	(15,324)	8,403
Other intangible fixed assets	(952)	(872)	–	163	(1,661)	4,052
Intangibles in progress	–	–	–	–	–	8,310
2007 Total	(40,431)	(31,552)	–	3,456	(68,527)	67,609
2006 Total	(3,998)	(36,844)	(1)	412	(40,431)	97,326

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

### b) Tangible Fixed Assets (in CZK thousands)

#### Cost

	At beginning of year	Additions-contribution	Additions	Disposals	Transfers	At end of year
Land	348,121	–	8	(297)	8,994	356,826
Constructions	51,854,912	–	1,650	(42,113)	4,619,446	56,433,895
Individual movable items	13,151,573	–	602	(84,535)	2,936,752	16,004,392
Art works and collections	330	–	–	–	7	337
Other tangibles	6,732	–	–	–	–	6,732
Tangibles in progress	4,182,792	–	6,128,553	(7,135)	(6,999,795)	3,304,415
Advances for tangibles	129,199	–	450,634	–	(565,404)	14,429
2007 Total	69,673,659	–	6,581,447	(134,080)	–	76,121,026
2006 Total	49,472,655	14,682,991	5,624,281	(106,268)	–	69,673,659

#### Accumulated Depreciation

	At beginning of year	Depreciation during year	Sales	Disposals	At the end of year	Net book value
Land	–	–	–	–	–	356,826
Constructions	(4,390,912)	(3,554,261)	(810)	42,113	(7,903,870)	48,530,025
Individual movable items	(2,636,132)	(1,849,419)	(6,384)	84,535	(4,407,400)	11,596,992
Art works and collections	–	–	–	–	–	337
Other tangibles	(481)	(481)	–	–	(962)	5,770
Tangibles in progress	–	–	–	–	–	3,304,415
Advances for tangibles	–	–	–	–	–	14,429
2007 Total	(7,027,525)	(5,404,161)	(7,194)	126,648	(12,312,232)	63,808,794
2006 Total	(914,496)	(6,174,579)	(37,506)	99,056	(7,027,525)	48,558,159

## 6. Receivables

Provisions against outstanding receivables that are considered doubtful were charged to income based on their collectibility and ageing analysis in 2007 (see Note 7).

Receivables overdue for more than 30 days totalled CZK 29,363 thousand and CZK 69,625 thousand as at 31 December 2007 and 2006, respectively.

Receivables from related parties (see Note 19).

### 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 1/1/2006	6,298,735	2,203,040	4,095,695
Changes in UE balance in 2006 through contributions of part of enterprise	2,016,160	630,390	1,385,770
Changes in 2006	(263,760)	(202,906)	(60,854)
Closing balance as at 31/12/2006	8,051,135	2,630,524	5,420,611
Changes in 2007	709,814	(65,290)	775,104
Closing balance as at 31 12/2007	8,760,949	2,565,234	6,195,715

Since the method of estimation of unbilled distribution services has been refined, the estimation of unbilled distribution services was increased by CZK 1,794,849 thousand in 2007.

## 7. Provisions

Provisions reflect a temporary diminution in value of assets (see Note 6).

### Changes in the provision accounts (in CZK thousands):

	Opening balance as at 1/1/2006	Contribution	Additions	Deductions as at 31/12/2006	Balance as at 31/12/2006	Additions	Deductions as at 31/12/2007	Balance as at 31/12/2007
Provisions against								
Receivables	26,282	2,651	60,649	(54,302)	35,280	21,777	(34,396)	22,661
of which: legal	4,320	1,844	10,317	(3,022)	13,459	3,962	(6,496)	10,925
other	21,962	807	50,332	(51,280)	21,821	17,815	(27,900)	11,736

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

## 8. Short-term Financial Assets

Since 1 August 2006, the Company has been a part of cash pooling system for the companies in the CEZ 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 4,638,906 thousand as at 31 December 2007. As at 31 December 2007, 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.

## 9. Other Assets

Prepaid expenses include in particular damage liability insurance and 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.

## 10. Equity

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

The movements in the equity accounts during 2007 and 2006 were as follows (in CZK thousands):

	Balance as at 31/12/2005	Increase	Decrease	Balance as at 31/12/2006	Increase	Decrease	Balance as at 31/12/2007
Number of shares	49,061,088	14,517,308	-	63,578,396	-	-	63,578,396
Basic capital	25,000	63,553,396	(14,114,404)	49,463,992	-	-	49,463,992
Movements in basic capital	49,036,088	(49,036,088)	-	-	139,421	-	139,421
Share premium	-	-	-	-	1,489	-	1,489
Other capital funds	-	163	-	163	37	-	200
Legal reserve fund	-	2,405,684	-	2,405,684	18,105	(2,405,684)	18,105
Non-compensated losses B/F	(11,968,364)	(2,629,507)	11,968,364	(2,629,507)	-	2,629,507	-
Retained earnings	-	-	-	-	120,164	-	120,164

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 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.

