



ČEZ Distribuce, a. s. Annual Report 2008



the path

of harmony between man and nature

ČEZ Distribuce, a. s., with its seat in Děčín, was incorporated in the Commercial Register on 31 March 2005. Based on an electricity distribution license, the Company operates the distribution grid in a service area covering the territories of eleven regions of the Czech Republic.



ČEZ Distribuce, a. s. is a member of CEZ Group, a power utility that operates in many countries of Central and Southeastern Europe. The Company's principal mission is to distribute electricity to individuals and legal entities and to continually improve the quality and reliability of supplies to all its customers. The Company administers the assets that form the distribution grid and manages its operation through a grid control center.

45.4

electricity distributed,
including losses
(TWh)

3.5

number
of connection points
(millions)

8.2

investment
(CZK billions)

For the future, it is important to maintain balance. Harmonizing the relationship between satisfying needs and preserving the quality of the environment in which we live, work, and produce is key. We pay constant attention to protecting nature. We are aware that if we draw from nature, we must also give back to nature and help nature.



657

cost to distribute 1 MWh,
including losses
(CZK/MWh)

8.8



EBITDA
(CZK billions)

We accept and uphold our responsibility to the environment, people, and the future. We are investing in upgrading and developing the distribution grid so that it provides reliable and safe supplies of electricity to customers in a manner that is considerate to the environment.

New transformers are more efficient and save energy. They also make less noise, which has a positive impact not only on surrounding natural environments, but also on residents who live close to these installations. Compared with 2007, outlays for distribution grid upgrades increased by CZK 1.6 billion.

CZK 8.2 billion

In 2008, ČEZ Distribuce, a. s. expended nearly CZK 8.2 billion on distribution grid investment, increasing grid quality and environmental awareness.



For a long time now, ČEZ Distribuce, a. s. has been striving to contribute to bird protection by exceeding statutory requirements, and we closely cooperate with environmentalists. Installation of protective devices on power lines is not the Company's only activity in this area: in the past, for example, we installed special nesting baskets for ospreys on medium voltage lines.

3,284

In 2008, ČEZ Distribuce, a. s. installed protective components on 3,284 medium-voltage power line supports to protect birds from electric shock.

Contents

Information on Persons Responsible for the Annual Report	5
Letter from the Chairman	7
Selected Indicators	8
Important Events of 2008 and 2009 Up to Annual Report Closing Date	10
Directors and Officers	14
Report on Operations	20
Financial Performance	20
Commercial and Financial Outlook	23
Information on the Company's Core Business	24
Strategic Objectives	27
Capital Expenditure	30
Safety, Quality and Environmental Management	32
Shares, Shareholders and the General Meeting	33
Human Resources	34
Donorship and Sponsorship Program	35
Litigation	36
Independent Auditor's Report	38
Independent Auditor's Report on the Financial Statements of ČEZ Distribuce, a. s.	39
Financial Statements of ČEZ Distribuce, a. s. as of 31 December 2008	40
Balance Sheet	40
Statement of Income	42
Statement of Cash Flows	43
Notes to the Financial Statements	44
ČEZ Distribuce, a. s. Basic Organization Chart as of 20 April 2009	57
Glossary of Terms and Abbreviations	58
List of Tables and Graphs	61
ČEZ Distribuce, a. s. Related Parties Report for the Year Ended December 31, 2008	62
Chart Showing Relationships Within the Group	62
Group Structure Chart	separate annex under back cover flap
Controlling Entity and Subject of Related Entities Report	63
Alphabetical List of Companies – Group Members	separate annex under back cover flap
Contractual Relationships	64
Other Relationships	66
Other Information	66
Conclusion	67

Information on Persons Responsible for the Annual Report

Responsibility for the Annual Report

Statutory Declaration

The information presented in the 2008 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, 20 April 2009

Editorial section:



Tomáš Truxa
Head of Corporate Office

Financial section:



Ivana Kolská
Head of Finance



Letter from the Chairman

Ladies and gentlemen,

It is always pleasant when one can say something was successful, that all goals were met in full, that the work performed was meaningful and fruitful. And so, it is with satisfaction that I address you now and report that 2008 was a successful year for the Company. Compared with past years, capital expenditure for distribution grid plant and equipment grew; the total amount, CZK 8.2 billion, represents an increase of 25% from 2007's figure. CZK 6.5 billion was invested in medium and low voltage plant and equipment, while another CZK 0.83 billion went on high voltage projects. CZK 1.2 billion was expended last year on large-scale repairs, up 7.5% from 2007. The CAPEX growth trend is in response to demand on the part of current and future customers of the Company. The principal capital projects focused on distribution grid plant and equipment with the objectives of, in the most effective manner possible, developing the Company's assets and improving the quality, reliability, and safety of distribution grid operation. The CAPEX increase has not only placed higher demands on Company employees – it has also created potential for growth of the Czech economy and creation of job opportunities in industries such as construction, power engineering, project design, etc.

Our Company distributed a total of 45.37 TWh of electricity to end customers.

Our income before income tax of CZK 4.7 billion and other financial and commercial performance indicators make our Company one of the most significant in the Czech Republic. In order for us to maintain this position in the future as well, it is crucial that we continually increase the effectiveness of all our operations and implement a number of projects both within the Company and throughout CEZ Group, the goal of which is not just to report cost savings, but to improve the quality of processes connected with the core business of ČEZ Distribuce, a. s. Strict adherence to principles of environmental protection is a crucial element in all our business activities. One of our priorities in this area is the prevention of environmental burdens. CZK 24.6 million was invested in environmental projects in 2008.

When discussing our performance results, there's one issue that must be kept in mind: the customer. Whether it be the owner of a single-family house, a large company, or the investor of a future industrial park, it is the customer who enables us to create value. From the performance results, it is evident that the employees of ČEZ Distribuce, a. s. are aware of this and strive for the Company to be perceived by customers as a partner they can depend on in all circumstances.

As in previous years, in 2008 the Company was affected by two extensive natural disasters – events that are slowly but surely becoming an unpleasant “tradition”, testing our Company's preparedness to deal with crises and other extreme situations. Even this time, we were up to the task, having utilized experience gained in the past and gained new experience that will be utilized to ensure our crisis communication capabilities are prepared not only within the Company, but also towards customers and national and local government authorities.

Today, we can state with satisfaction that, thanks to our expertise in crisis communication, the aftermath of the natural disasters was repaired in a very short time, considering the extent of the damage caused.

Allow me, on behalf of the Company's Board of Directors, to thank all our business partners for their integrity and fair play, our customers for their continued trust, and the Company's employees for their hard work and the dedication with which they tackled the tasks and challenges of the year 2008.



Josef Holub

Chairman of the Board of Directors and General Manager

Selected Indicators

Selected Economic Indicators

	Units	2005	2006	2007	2008
Employee head count at December 31	number	869	1,150	1,153	1,180
Revenues from sale of finished products and services	CZK millions	4,687	29,193	31,341	33,752
of which: sales of electricity	CZK millions	4,662	28,999	31,133	33,520
EBITDA	CZK millions	1,257	6,621	8,120	8,822
EBIT	CZK millions	338	410	2,684	4,541
Net income	CZK millions	260	362	3,704	3,789
Return on Invested Capital (ROIC)	%	0.53	0.63	3.27	5.42
Total assets	CZK millions	58,206	76,717	78,836	82,665
Equity	CZK millions	37,352	49,602	53,447	55,297
Financial debt	CZK millions	0	0	0	0
Financial debt/Equity	%	0	0	0	0
Capital expenditures (CAPEX)	CZK millions	707	5,668	6,578	8,193
Net cash provided by operating activity	CZK millions	1,200	8,237	7,068	7,547

Selected Sector-specific Indicators

	Units	2005	2006	2007	2008
Supply area	km ²	41,630	52,697	52,697	52,697
Number of connection points	number	2,520,997	3,475,044	3,495,103	3,517,304
of which: HV, MV – wholesale	number	9,760	13,385	13,442	13,707
LV – retail – commercial	number	357,708	481,934	483,059	464,043
LV – retail – residential	number	2,153,529	2,979,725	2,998,602	3,039,554
Peak load	MW	4,181	6,074	6,012	5,700
Grid extended length	km	117,229	152,733	153,778	154,013
of which: HV	km	7,435	9,523	9,540	9,570
MV	km	39,563	49,781	50,136	50,141
LV	km	70,231	93,429	94,102	94,302
Number of transformer stations	number	37,768	49,211	49,963	51,898
of which: owned by Company	number	29,945	39,117	39,452	40,659
owned by others	number	7,823	10,094	10,511	11,239

Important Events of 2008 and 2009 Up to Annual Report Closing Date

Important Events of 2008

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,
- date of Annual General Meeting approved,
- approval of report on measures taken and implementation of the "Program of measures to eliminate discriminatory behavior, rules for non-discriminatory dispensing of information, and measures to secure the organizational and information separation of the distribution grid operator in 2007".