On 16 October 2007 the parent company ČEZ, a. s., as the sole shareholder of ČEZ Distribuce, a.s., executing the powers of the general meeting approved by notarial registration an increase in the Company's basic capital in the form of non-monetary contribution from Energetika Vítkovice, a.s. The non-monetary contribution was valued at CZK 140,910 thousand as at 30 June 2007 based on appraisal made by court appraiser, Ing. Lukáš Křístka, MBA, appraiser in economy, Spr. n. 405/2004, located in Jungmannova 1738, Roztoky u Prahy, post code 252 63, recorded under n. 44/5/2007 dated 10. 8. 2007. Consecutively, on 1 November 2007 a contract for the subscription of one ordinary share at a nominal value of CZK 139,421 thousand was signed between ČEZ Distribuce, a.s. and Energetika Vítkovice, a.s. The contribution entered into effect as of 1 January 2008. An issue price of the subscribed share was set at the value of non-monetary contribution determined by the court appraiser and the difference between the value of non-monetary contribution and the share nominal value amounting to CZK 1,489 thousand is recognised as share premium. The basic capital increase was not entered in the Commercial Register as at 31 December 2007.

The accumulated losses brought forward in the amount of CZK 2,629,507 thousand arose in 2006 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 and a one-off recognition of the contributed deferred income in the amount of CZK 507,236 thousand, as valued by a court appraiser.

Upon the decision of the General Meeting dated 25 April 2007, the accumulated loss brought forward totalling CZK 2,629,507 thousand was compensated from the legal reserve fund at amount of CZK 2,405,684 thousand and the 2006 profit at amount of CZK 223,823 thousand.

The Annual General Meetings held on 25 April 2007 and 11 May 2006, respectively approved the following profit distribution for 2006 and 2005 (in CZK thousands):

Profit for 2006	362,092
Allocation to legal reserve fund	(18,105)
Compensation of losses B/F	(223,823)
Undistributed profits added to retained earnings	120,164
<b>Retained earnings at 31/12/2007</b>	<b>120,164</b>
Profit for 2005	259,645
Allocation to legal reserve fund	(51,929)
Compensation of losses B/F	(207,716)
Undistributed profits added to retained earnings	-
<b>Accumulated loss at 31/12/2006</b>	<b>(2,629,507)</b>

## 11. Reserves

Reserves	Balance as at 31/12/2005	Creation of reserves	Release of reserves	Balance as at 31/12/2006	Creation of reserves	Release of reserves	Balance as at 31/12/2007
Reserve for income tax	-	708,543	-	708,543	1,055,058	(708,543)	1,055,058
Other reserves	-	35,325	-	35,325	30,994	(1,685)	64,634

Other reserves in the amount of CZK 64,634 thousand were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement.

## 12. Current Liabilities

Current payables overdue for more than 30 days totalled CZK 1,975 thousand and CZK 21,284 thousand as at 31 December 2007 and 2006, respectively.

As at 31 December 2007 the Company reports CZK 18,600 thousand of payables due for social security and health insurance.

Unbilled deliveries represent, in particular, unbilled services related to electricity distribution, unbilled deliveries of electricity purchased to cover power grid losses and unpaid vacation claims for 2007.

Payables to related parties (see Note 19).

## 13. Other Liabilities

Movements in deferred income accounts in 2007 and 2006 (in CZK thousands):

Balance at 1 January 2006	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)
<b>Balance at 31 December 2006</b>	<b>5,963,247</b>
Additions in 2007	1,054,290
Released to revenues in 2007	(456,697)
<b>Balance at 31 December 2007</b>	<b>6,560,840</b>

Deferred income includes in particular connection fees within the meaning of Act No. 458/2000 Coll. (the Energy Act) and Decrees No. 51/2006 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 10) in 2006 comprised connection fees in the total net book value of CZK 507,236 thousand. 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.