May

- resignation of Tomáš Pleskač as Chairman and Member of the Supervisory Board of ČEZ Distribuce, a. s. discussed and accepted,
- Annual General Meeting of ČEZ Distribuce, a. s. held,
- Jiří Kudrnáč elected to the Supervisory Board of ČEZ Distribuce, a. s.

June

- Jiří Kudrnáč elected Chairman of the Supervisory Board,
- dividend paid in accordance with resolution passed by the Annual General Meeting.

July

- reorganization of Grid Control Section approved, to take effect from 1 October 2008.

August

- Company financial plan increased by CZK 647.04 million in CAPEX and by CZK 210.49 million in OPEX,
- project completed: "Havířov – Renovation of MV and LV Underground Lines, Phase Two".

September

- proposal drawn up for implementing Amendment No. 1 to the 2008 Distribution Grid Operation Rules of ČEZ Distribuce, a. s.,
- team set up to prepare and implement a reorganization of the Company with the objective of improving process-driven management,
- series of extraordinary audits commenced, focusing on occupational safety and health compliance in conduct of activities delegated on the basis of a Service Level Agreement with ČEZ Distribuční služby, s.r.o.

October

- Energetika Vítkovice, a.s. dissolved without liquidation upon its merger into ČEZ, a. s.,
- Jablonec North transformer station returned to operation after a CZK 40 million renovation,
- Koštov–Trmice power line, newly upgraded from 35 kV to 110 kV, put into operation,
- ČEZ, a. s. issues its approval to be recorded in the Commercial Register as the sole shareholder of ČEZ Distribuce, a. s.

November

- ČEZ, a. s., with its seat at Prague 4, Duhová 2/1444, postcode 140 53, ID number 452 74 649, recorded in the Commercial Register as the sole shareholder of ČEZ Distribuce, a. s.,
- press conference held on the issue of medializing cases of electricity theft.

December

- Company plan for 2009 drafted,
- projects completed: “Dražice transformer station – expansion of 110 kV substation” and “Poříčí 110/35 kV transformer station – renovation of 110 kV substation”.

Important Events of 2009

Up to Annual Report Closing Date

January

- key performance indicators for 2009 approved.

February

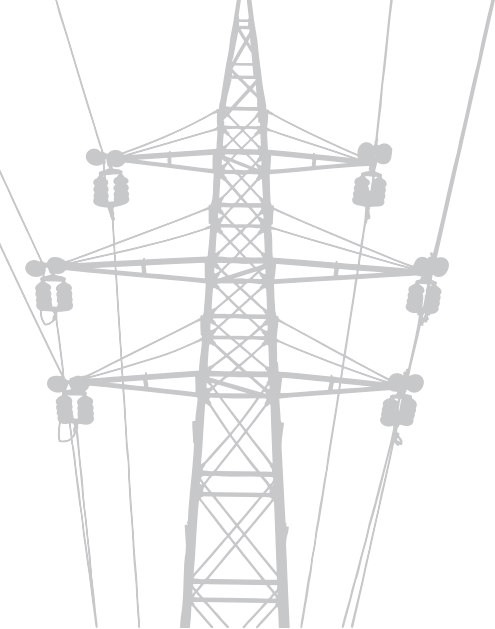
- technical measures approved for addressing problematic locations in the distribution grid.

March

- Board of Directors of ČEZ Distribuce, a. s. meets with Company employees in the North and Moravia regions,
- representatives of the European Investment Bank meet with members of the Company's Board of Directors,
- approved: CZK 1,170 million increase in capital expenditures in conjunction with an initiative by the Company's sole shareholder aimed at stabilizing the market for electrical installation work, and thereby minimizing the impacts of the economic crisis.

April

- Board of Directors of ČEZ Distribuce, a. s. meets with Company employees in the East, Central, and West regions.



CZK 110 million

By the year 2010, ČEZ Distribuce, a. s. will make high voltage power lines safe for birds in high-risk areas identified in cooperation with ornithologists. This voluntary step to protect nature will entail an investment of CZK 110 million.



Ever since its inception, the Company has done the maximum to protect the environment, and thereby minimize the impacts continuous civilizational development has on nature. Each year, protective devices installed on power lines save the lives of hundreds of birds, especially predatory birds. In our service area, the main bird species affected are the Common Buzzard, the Common Kestrel, the Peregrine Falcon, the Saker Falcon, and the Red Kite. To date, the Company has installed bird protectors on several thousand poles and towers.

Directors and Officers

In accordance with applicable law, the ČEZ Distribuce, a. s. Articles of Association, and the Company's internal rules, the General Meeting elects and removes members of the Supervisory Board. The Supervisory Board elects and removes members of the Board of Directors. The Board of Directors appoints and removes the General Manager and other Company executives.

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 treated by the Rules of Order of the ČEZ Distribuce, a. s. Supervisory Board, as well as by the Company's Articles of Association. The Supervisory Board held eleven regular meetings in 2008. In addition, in 2008 the Supervisory Board took one decision outside of regular meetings, in accordance with Article 29 of the Articles of Association.

Members of the Supervisory Board

Jiří Kudrnáč (*1965)

Chairman since 17 June 2008

A graduate of the Czech Technical University, Prague, Mr. Kudrnáč currently serves as the Chief Distribution Officer of ČEZ, a. s.

Otto Karl (*1943)

Vice Chairman 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 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 whose Supervisory Board membership terminated in 2008 or up to the Annual Report closing date (20 April 2009)

Tomáš Pleskač (*1966)

Member from 31 March 2005 to 22 May 2008



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 number. The Board of Directors met for 11 regular meetings in 2008. In addition, the Board of Directors took eight 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.



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.

Senior 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.

As of the Annual Report closing date, no members of the senior management had their membership terminated.



Petra Holomková (*1968)

Member since 15 March 2007

A graduate of the University of Economics, Prague, Ms. Holomková is a member of the Supervisory Board of ČEZ Zákaznické služby, s.r.o.



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.

As of the Annual Report closing date, no members of the Board of Directors had their memberships terminated.

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 2008, the Company did not provide members of the statutory and supervisory boards any loans, nor did it provide any guarantees, collateral, or consideration on their behalf.

Remuneration Principles – Senior 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 Company's performance results. 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.

1,563 miles

By no later than 2013, ČEZ Distribuce, a. s. will install bird protection devices on 1,563 miles of power lines that pass through the NATURA 2000 network.



The places where ČEZ Distribuce, a. s. operates high voltage power lines include 26 out of a total of 38 bird habitats protected by NATURA 2000. These protected areas contain a total of 2,055 miles (3,299 km) of high-voltage lines operated by the Company. 487 miles (783 km) of power lines have already been equipped with bird protection in past years, at a cost of CZK 23 million.