## 14. Income Tax

	2007 Amount in CZK thousands	2006 Amount in CZK thousands
Profit before taxes	2,795,848	464,335
Non-taxable revenues	-	(72,932)
Differences between book and tax depreciation	1,521,085	2,470,919
Difference between net book value of fixed assets for accounting and tax purposes	18,258	49,713
Non-deductible expenses		
Creation of reserves	29,309	35,325
Creation (release) of provisions	(10,085)	(948)
Other (e.g. entertainment expenses, shortages and losses)	43,062	126,022
Tax loss claimed	-	(117,635)
Taxable income	4,397,477	2,954,799
Current income tax rate	24%	24%
Tax	1,055,394	709,152
Tax allowance	(336)	(609)
Current tax expense	1,055,058	708,543

The calculation of the 2007 corporate income tax liability is preliminary. The Company will submit its regular tax return by 30 June 2008.

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

Deferred tax items	2007		2006	
	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	-	6,499,419	-	8,465,818
Other temporary differences:				
Provision against receivables	2,465	-	5,238	-
Reserves	12,280	-	8,478	-
Other	3,818	-	3,669	-
<b>Total</b>	<b>18,563</b>	<b>6,499,419</b>	<b>17,385</b>	<b>8,465,818</b>
<b>Net</b>		<b>6,480,856</b>		<b>8,448,433</b>

As at 31 December 2007, the Company recorded a deferred tax liability of CZK 6,480,856 thousand. The change of the deferred tax in 2007 in the amount of CZK 1,967,576 thousand is recorded in the income statement.

## 15. Leases

The Company leases fixed assets, which are not recorded on 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 2007 consist of the following (in CZK thousands):**

Description	Terms/ Conditions	Total lease	Payments made as at 31/12/2007	Remaining payments as at 31/12/2007	
				Due within one year	Due over one year
Transformers	72 months	30,450	29,665	785	-

**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 as at 31/12/2007	Remaining payments as at 31/12/2007	
				Due within one year	Due over one year
Transformers	72 months	30,450	27,514	2,413	523



## 16. Commitments and Contingencies

The Company has effected the following types of insurance:

- 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 2007, the Company had concluded contracts for future supplies of fixed assets in the amount of approx. CZK 1,702,876 thousand.

## 17. Revenues

The breakdown of revenues from the sale of own products and services in 2007 and 2006 is as follows (in CZK thousands):

	2007	2006
Provided reserved capacity	5,793,258	5,283,724
Provision of system services	5,169,425	5,550,201
Use of grids	19,384,001	18,024,727
Other energy services	786,811	139,854
Other non-energy services	207,784	194,420
<b>Total</b>	<b>31,341,279</b>	<b>29,192,926</b>

In 2007 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 2007.

## 18. Personnel and Related Expenses

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

	2007		2006	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	1,157	27	1,125	26
Wages and salaries	527,450	50,066	499,619	43,692
Bonuses to statutory body members	2,137	849	2,137	1,104
Social security and health insurance	187,288	17,567	174,549	15,330
Social cost	61,466	1,958	52,986	1,590
<b>Total personnel expenses</b>	<b>778,341</b>	<b>70,440</b>	<b>729,291</b>	<b>61,716</b>

## 19. Related Party Information

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees or advances in 2007 and hold no shares of the Company.

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

As at 31 December 2007 and 2006, advances granted to related parties amounted to a total of CZK 41 thousand and CZK 493,909 thousand, respectively.

Receivables from group companies with majority control in the amount of CZK 4,638,906 thousand represent the balance of cash in cash pooling system (see Note 8).

The Company provides services to related parties in the ordinary course of business. In 2007 and 2006, volumes of those sales were as follows (in CZK thousands):

Related party	2007	2006
ČEZ Prodej, s.r.o.	24,907,578	24,838,889
ČEZ, a. s.	70,761	40,751
Východočeská energetika, a.s.	-*	10,983
ČEZ Obnovitelné zdroje, s.r.o.	274	16
Západočeská energetika, a.s.	-*	23,557
Severomoravská energetika, a. s.	-*	5,142
MSEM, a.s.	18	77
Energetika Vítkovice, a.s.	163,069	149,047
ČEZnet, a.s.	65,479	63,209
Středočeská energetická a.s.	-*	3,105
ČEZData, s.r.o.	2,306	3,606
ČEZ Zákaznické služby, s.r.o.	3,658	2,559
VČE - montáže, a.s.	35	544
ČEZ Správa majetku, s.r.o.	1,644	366
ČEZ Měření, s.r.o.	2,180	2,070
ČEZ Logistika, s.r.o.	-	10
ČEZ Distribuční služby, s.r.o.	42,236	17,185
Severočeské doly a.s.	158,830	-
SEG s.r.o.	-**	1,380
Energetická montážní společnost Česká Lípa, s.r.o.	-**	1,069
Energetická montážní společnost Liberec, s.r.o.	-**	500
Energetická montážní společnost Ústí nad Labem, s.r.o.	-**	392
Severočeská energetika, a.s.	-*	8,999
<b>Total</b>	<b>25,418,068</b>	<b>25,173,456</b>

\* As at 1 January 2007 the Company merged with its parent company ČEZ, a. s.