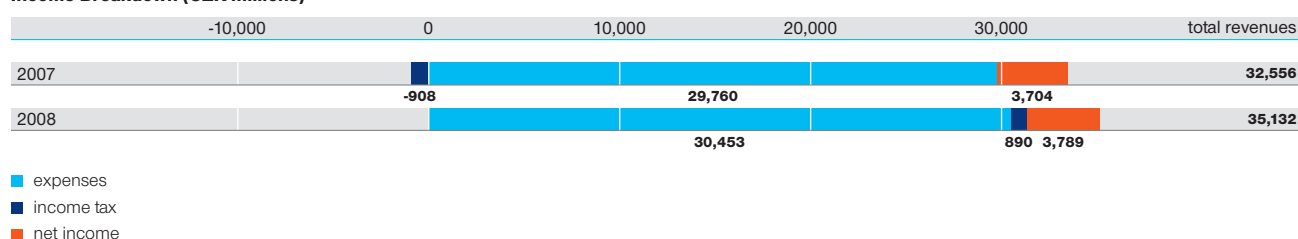
Report on Operations

Financial Performance

2008 was the fourth year of the second regulatory period. Prices for distribution of electricity are set by the Energy Regulatory Office. For 2008, the Energy Regulatory Office set the prices for purchase and sale of services related to the distribution of electricity in a structure similar to the one used for 2007.

Revenues, Expenses, Income

Income Breakdown (CZK millions)



In 2008, the Company's income before income tax totaled CZK 4,678 million. The net income figure, CZK 3,789 million, is up CZK 85 million from 2007.

The operating result was CZK 4,541 million, up CZK 1,857 million from 2007, particularly on a CZK 999 million increase in the gross margin on electricity distribution and an extension in the useful lifetimes of property, plant and equipment, thanks to which depreciation and amortization decreased by CZK 1,155 million.

The financial result was CZK 137 million. Compared to 2007 it was CZK 26 million higher, due to a higher amount of surplus cash during the year.

Expenses, net of income tax, totaled CZK 30,453 million in 2008 and compared to the previous year they were up CZK 693 million. The biggest expense component, at CZK 16,157 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 8,692 million), depreciation and amortization (CZK 4,281 million), personnel expenses (CZK 838 million), and other operating expenses (CZK 486 million).

Revenues totaled CZK 35,132 million in 2008 and consisted predominantly of revenues from sale of system and distribution services (CZK 33,520 million), other sales and service revenues (CZK 1,056 million), and other operating revenues (CZK 417 million). Compared to 2007, overall revenues were up CZK 2,576 million, of which CZK 2,387 million was attributable to increased electricity revenues.

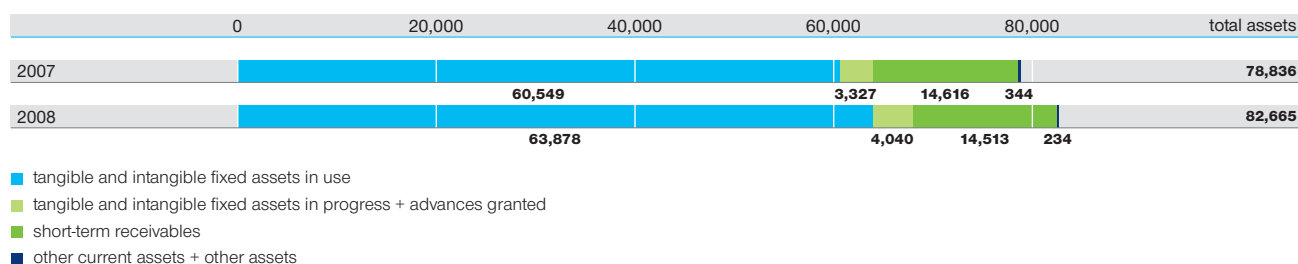
Structure of Assets

Assets

Total assets, at CZK 82,665 million, were up CZK 3,829 million from 2007. Growth in assets was driven mostly by fixed assets. Fixed assets reached CZK 67,918 million, after growing CZK 4,042 million from 2007. The largest components in fixed assets were constructions (CZK 50,303 million), separate movable items (CZK 13,063 million), tangible assets in progress (CZK 3,993 million), and intangible assets (CZK 107 million).

Current assets were down CZK 66 million in 2008, compared to the previous year, and their total was CZK 14,740 million. The items with the highest values were prepaid expenses and unbilled revenue from services related to electricity distribution (CZK 9,467 million), amounts owed by the controlling entity relating to Group cash pooling (CZK 2,390 million), short-term trade receivables (CZK 804 million), short-term advances granted (CZK 711 million), and work in progress (CZK 224 million).

Structure of Assets (CZK millions)



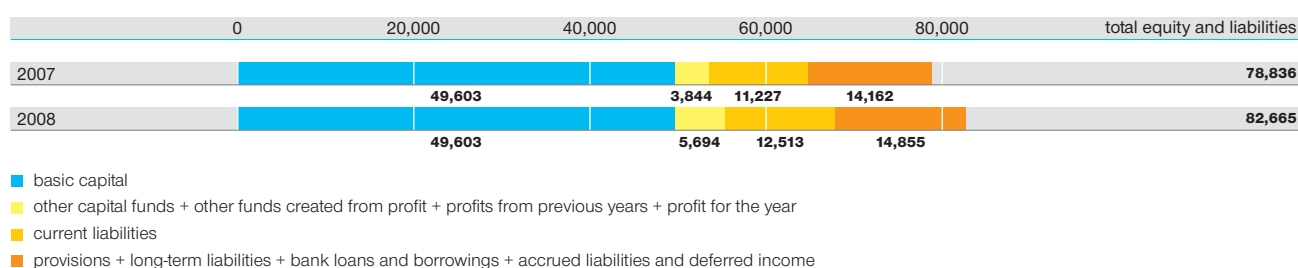
Equity and Liabilities

Equity totaled CZK 55,297 million, having grown CZK 1,850 million from 2007. Growth was attributable to profits from previous years and the legal reserve fund. The biggest components of equity were the basic capital recorded in the Commercial Register (CZK 49,603 million) and the profit for the year (CZK 3,789 million).

Liabilities reached CZK 19,987 million, up CZK 1,159 million from the previous year, mostly on higher current liabilities. The largest items were advances received (CZK 8,855 million), deferred tax liability (CZK 6,376 million), trade payables (CZK 2,424 million), unbilled deliveries (CZK 1,174 million), and the income tax provision (CZK 1,007 million).

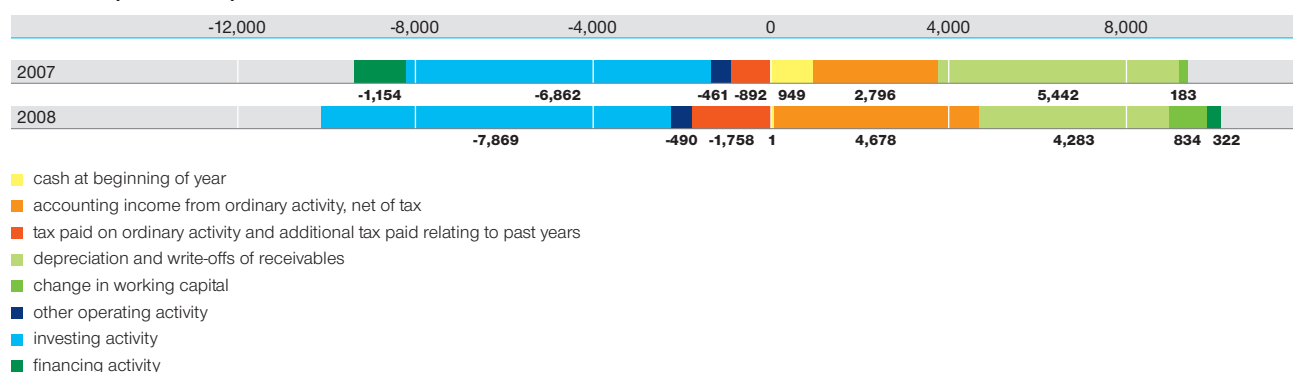
Other liabilities, consisting primarily of deferred income from applicants' shares in connection expenses, reached CZK 7,380 million, up CZK 819 million from the previous year.

Structure of Equity and Liabilities (CZK millions)



Company Financing

Cash Flows (CZK millions)



Short-term financial assets as at 31 December 2008 totaled CZK 0.2 million, down CZK 0.4 million from 2007.

Cash provided by operating activity (CZK 7,547) consisted of the following items:

■ profit or loss on ordinary activities before taxation	CZK 4,678 million
■ corporate income tax paid	CZK -1,758 million
■ depreciation, amortization and debt write-downs	CZK 4,283 million
■ change in working capital	CZK 834 million
■ other operating activity	CZK -490 million

The most significant component in cash used in investing activity (CZK 7,869 million) was expenditures for acquisition of fixed assets, at CZK 7,893 million.

Of the CZK 322 million in cash provided by financing activity, the largest component was a CZK 2,249 million decrease in our Group cash-pooling receivable. In addition, the Company paid out CZK 1,927 million in dividends.

Bank and Other Borrowings and Their Maturity

At 31 December 2008 the Company had no outstanding bank loans or other borrowings.

Key Performance Indicators

	Units	2006	2007	2008
Return on Invested Capital (ROIC)	%	0.63	3.27	5.42
Return on Equity (ROE), net	%	0.83	7.19	6.97
Return on Assets (ROA), net	%	0.54	4.76	4.69
EBIT margin	%	1.40	8.56	13.45
Financial debt/Equity	%	0	0	0
Financial debt/EBITDA	%	0	0	0
Current ratio	%	77.97	83.30	74.13
Operating cash flow-to-liabilities ratio	%	89.60	92.99	100.97
Assets turnover	1	0.43	0.41	0.42
Fixed assets coverage	%	93.71	95.57	92.42
Extent of depreciation	%	10.75	16.91	66.39 ¹⁾

¹⁾ In 2008, the Company reassessed the method used to report and account for depreciation and amortization of assets obtained by capital contribution in the years 2005 and 2006 (see Auditor's Opinion on the Financial Statements of ČEZ Distribuce, a. s., page 39).

Commercial and Financial Outlook

2009 is the last year of the second regulatory period. The prices for purchase and sale of electric power and services set by the Energy Regulatory Office for 2009 have a structure similar to the one used for 2008.

The electricity distribution purchasing and sales plan is in line with anticipated electricity consumption in the ČEZ Distribuce, a. s. supply area for 2009 and assumes the Energy Regulatory Office's price decree for 2009 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 2009 envisions revenues of CZK 35,293 million, income before income tax of CZK 3,854 million, and capital expenditures of CZK 9,675 million.

Information on the Company's Core Business

The operation and maintenance of distribution grid plant and equipment in 2008 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 seven natural disasters caused by unfavorable weather conditions, the most serious of which was the windstorm Emma in March. When natural disasters are excluded, grid control recorded 51 supply interruptions in the high voltage system, 6,346 in the medium-voltage system, and 30,782 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 (minutes)

	250	255	260	265	270	275	total
2007							275
2008							259

All obligations under applicable laws and regulations, in particular monitoring of compliance with guaranteed standards in accordance with Energy Regulatory Office 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	2008
Grid extended length	km	152,733	153,778	154,013
of which: HV	km	9,523	9,540	9,570
MV	km	49,781	50,136	50,141
LV	km	93,429	94,102	94,302
Substations	number	203	203	209
Transformer stations	number	49,211	49,963	51,898
of which: owned by the Company	number	39,117	39,452	40,659
owned by other entities	number	10,094	10,511	11,239

The Company's distribution grid was used to distribute a total of 45,374 GWh of electricity in 2008.

Analysis of Electricity Distribution (GWh)

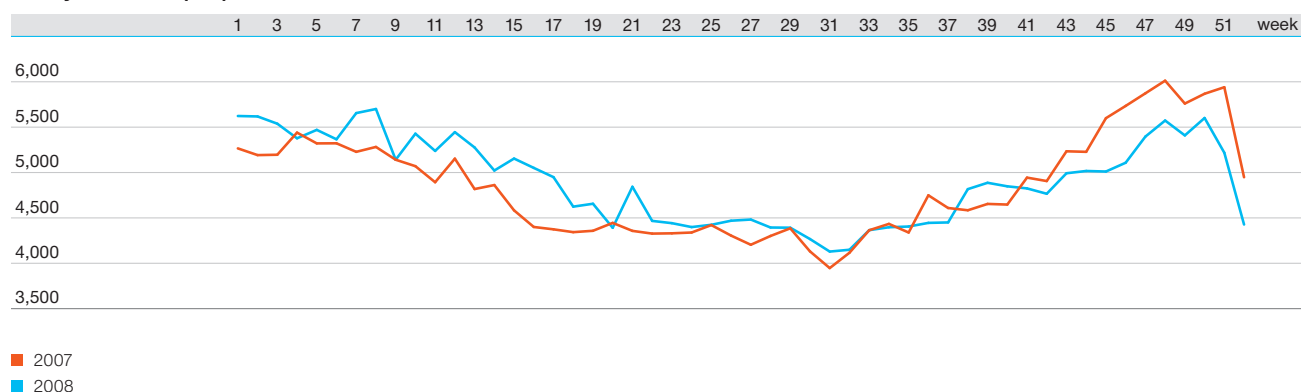
	2006	2007	2008
Input to the distribution grid			
From transmission grid operators	23,089	23,171	24,206
From ČEZ, a. s. power plants	8,730	9,838	8,535
From neighboring distribution service providers	936	861	1,083
From other producers, including private power plants	10,482	9,495	9,286
Import (from other countries) at the distribution services level	674	693	404
Distribution license holders (local distribution grid)	816	1,772	1,860
Input to the distribution grid, total	44,728	45,830	45,374
Output from the distribution grid			
End customers at HV, MV levels	16,955	17,015	17,551
End customers at LV level	14,334	13,908	14,333
Used by producers from grids operated by distribution service providers	1,310	831	647
Supplied to neighboring distribution service providers	5,330	5,393	5,618
Supplied to grids operated by transmission service providers	1,118	2,286	1,274
Export (to other countries) at distribution services level	370	479	497
Distribution license holders (local distribution grid)	2,557	3,243	2,883
Other consumption by distribution service providers	49	45	52
Losses	2,705	2,630	2,519
Output from the grid, total	44,728	45,830	45,374

The total volume of electricity that flowed into the grid in 2008 was 45,374 GWh. Compared to 2007 this represents a decrease of 0.99%, or 456 GWh. The biggest component, at 53.35%, was electricity from the ČEPS a. s. grid, which was up 1,035 GWh year-on-year. Also up in 2008, by 222 GWh, were supplies from neighboring distribution service providers. On the other hand, there was a 1,801 GWh decrease in the volume of electricity procured from ČEZ, a. s. power plants, other producers, and imports. Overall, these sources accounted for 40.17% of the total electricity inflows to the grid.

The volume of electricity distributed to end customers at the HV and MV levels grew by 536 GWh in year-on-year terms, and supplies at these voltage levels accounted for 38.68% of overall supply volume. The amount of electricity distributed to customers at the LV level also grew – by CZK 425 GWh for a 31.59% share of overall supplies. Supplies to neighboring distribution service providers were up 225 GWh year-on-year, pushing their share in overall electricity distribution volume up to 12.38%. Supplies back to the ČEPS, a.s. grid, on the other hand, were down 1,012 GWh and supplies to local distribution service providers were down 360 GWh. The volume of losses declined by 111 GWh.