\*\* The company ceased to be related party of ČEZ Distribuce, a. s. in 2007.

Short-term receivables from related parties as at 31 December 2007 were as follows (in CZK thousands):

Related party	2007	2006
ČEZ Prodej, s.r.o.	8,590,671	8,034,688
ČEZ Logistika, s.r.o.	142	4
ČEZ Zákaznické služby, s.r.o.	1,271	224
ČEZData, s.r.o.	474	192
ČEZ správa majetku, s.r.o.	338	106
Západočeská energetika, a.s.	-*	92
Východočeská energetika, a.s.	-*	473
Středočeská energetická a.s.	-*	4,250
Severočeská energetika, a.s.	-*	1,485
ČEZ, a. s.	7,566	8,941
ČEZ Měření, s.r.o.	198	552
ČEZ Distribuční služby, s.r.o.	7,531	5,780
ČEZnet, a.s.	6,940	6,768
Severočeské doly a.s.	9,703	189
SEG s.r.o.	-**	654
MSEM, a.s.	-	7
Energetika Vítkovice, a.s.	19,936	5,658
<b>Total</b>	<b>8,644,770</b>	<b>8,070,063</b>

\* As at 1 January 2007 the Company merged with its parent company ČEZ, a. s.

\*\* The company ceased to be related party of ČEZ Distribuce, a. s. in 2007.

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2007 and 2006 were as follows (in CZK thousands):

Related party	2007	2006
ČEZ, a. s.	593,762	401,661
Severomoravská energetika, a. s.	- *	437,307
Středočeská energetická a.s.	- *	413,102
Východočeská energetika, a.s.	- *	401,178
Západočeská energetika, a.s.	- *	323,687
Severočeská energetika, a.s.	- *	341,475
ČEZ Obnovitelné zdroje, s.r.o.	137,280	114,408
ČEZnet, a.s.	309,336	291,456
ČEZ Měření, s.r.o.	1,621,187	1,306,736
VČE-montáže, a.s.	35,213	311,798
ČEZ Prodej, s.r.o.	3,549,352	2,859,381
ČEZ Zákaznické služby, s.r.o.	875,449	700,712
ČEZData, s.r.o.	829,806	1,040,560
ČEZ Správa majetku, s.r.o.	146,380	55,775
I & C Energo, a.s.	16,018	15
Energetika Vítkovice, a.s.	6,881	7,821
MSEM, a.s.	27,714	519,917
Severočeské doly a.s.	243	-
Ústav jaderného výzkumu Řež a.s.	1,327	1,283
SEG s.r.o.	- **	250,859
AZ Elektrostav, a.s.	- **	215,089
Energetická montážní společnost Česká Lípa, s.r.o.	- **	149,654
Energetická montážní společnost Liberec, s.r.o.	- **	38,718
Energetická montážní společnost Ústí nad Labem, s.r.o.	- **	89,567
ČEZ Logistika, s.r.o.	2,890,928	1,463,583
ČEZ Distribuční služby, s.r.o.	3,846,797	1,763,864
<b>Total</b>	<b>14,887,673</b>	<b>13,499,606</b>

\* As at 1 January 2007 the Company merged with its parent company ČEZ, a. s.

\*\* The company ceased to be related party of ČEZ Distribuce, a. s. in 2007.

As at 31 December 2007 and 2006, advances received from related parties amounted to a total of CZK 7,953,523 thousand and CZK 7,980,318 thousand, respectively. The advances mostly comprised of advances for distribution services received from ČEZ Prodej, s.r.o.

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

Related party	2007	2006
ČEZ, a. s.	83,404	67,398
ČEZData, s.r.o.	188,618	293,782
ČEZnet, a.s.	35,430	46,566
ČEZ Logistika, s.r.o.	146,421	438,001
ČEZ Distribuční služby, s.r.o.	414,626	628,603
Energetika Vítkovice, a.s.	1,954	–
MSEM, a.s.	–	42,343
I & C Energo, a.s.	640	–
Severomoravská energetika, a. s.	–*	31
Západočeská energetika, a.s.	–*	18
Východočeská energetika, a.s.	–*	322
Středočeská energetická a.s.	–*	1,527
Severočeská energetika, a.s.	–*	20,281
ČEZ Obnovitelné zdroje, s.r.o.	21,627	18,543
ČEZ Měření, s.r.o.	140,690	112,376
VČE - montáže, a.s.	–	34,451
ČEZ Prodej, s.r.o.	230,216	375,138
ČEZ Zákaznické služby, s.r.o.	93,639	69,288
SEG s.r.o.	–**	25,984
AZ Elektrostav, a.s.	–**	19,492
Energetická montážní společnost Česká Lípa, s.r.o.	–**	24,995
Energetická montážní společnost Liberec, s.r.o.	–**	8,647
Energetická montážní společnost Ústí nad Labem, s.r.o.	–**	15,756
Ústav jaderného výzkumu Řež a.s.	628	214
ČEZ Správa majetku, s.r.o.	19,828	13,242
<b>Total</b>	<b>1,377,721</b>	<b>2,256,998</b>