The highest one-hour peak load, 5,700 MW, was recorded on 18 February 2008 at 1:00 p.m.

Weekly Peak Loads (MW)



ČEZ Distribuce, a. s. distributes electricity to end customers through electricity traders or by direct sale of distribution services. In 2008 the number of active traders with framework agreements with ČEZ Distribuce, a. s. increased to 25. In total, 265 connection points at the HV and MV levels and 21,936 connection points at the LV level were added to the grid in 2008.

Number of Connection Points

	2006	2007	2008
HV – wholesale	129	93	85
MV – wholesale	13,256	13,349	13,622
LV – retail – commercial	481,934	483,059	464,043
LV – retail – residential	2,979,725	2,998,602	3,039,554
Total	3,475,044	3,495,103	3,517,304

In 2008, over 22,000 new connection points were added to the grid and reserved capacity was increased for another 37,000 connection points. CZK 1.3 billion in shares for connection and capacity increases was collected from customers in 2008 pursuant to Decree No. 51/2006 Sb. on Conditions for Connection to the Power System, and CZK 4.4 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	786	46	74
MV	1,001	317	472
LV	2,653	950	1,151
Total	4,440	1,314	1,697

Strategic Objectives

Business Policy

The Company's principal task is to act responsibly as the administrator of distribution grid assets in the ČEZ Distribuce, a. s. 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 Office.

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 Office,
- 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 the 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 Strategic Development Objectives

Our most important plans for 2009 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 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 – both for existing and prospective employees – 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.

The ongoing review of all not-yet-tested equipment operated by the Company is justified, since the substances in question are dangerous for the environment and hazardous to the health of living creatures. Since biphenyls can pass through the food chain, they can impact human health as well. Therefore, ČEZ Distribuce, a. s. is testing its equipment to make sure that it contains no hazardous chemicals.

2008

By the end of 2008, ČEZ Distribuce, a. s. had inspected thousands of oil-containing installations for the presence of PCBs (polychlorinated biphenyls), dangerous chemicals that in the past were one of the components in oil used in distribution grid equipment. The tests conducted to-date show that the ČEZ Distribuce, a. s. equipment inspected does not contain harmful polychlorinated biphenyls.





Capital Expenditure

Capital Projects

In 2008, the Company invested CZK 8,193 million in renewing and upgrading the distribution system. Compared to 2007, capital expenditure increased by 24.56%.

Capital expenditures were not limited to renewing and upgrading the existing distribution grid. They also went on preparing and, subsequently, implementing projects to build new distribution grid plant and equipment to connect additional major industrial parks.

Principal Capital Expenditure Policy Objectives

Capital projects 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 laws and regulations, in particular Decree of the Energy Regulatory Office 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 2006–2008, Plan for 2009 (CZK millions)

Capital expenditures	2006 (Actual)	2007 (Actual)	2008 (Actual)	2009 (Plan)
HV plant and equipment	626	747	835	1,532
MV plant and equipment	1,750	1,884	2,498	3,360
LV plant and equipment	2,697	3,054	4,008	3,864
Ancillary projects	189	296	335	374
Electric meters	406	597	517	545
Total	5,668	6,578	8,193	9,675

Capital Expenditure in 2008

	CZK millions	%
HV plant and equipment	835	10
MV plant and equipment	2,498	31
LV plant and equipment	4,008	49
Ancillary projects	335	4
Electric meters	517	6
Total	8,193	100



Distribution Grid Upgrades

Capital projects in 2008 focused primarily on MV and LV projects. Most of the projects were new and revised connections based on customer requirements. They also included projects from the grid unification program, renewal and upgrade of medium- and low-voltage underground and overhead power lines, and MV/LV distribution transformer stations.

Capital expenditures on HV projects totaled CZK 835 million. These consisted mostly of renovated and new-build HV/MV transformer stations.

A total of CZK 6,506 million was invested in MV and LV plant and equipment in 2008. In this capital expenditure category there was a major increase in the share of distribution plant and equipment projects, both new-build and renovation, made necessary to meet the requirements of future and current customers. Capital expenditures on customer-initiated projects totaled CZK 3,744 million, up 38.75% from the previous year.

Most Significant Projects

Internal projects:

- Mírovka – Hlinsko 110 kV line,
- Poříčí, 110/35 kV transformer station, renovation of 110 kV substation,
- Hranice – Suchdol spur, HV 651/652 kV,
- Bělá nad Radbuzou, new-build 110/22 kV transformer station,
- Dražice transformer station – expansion of 110 kV substation,
- 110 kV Trmice – Děčín spur 110 kV line,
- Špindlerův Mlýn, renovation of 35/10 kV transformer station,
- Orlová, renovation of 110/22 kV transformer station,
- Haviřov, renovation of MV and LV underground lines, Phase Two,
- Týnec 110 kV substation,
- Příbor 110 kV substation – completion of renovation,
- Jílové 110/22 kV transformer station,
- Hamr – Jeřmanice 110 kV overhead line,
- renovation of Louny 22 kV substation,
- Třebechovice, voltage upgrade from 5 to 35 kV,
- Nový Bydžov, voltage upgrade from 10 to 35 kV,
- Ústí nad Labem, renovation of transformer station – unification, Phase One.

Projects to meet customer requirements:

- Mošnov industrial park, 110/22 kV transformer station,
- Ostrava Rudná, 110/22 kV transformer station,
- Příbor, modifications of 110 kV substation for Mošnov industrial park,
- Liberec, MV loop from Teplárna transformer station,
- Vysoký Újezd, upgrade of MV line.

Other Capital Projects

Other investment in capital projects, totaling CZK 852 million, went on activities that are ancillary to the core business of electricity distribution: namely, upgrades of operational and control systems, purchases of electric meters and devices for measuring electricity quality.

Research and 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:

- update of method used to determine LV grid load via work – output conversion (W over P method),
- 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 components.

During the year, work began on Phase Two of a research analysis of power supply to the 110 kV area of Nošovice, Lískovec with regard to the power requirements of new industrial parks.

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, we played a role in assigning master's and bachelor's thesis topics to university students studying electrical engineering.

Safety, Quality and Environmental Management

Safety and OHS Management System

The ČEZ Distribuce Safety and OHS Management System is based on the Company's strategic plans 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 Health and Safety (OHS) area.

In accordance with Act No. 309/2006 Sb., which treats additional occupational health and safety requirements in employer-employee relations and ensuring safety and protection of health in activities and provision of services outside of those relations, 2008 saw the introduction of a system for coordinating work on ČEZ Distribuce, a. s. construction sites.

In late 2008, OHS management-related activities were focused on preparations for obtaining "Safe Enterprise" certification.

The "Safe Enterprise" program, organized by the Ministry of Labor and Social Affairs of the Czech Republic and the State Labor Inspection Office, enables employers who decide to participate in the program to roll out an OHS management system. This system complies not only with Czech regulations, but with European Union standards as well.

The "Safe Enterprise" program is based on the most widely recognized OHS standards in Europe: OHSAS 18001 and the ILO-OSH 2001 Guidebook.

Quality Management System

Despite ever-increasing demands being placed on employees as the Company's capital expenditures grow and distribution plant and equipment is renewed, 2008 did not bring any decline in the overall quality of services for end customers – on the contrary, quality was further increased. This is demonstrated by the speed with which fault states following natural disasters were corrected last year, as well as the commissioning and operational management of distribution grid plant and equipment.

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, last but not least, protection of birds.

A total of 78 sites with legacy environmental burdens have been identified at ČEZ Distribuce, a. s. In 2008, clean-up work was completed at eight of these sites, and clean-up work and/or monitoring is ongoing at another 13 sites. CZK 6.3 million was drawn from the State fund designated for remedying legacy environmental burdens for the purposes of ČEZ Distribuce, a. s. in 2008.

Protecting birds from sustaining injuries by electric shock is a standard and key component of our nature protection efforts. In 2008, the Company continued to act on its commitment to invest in bird protection, above and beyond compliance with requirements given by applicable law, in accordance with a plan worked out in cooperation with Czech Republic ornithologists. Specific power lines were identified and equipped with devices designed to protect birds from electric shock. The total amount invested in these measures reached CZK 17.7 million and helped secure a total of 180 miles (290 km) of medium-voltage power lines. Another CZK 20 million is to be invested in 2009.

Fire Safety

The objective of the Company's fire protection efforts is continual creation of conditions for safe operation and protection of employees and property. The fire protection function was managed centrally for the entire Company and was subjected to regular evaluations. Fire protection activities focused particularly on prevention, with an emphasis on minimizing risk to human life and of damage to property. Fire protection documentation was updated in accordance with the requirements laid down by applicable laws and regulations.

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

Contractual relations were updated with CEZ Group companies concerning provision of services in the areas of occupational health and safety, fire protection, and protection of the environment.

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 from 1 October 2008, all assets of Energetika Vítkovice, a.s., with its seat in Ostrava, Vítkovice, Výstavní 1144/103, postcode 706 02, ID number 258 54 712, incorporated in the Commercial Register maintained by the Ostrava Regional Court, in Part B, insert no. 2313, as the merged company, passed to ČEZ, a. s., with its seat at Duhová 2/1444, Prague 4, postcode 140 53, ID number 452 74 649, as the surviving company. As a result of the merger, the merged company was dissolved without liquidation and folded into the legal successor. One of the assets that passed to ČEZ, a. s. in the merger was a documentary share with a nominal value of CZK 139,421,490. As a result, ČEZ, a. s. is now the sole shareholder of ČEZ Distribuce, a. s.

Shareholder Structure as of 20 April 2009

Sole shareholder		Number of shares	Stake in basic capital (%)
ČEZ, a. s.		63,578,397	100
Multiple-share certificate no.	HL 3 000001	12,787,748	
	HL 3 000002	8,076,115	
	HL 3 000003	13,694,105	
	HL 3 000004	14,498,120	
	HL 3 000005	14,522,308	
Registered share	C 000001	1	

Types and Volumes of Securities Issued

The Company has issued five multiple-share certificates numbered HL 3 000001 to HL 3 000005. 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 is numbered C 000001.

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). In 2008, ČEZ Distribuce, a. s. paid a dividend of CZK 1,927 million out of 2007 net income.

Shareholder Relations

In 2008, ČEZ Distribuce, a. s. convened and held its Annual General Meeting in accordance with applicable law and the Company's Articles of Association, proceeded in accordance with the Commercial Code provisions relating to protection of shareholder rights, and upheld the principle of equal treatment of all shareholders. The Company gave all shareholders equal access to information through the Internet at the Internet address www.cezdistribuce.cz. Important information on the Company was also made public through press releases.

The ČEZ Distribuce, a. s. General Meeting

The General Meeting was held on 22 May 2008. The agenda items which it discussed and on which it passed resolutions included:

- the report on the Company's operations and the state of its assets in 2007,
- the report of the Supervisory Board on its activities during the past period,
- the financial statements for the year ended 31 December 2007,
- the 2007 income allocation,
- the financial plan for 2008,
- the total amount for distribution via sponsorship donations,
- removal and election of Supervisory Board members,
- an amendment to the Articles of Association.

Human Resources

The corporate culture of ČEZ Distribuce, a. s. correlates with the corporate culture of CEZ Group and further develops the seven 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.

Hires and Terminations in 2008 (number of employees)

Newly hired	97
Left the Company	70

The work force headcount at 31 December 2008 was 1,180 persons.

Social Policy

The Company's social policy includes providing employees monetary and non-monetary compensation. Non-monetary compensation is provided in the form of reduced work hours and one extra week of paid vacation above the statutory amount. Monetary compensation provided by the Company in 2008 totaled CZK 73.6 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 holiday trips.

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, as required by law. Employees undergo training and/or repeat testing in those second professions that they actively pursue in their work, as part of their job description.

At ČEZ Distribuce, a. s., employee qualifications were increased and otherwise developed primarily through studies at universities and secondary schools. The study fields and programs in which Company employees are enrolled are chosen on the basis of their job descriptions or the employee's planned direction of future career growth. In the 2007/2008 academic year, a total of 79 Company employees were involved in work-study programs: 54 at secondary schools and 25 at universities.

Development of language skills at the Company focused primarily on English. In 2008, approximately 190 employees participated in foreign language courses.

In 2008, the Company organized management skills training for employees at the middle-management level. The objective of these programs was to develop basic management skills, primarily in the areas of effective communication, encouraging a pro-active approach, developing a drive to succeed, and non-verbal communication.

The total expense incurred by the Company for all employee development and training activities in 2008 was CZK 8.6 million.

Relations with Labor Unions

Collective bargaining went on throughout the year. Amendment No. 1 to the Collective Agreement was signed in January 2008, and Amendment No. 2, which is effective from 1 January 2009, was signed during January 2009.

A total of 34 basic labor organizations operate at the Company. Some of these are organized into five regional labor unions. Labor unions play several important roles. In addition to representing employees, they engage in collective bargaining with the employer and monitor the employer to ensure it meets its obligations. The employer's aim is, through this communication, to support the development of employee motivation while maintaining labor peace. To ensure mutual information exchange, meetings were held regularly, every 14 days, throughout 2008.

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 and certain disagreements arose, 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 2008.

ČEZ Foundation supported leisure-time activities for children and youth, quality-of-life improvements for disadvantaged persons, and infrastructure upgrades in cities and villages in regions throughout the entire ČEZ Distribuce, a. s. service area.

In addition, sponsorship donations totaling nearly CZK 20 million were made by ČEZ Distribuce directly in 2008. This sum was distributed amongst approximately 84 various projects.

The Company also contributed CZK 966,000 to the CEZ Group Seniors Foundation Fund.

Distribution of ČEZ Distribuce Direct Donations in 2008

	CZK '000	%
■ Municipalities	4,895	16
■ Social, health care	6,713	26
■ Sport, culture	3,135	25
■ Education	5,225	33
Total	19,968	100



ČEZ Distribuce, a. s. invested a total of CZK 3 million in direct promotions in 2008. The Company's advertisements appeared mainly at cultural, social, and sports events.

Litigation

In addition to routine court cases, during the period in question ČEZ Distribuce, a. s. was involved, and continues to be involved, in numerous legal measures responding to attacks, in the media and elsewhere, that are undertaken, in some cases in organized fashion, by unauthorized electricity users against ČEZ Měření, s.r.o. and its employees in conjunction with activity conducted by that company on behalf of ČEZ Distribuce, a. s. to discover, prevent, and eliminate the causes of unauthorized electricity use.

Contents of the Financial Section

Independent Auditor's Report	38
Independent Auditor's Report on the Financial Statements of ČEZ Distribuce, a. s.	39
Financial Statements of ČEZ Distribuce, a. s. as of 31 December 2008	40
Balance Sheet	40
Statement of Income	42
Statement of Cash Flows	43
Notes to the Financial Statements	44

Independent 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 2008 presented in the annual report of the Company on pages 40–56 and our audit report dated 23 January 2009 stated the following:
- II. We have also audited the consistency of the annual report with the financial statements described above. 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 5–36 is consistent with that contained in the audited financial statements as at 31 December 2008. 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 financial statements described above.

- 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 2008 presented in the annual report of the Company on pages 62–67. 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 the applicable International Standard on Review Engagements 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.

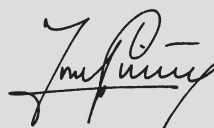
Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of ČEZ Distribuce, a. s. for the year ended 31 December 2008 is materially misstated.



Ernst & Young Audit, s.r.o.