\* As at 1 January 2007 the Company merged with its parent company ČEZ, a. s.

\*\* The company ceased to be related party of ČEZ Distribuce, a. s., in 2007.

**20. Significant Items of Income Statement**

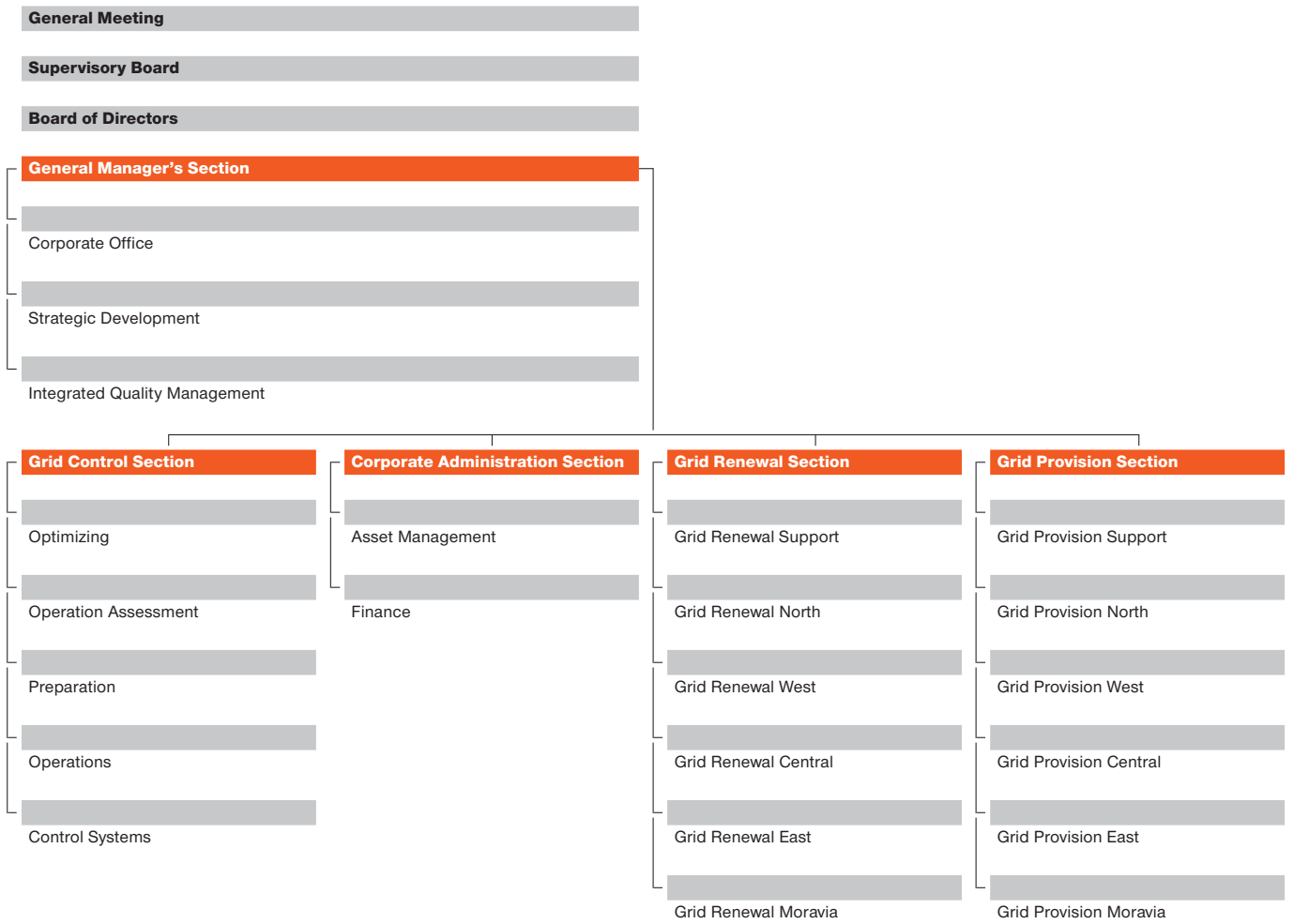
Other operating revenues include in particular the released part of connection fees (see Note 13) and re-invoiced costs of relaying.