License No. 401

Represented by partner



Josef Pivoňka

Auditor, License No. 1963

20 April 2009

Prague, Czech Republic

Independent Auditor's Report on the Financial Statements 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, 2008, 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 of 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 and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an 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

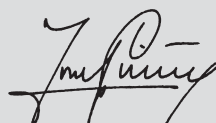
In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s. as at December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Without qualifying our opinion we draw attention to the following fact:

In 2008, the Company reassessed the original method of presentation and depreciation of assets acquired via the contributions of part of the enterprise in 2005 and 2006. Effective from January 1, 2008, these assets are presented at revalued acquisition cost according to the initial expert appraisal prepared by HZ Praha, spol. s r. o. in connection with "unbundling" of distribution companies of the CEZ Group. As a consequence of reassessment of the method of contributed asset presentation, the Company increased the acquisition cost and the accumulated depreciation of contributed fixed assets by CZK 109,789,109 thousand (see part 3 – Summary of Significant Accounting Policies, letter b, on page 45 and part 5 – Fixed Assets, letter b, on page 48).

A stylized, handwritten-style signature of 'Ernst & Young' in a dark, cursive font.

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

A handwritten signature of 'Josef Pivoňka' in a dark, cursive font.

Josef Pivoňka
Auditor, License No. 1963

23 January 2009
Prague, Czech Republic

ČEZ Distribuce, a. s.

Balance Sheet as of December 31, 2008

(in CZK thousands)

ASSETS	Gross	2008 Provision	Net	2007 Net
TOTAL ASSETS	208,827,868	(126,163,305)	82,664,563	78,835,675
Stock subscription receivable	0	0	0	140,910
Fixed assets	194,055,376	(126,136,959)	67,918,417	63,876,403
Intangible assets	201,220	(94,653)	106,567	67,609
Foundation and organization expenses	0	0	0	0
Research and development	6,302	(4,060)	2,242	3,847
Software	131,618	(71,647)	59,971	42,997
Patents, royalties and similar rights	23,535	(15,651)	7,884	8,403
Goodwill	0	0	0	0
Other intangible assets	10,028	(3,295)	6,733	4,052
Intangible assets in progress	29,737	0	29,737	8,310
Advances granted for intangible assets	0	0	0	0
Tangible assets	193,854,156	(126,042,306)	67,811,850	63,808,794
Land	429,460	0	429,460	356,826
Constructions	142,279,523	(91,976,133)	50,303,390	48,530,025
Separate movable items and groups of movable items	47,127,451	(34,064,731)	13,062,720	11,596,992
Perennial crops	0	0	0	0
Livestock	0	0	0	0
Other tangible assets	7,079	(1,442)	5,637	6,107
Tangible assets in progress	3,992,715	0	3,992,715	3,304,415
Advances granted for tangible assets	17,928	0	17,928	14,429
Gain or loss on revaluation of acquired property	0	0	0	0
Financial investments	0	0	0	0
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
Current assets	14,766,094	(26,346)	14,739,748	14,806,019
Inventory	226,209	0	226,209	189,358
Materials	0	0	0	534
Work in progress and semi-finished production	223,606	0	223,606	186,221
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
Long-term receivables	254	0	254	264
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	254	0	254	264
Deferred tax asset	0	0	0	0
Short-term receivables	14,539,398	(26,346)	14,513,052	14,615,785
Trade receivables	829,396	(25,834)	803,562	369,564
Receivables from group companies with majority control	2,389,712	0	2,389,712	4,638,906
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	1,140,079	0	1,140,079	189,735
Short-term advances granted	711,235	0	711,235	526,575
Unbilled revenue	9,467,442	0	9,467,442	8,889,518
Other receivables	1,534	(512)	1,022	1,487
Short-term financial assets	233	0	233	612
Cash	233	0	233	612
Bank accounts	0	0	0	0
Short-term securities and interests	0	0	0	0
Short-term financial assets in progress	0	0	0	0
Accrued assets and deferred liabilities	6,398	0	6,398	12,343
Prepaid expenses	1,900	0	1,900	1,198
Prepaid expenses (specific-purpose expenses)	0	0	0	0
Unbilled revenue	4,498	0	4,498	11,145

(in CZK thousands)

EQUITY & LIABILITIES	2008	2007
TOTAL EQUITY & LIABILITIES	82,664,563	78,835,675
Equity	55,297,187	53,446,958
Basic capital	49,603,414	49,603,413
Registered capital	49,603,414	49,463,992
Own shares and own ownership interests (-)	0	0
Changes in basic capital	0	139,421
Capital funds	1,717	1,689
Share premium (agio)	1,489	1,489
Other capital funds	228	200
Gain or loss on revaluation of assets and liabilities	0	0
Gain or loss on revaluation of company transformations	0	0
Reserve funds and other funds created from profit	203,284	18,105
Legal reserve fund	203,284	18,105
Statutory and other funds	0	0
Profit (loss) for the previous years	1,700,246	120,164
Retained earnings for the previous years	1,711,572	120,164
Accumulated loss of previous years	(11,326)	0
Profit (loss) for the year (+/-)	3,788,526	3,703,587
Liabilities	19,987,167	18,827,846
Reserves	1,098,216	1,119,692
Reserves created under special legislation	0	0
Reserve for pensions and similar obligations	0	0
Reserve for corporate income tax	1,007,266	1,055,058
Other reserves	90,950	64,634
Long-term liabilities	6,376,263	6,480,856
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	0
Deferred tax liability	6,376,263	6,480,856
Current liabilities	12,512,688	11,227,298
Trade payables	2,424,338	1,732,823
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	31,980	27,403
Liabilities arising from social security and health insurance	18,433	18,600
Due to government – taxes and subsidies	5,375	6,318
Advances received	8,855,337	8,305,099
Bonds payable	0	0
Unbilled deliveries	1,173,654	1,131,791
Other liabilities	3,571	5,264
Bank loans and borrowings	0	0
Long-term bank loans	0	0
Short-term bank loans	0	0
Borrowings	0	0
Accrued liabilities and deferred assets	7,380,209	6,560,871
Accruals	0	26
Deferred income	7,380,209	6,560,845

ČEZ Distribuce, a. s.

Statement of Income as of December 31, 2008

(in CZK thousands)

	Accounting period	
	2008	2007
Revenue from sale of goods	0	0
Cost of goods sold	0	0
Gross margin	0	0
Production	33,937,413	31,518,641
Revenue from sale of finished products and services	33,751,528	31,341,279
Change in inventory produced internally	37,386	37,692
Own work capitalized	148,499	139,670
Production related consumption	24,849,040	23,101,799
Consumption of material and energy	7,691,528	6,737,078
Services	17,157,512	16,364,721
Value added	9,088,373	8,416,842
Personnel expenses	837,568	778,341
Wages and salaries	567,440	527,450
Bonuses to members of company or cooperation bodies	2,133	2,137
Social security and health insurance	194,352	187,288
Other social costs	73,643	61,466
Taxes and charges	4,313	6,155
Amortization and depreciation of intangible and tangible fixed assets	4,280,883	5,435,713
Revenue from sale of intangible and tangible fixed assets and materials	38,144	54,978
Revenues from sale of intangible and tangible fixed assets	23,556	29,361
Revenue from sale of materials	14,588	25,617
Net book value of intangible and tangible fixed assets and materials sold	12,115	14,626
Net book value of intangible and tangible fixed assets sold	12,115	14,626
Materials sold	0	0
Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	30,001	16,689
Other operating revenues	1,018,137	868,210
Other operating expenses	439,043	404,376
Transfer of operating revenues	0	0
Transfer of operating expenses	0	0
Profit or loss on operating activities	4,540,731	2,684,130
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	0	5,624
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	138,022	106,707
Interest expense	0	0
Other finance income	112	1,200
Other finance cost	786	1,813
Transfer of finance income	0	0
Transfer of finance cost	0	0
Profit or loss on financial activities	137,348	111,718
Tax on profit or loss on ordinary activities	889,553	(907,739)
– due	1,005,472	1,059,837
– deferred	(115,919)	(1,967,576)
Profit or loss on ordinary activities after taxation	3,788,526	3,703,587
Extraordinary gains	0	0
Extraordinary losses	0	0
Tax on extraordinary profit or loss	0	0
– due	0	0
– deferred	0	0
Extraordinary profit or loss	0	0
Transfer of share of profit or loss to partners (+/-)	0	0
Profit or loss for the year (+/-)	3,788,526	3,703,587
Profit or loss before taxation (+/-)	4,678,079	2,795,848

ČEZ Distribuce, a. s.

Statement of Cash Flows as of December 31, 2008

(in CZK thousands)

	Accounting period	
	2008	2007
Cash and cash equivalents at beginning of year	612	948,508
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss on ordinary activities before taxation (+/-)	4,678,079	2,795,848
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	3,648,009	4,879,311
Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	4,283,161	5,442,075
Depreciation and amortization of fixed assets	4,280,883	5,435,828
Write-off of receivables	2,278	6,247
Change in provisions and reserves	(485,700)	(441,351)
Change in provisions	3,685	(12,620)
Change in reserves	26,316	29,309
Change in accrued and deferred assets and liabilities	(515,701)	(458,040)
(Gain)/Loss on disposal of fixed assets	(11,441)	(14,735)
Interest expense and interest income	(138,022)	(106,707)
Interest expense	0	0
Interest income	(138,022)	(106,707)
Other non-cash movements	11	29
Income from dividends and profit sharing	0	0
Net cash from operating activities before taxation, changes in working capital and extraordinary items	8,326,088	7,675,159
Change in non-cash components of working capital	834,285	183,395
Change in trade receivables	(1,454,422)	(411,849)
Change in trade payables	2,325,558	632,763
Change in inventory	(36,851)	(37,519)
Net cash from operating activities before taxation, interest paid and extraordinary items	9,160,373	7,858,554
Interest paid	0	0
Interest received	144,669	100,997
Tax paid	(1,758,228)	(891,653)
Gains and losses on extraordinary items	0	0
Dividends received	0	0
Net cash provided by (used in) operating activities	7,546,814	7,067,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(7,893,286)	(6,893,080)
Purchase of tangible assets	(8,125,902)	(6,581,447)
Purchase of intangible assets	(67,201)	(1,835)
Change in financial investments	0	0
Change in liabilities from investing activities	299,817	(309,798)
Proceeds from sale of fixed assets	23,898	30,801
Proceeds from sale of tangible assets	23,556	29,361
Proceeds from sale of intangible assets	0	0
Proceeds from sale of financial investments	0	0
Change in receivables from sale of fixed assets	342	1,440
Net cash provided by (used in) investing activities	(7,869,388)	(6,862,279)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in long-term liabilities and long-term, resp. short-term, loans	0	(400)
Change in long-term loans	0	0
Change in short-term loans and borrowings	0	0
Change in other long-term liabilities	0	(400)
Change in receivables/payables related to group cashpooling	2,249,195	(1,153,115)
Effect of changes in equity on cash	(1,927,000)	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	(1,927,000)	0
Acquisition/sale of own shares	0	0
Net cash provided by (used in) financing activities	322,195	(1,153,515)
Net increase (decrease) in cash and cash equivalents	(379)	(947,896)
Cash and cash equivalents at end of year	233	612

ČEZ Distribuce, a. s.

Notes to the Financial Statements as of December 31, 2008

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, post code: 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., Duhová 2/1444, post code: 140 53, Praha 4, the business registration number (IČ): 452 74 649.

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

The Company has no foreign branch.

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

Board of Directors		Supervisory Board	
Chair	Josef Holub	Chair	Jiří Kudrnáč
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 15 January 2008, Zdeněk Pasák was appointed a member of the Supervisory Board by the decision of the sole shareholder of ČEZ Distribuce, a. s., executing the powers of the general meeting. On 22 May 2008, the Supervisory Board chairmanship of Tomáš Pleskač terminated. On the same day, the Annual General Meeting appointed Jiří Kudrnáč a member of the Supervisory Board. On the Supervisory Board meeting held on 17 June 2008, Jiří Kudrnáč was appointed a chairman of the Supervisory Board. The respective entry in the Commercial Register was made on 27 June 2008.

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 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 2008 and 2007.

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 2008 and 2007 financial statements are as follows:

a) Intangible Fixed Assets

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

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

b) Tangible Fixed Assets

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

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

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

Tangible and intangible fixed assets acquired via the contributions of part of enterprise in 2005 and 2006 were contributed to the Company at net book values revalued according to the expert appraisal by HZ Praha, spol. s r.o. which had been made in connection with "unbundling" of distribution companies of the CEZ Group. These net book values were used to set up the basis for depreciation/amortization for accounting purposes and, until 31 December 2007, the assets were depreciated/amortized over the remaining useful economic lives determined according to the expert appraisal. In 2008, the Company reassessed the original method of presentation and depreciation/amortization of assets acquired via the contributions of part of enterprise, and it presents these assets at revalued acquisition cost effective as of 1 January 2008. As a consequence of reassessment of the method of contributed asset presentation, the Company increased acquisition cost and accumulated depreciation / amortization of contributed fixed assets by the difference between the revalued acquisition costs and the revalued net book values according to the expert appraisal, which was made as at the contribution date; the difference was CZK 109,789,109 thousand. This change does not affect net book value of presented fixed assets. 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/amortization of tangible and intangible fixed assets.

Depreciation

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

	Years
Constructions	40–50
Machinery and equipment	4–30
Vehicles	4–8
Furniture and fixtures	4–25

As a consequence of change in the presentation of contributed assets as described above, the depreciation method changed in 2008. Since 2008, fixed assets acquired via the contributions of part of enterprise have been depreciated based on the revalued acquisition cost over the useful economic life according to the depreciation plan, instead of based on the revalued net book value over the remaining useful economic life. In addition, in 2008 the useful economic lives of energy assets were reassessed due to the unification with useful economic lives set out in Decree of Energy Regulatory Authority. The Company changed the depreciation plan for energy assets. The useful economic lives were extended for most of energy assets (power lines: from 30 years to 40 years, and technology of transformer stations and switching stations: from 16 years to 30 years). As a consequence of change in the depreciation plan, a total amount of recorded depreciation expense decreased by CZK 1,323,920 thousand.

c) Financial Assets

Short-term financial assets consist of liquid valuables and cash in hand.

d) Inventory

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

Finished goods and work-in-progress (services) are recorded at actual cost. The cost of inventory produced internally includes direct material and labor 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 allowance for doubtful accounts. Additions to the allowance 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 Registry Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting which was not entered in the Commercial Register as at the financial statements date is recorded through changes in basic capital.

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

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

g) Provisions and Liabilities

The Company creates legal provisions in accordance with the Act on Provisions and provisions for losses and risks if the related purpose amount and timing can be reliably estimated and the accrual and matching principles are observed.

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

Liabilities or contingent liabilities which 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) Finance Leases

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

i) Foreign Currency Transactions

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

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

j) Recognition of Revenues and Expenses

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

The Company recognizes as an expense any additions to provisions for or allowances 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 provisions and allowances, 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 as at 31 December 2007 totaling 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). Non-monetary contribution of distribution assets was fully paid by a subscriber on 1 January 2008.

5. Fixed Assets

a) Intangible Fixed Assets (in CZK thousands)

Cost

	At beginning of year	Additions	Disposals	Transfers	At end of year
Research and development	6,302	–	–	–	6,302
Software	92,084	–	(169)	39,703	131,618
Patents, royalties and similar rights	23,727	–	(1,948)	1,756	23,535
Other intangibles	5,713	–	–	4,315	10,028
Intangibles in progress	8,310	67,201	–	(45,774)	29,737
2008 