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

**21. Statement of Cash Flows**

Cash flow statement was prepared under the indirect method.

# Basic Organization Chart



## Glossary of Terms and Abbreviations

### Glossary of Terms and Abbreviations

Term	Commentary
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.
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.
Compliance program	A program of measures designed to eliminate discriminatory behavior, together with distribution grid operator rules for making information available in a non-disadvantaging manner.
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.
EBIT	Earnings Before Income Tax.
EBITDA	Earnings Before Income Tax, Depreciation, and Amortization.
Eligible customer	An 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.
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.
End customer	A customer that uses electricity supplied only for the customer's own consumption, not for resale.
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.
HV	High Voltage – distribution grid plant and equipment with voltage between phases in excess of 52 kV.
LV	Low Voltage – distribution grid plant and equipment with voltage between phases of up to 1,000 V, inclusive.

Term	Commentary
MV	Medium Voltage – distribution grid plant and equipment with voltage between phases of 1 – 52 kV.
OTE (Operátor trhu s elektřinou)	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.
PCB	Polychlorinated biphenyls, polychlorinated terphenyls, Monomethyl-Tetrachloro-Diphenyl methane, Monomethyl-Dichloro-Diphenyl methane, Monomethyl-Dibromo-Diphenyl methane, all mixtures containing one or more of the above substances with a total concentration of these substances higher than 50.
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 residential and commercial.
ROA	Return On Assets.
ROE	Return On Equity.
ROIC	Return On Invested Capital.
SAIDI	System Average Interruption Duration Index. An indicator of the reliability of electricity transmission/distribution, i.e. the total duration of all electricity distribution interruptions in the calendar year. Expressed as minutes/year/customer.
SAIFI	System Average Interruption Frequency Index. An indicator of reliability of electricity transmission/distribution. The frequency of electricity distribution interruptions in terms of the number of electricity distribution interruptions in the calendar year. Expressed as number of interruptions/year/customer.
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.
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	$\text{Accumulated depreciation and impairment allowances on property, plant and equipment} / \text{Property, plant and equipment in use, gross}$
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)	$(\text{EBIT} + \text{Net change in operating provisions and impairment allowances}) * (1 - \text{Income tax rate}) / (\text{Average tangible and intangible fixed assets} + \text{Average net working capital})$



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## Information on Persons Responsible for the Annual Report

### Responsibility for the Annual Report

#### Statutory Declaration:

The information presented in the 2007 Annual Report of ČEZ Distribuce, a. s. is factual and no material circumstances that could influence an accurate and correct assessment of ČEZ Distribuce, a. s. have been omitted or distorted.

Děčín, 28 April 2008

Editorial section:



Tomáš Truxa  
Head of Corporate Office

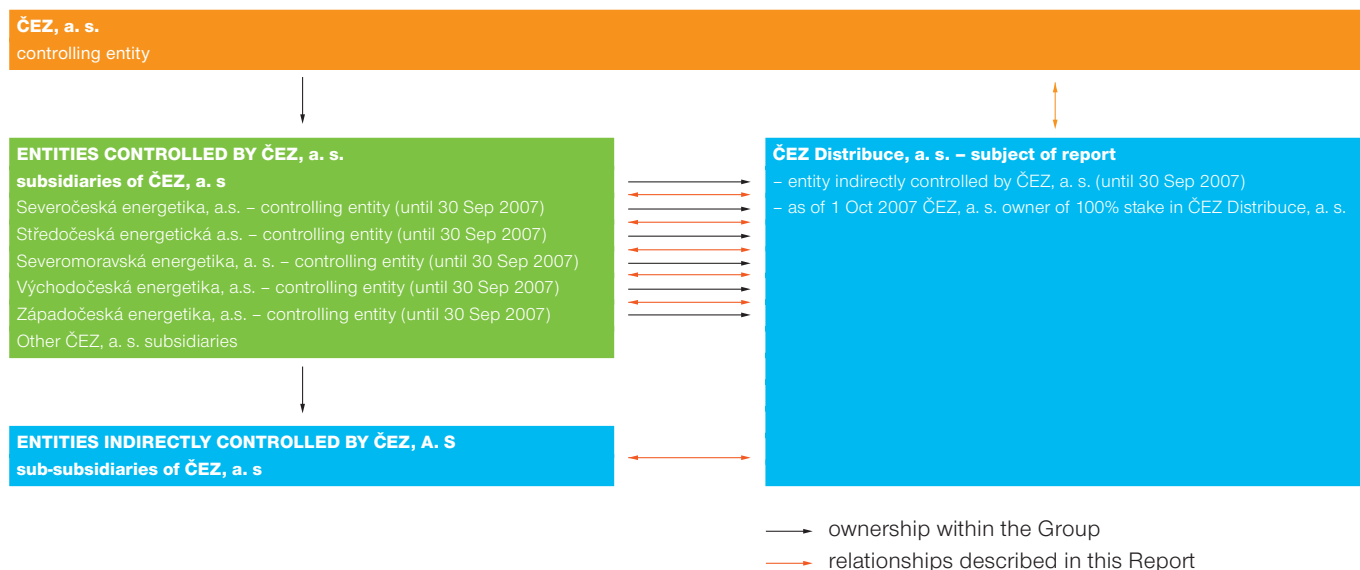
Financial section:



Ivana Kolská  
Head of Finance

# Related Parties Report

## 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	Municipal Court in Prague (part B, insert 1581)

#### Manner of control

The controlling entity, ČEZ, a. s., owns 100% of the shares of ČEZ Distribuce, a. s. Until 30 September 2007, the Controlling Entity exercised *de facto* control over the management of the Controlled Entity indirectly through the following entities that owned equity stakes in ČEZ Distribuce, a. s.

Company	Severočeská energetika, a.s.
Seat in	Děčín IV, Teplická 874/8, postcode 405 49
ID No.	499 03 179
Registered in Commercial Register maintained by	Regional Court in Ústí nad Labem (part B, insert 512)
Equity stake in ČEZ Distribuce, a. s.	20.11%

Company name	Severomoravská energetika, a. s.
Seat in	Ostrava, Moravská Ostrava, 28. října 3123/152, PSČ 709 02
ID No.	476 75 691
Registered in Commercial Register maintained by	Regional Court in Ostrava (part B, entry 745)
Equity stake in ČEZ Distribuce, a. s.	22.85%

Company name	Středočeská energetická a.s.
Seat in	Praha 2, Vinohradská 325/8, PSČ 120 21
ID No.	601 93 140
Registered in Commercial Register maintained by	Municipal Court in Prague (part B, insert 2356)
Equity stake in ČEZ Distribuce, a. s.	22.81%

Company name	Východočeská energetika, a.s.
Seat in	Hradec Králové, Sladkovského 215, PSČ 501 03
ID No.	601 08 720
Registered in Commercial Register maintained by	Regional Court in Hradec Králové (part B, insert 1008)
Equity stake in ČEZ Distribuce, a. s.	21.53 %

Company name	Západočeská energetika, a.s.
Seat in	Plzeň, Guldenerova 19, PSČ 303 28
ID No.	497 90 463
Registered in Commercial Register maintained by	Regional Court in Plzeň (part B, entry 390)
Equity stake in ČEZ Distribuce, a. s.	12.70%

As of 1 October 2007, as a result of the merger of the above companies with ČEZ, a. s., the above companies were dissolved without liquidation and ČEZ, a. s. became the sole shareholder of the controlled entity, with a 100% share in the equity of ČEZ Distribuce, a. s.

#### Controlled Entity – Subject of 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	Regional Court in Ústí nad Labem (part B, insert 1704)

The Controlled Entity is a business company involved, in particular, in distributing electricity and other activities and services related to electricity distribution, which is a licensed activity. The Controlled Entity carries on all its operations in accordance with business authorizations granted to it and within the framework of its business definition set forth in the Articles of Association and recorded in the Commercial Register.

The Related Parties Report, unlike the rest of the 2007 Annual Report, contains data only for the period January 1 – December 31, 2007.

#### 4. Alphabetical List of Companies – Group Members

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 15 contracts: 1 framework agreement on provision of accounting, tax, and financial services, 1 agreement on mutual credit lines, 1 agreement on a consortium for issuing public tenders for the Employee Coaching Program, 1 agreement on processing personal data, 3 agreements on provision of regulation services in the course of electricity supplies, 8 service contracts.

#### 2. ČEZ Distribuční služby, s.r.o.

Total of 3,649 contracts: 3,640 service contracts, 5 leases of non-residential space, 1 Service Level Agreement (SLA) – framework agreement on distribution services, 1 agreement on provision of U/Q compensator regulation services, 1 lease, 1 maintenance contract.

#### 3. ČEZ Logistika, s.r.o.

Total of 8,657 contracts: 8,651 contracts for supply of materials, 5 construction contracts, 1 contract on provision of services and goods.

#### 4. ČEZ Měření, s.r.o.

Four contracts for supply of materials and services.

#### 5. ČEZ Obnovitelné zdroje, s.r.o.

Total of 3 contracts: 1 agreement on creation of a lien, 2 leases.

#### 6. ČEZ Prodej, s.r.o.

Total of 7 contracts: 1 service contract, 2 leases, 1 SLA – payments for customer services, 1 agreement on supply of electricity and losses in the DG, 1 agreement on supply of electricity for in-house consumption, 1 agreement on provision of services.

#### 7. ČEZ Správa majetku, s.r.o.

Total of 22 contracts: 15 service contracts, 2 leases of parking garage spaces, 1 lease, 1 framework agreement on provision of services in the area of occupational health and safety, fire protection, and protection of the environment, 1 partial service contract, 1 partial vehicle fleet management contract, 1 purchase contract for movable property.

#### 8. ČEZData, s.r.o.

Total of 13 contracts: 1 framework service agreement, 1 partial service contract, 6 contracts for work, 4 SLAs, 1 agreement on provision of services – migration of TIS data.

#### 9. ČEZnet, a.s

Total of 13 contracts: 7 SLAs, 4 service contracts, 1 agreement on repair and maintenance of remote-controlled section switchgears, 1 purchase contract for TR transmission equipment.

#### 10. Elektrovod, a.s.

Seven contracts for drafting of PD and construction work.

#### 11. ELTRAF, a.s.

Two contracts for drafting of PD and construction work.

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

Total of 158 contracts: 157 contracts for drafting of PD and construction work, 1 lease.

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

68 contracts for drafting of PD and construction work.

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

58 contracts for drafting of PD and construction work.

**15. Energetika Vítkovice, a.s.**

Total of 3 contracts: 1 agreement on capital contribution of movable and immovable assets, 1 share subscription agreement, 1 agreement on provision of services and distribution.

**16. ENPRO, a.s.**

384 contracts for drafting of PD and construction work.

**17. ENPROSPOL, s.r.o.**

553 contracts for drafting of PD and construction work.

**18. I & C Energo a.s.**

Three contracts for drafting of PD and construction work.

**19. MSEM, a.s.**

331 contracts for drafting of PD and construction work.

**20. OSC, a.s.**

Total of 3 contracts: 1 contract for drafting of PD and construction work, 1 framework agreement for increasing the safety of operating the PS during emergencies and other extraordinary conditions, 1 partial contract drawn up under the terms and conditions of the framework agreement for increasing the safety of operating the PS during emergencies and other extraordinary conditions.

**21. SEG s.r.o.**

299 contracts for drafting of PD and construction work.

**22. Severočeská energetika, a.s.**

115 contracts for drafting of PD and construction work.

**23. Severočeské doly a.s.**

One contract for drafting of PD and construction work.

**24. SINIT,a.s.**

Total of 53 contracts: 1 contract for work, 1 agreement on provision of control system repair and maintenance services, 51 contracts for drafting of PD and construction work.

**25. VČE - montáže, a.s**

660 contracts for drafting of PD and construction work.

**26. VČE - transformátory, s.r.o.**

Total of 3 contracts: 1 lease, 2 contracts for drafting of PD and construction work.

**27. Východočeská energetika, a.s.**

Total of 3 contracts: 2 agreements on purchase of real property, 1 lease.

**28. Západočeská energetika, a.s.**

16 agreements on purchase of real property.

The bulk of the contracts were entered into in the course of day-to-day business.

## **6. Other Relationships**

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 2007 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 2007 Annual Report of ČEZ Distribuce, a. s.

### 7.3. Abbreviations used

DG	distribution grid
PS	power system
PD	project documentation
SLA	service level agreement
TIS	technical information system
TR	transformer station

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.

The statutory body of ČEZ Distribuce, a. s. approved this Report at its meeting of 6 March 2008.

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, 31 March 2008



Josef Holub  
Chairman of the Board of Directors



Martin Němeček  
Vice Chairman of the Board of Directors

ČEZ Distribuce, a. s.

Teplická 874/8

405 02 Děčín 4

Czech Republic

Registered in the Commercial Register maintained  
by the Regional Court in Ústí nad Labem (part B, insert 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](mailto:cezdistribuce@cezdistribuce.cz)

License No.: 120504641

OTE Registration No.: 715

Closing date of the 2007 Annual Report: 28 April 2008



# **Group structure chart**

## **Alphabetical list of companies – Group members**

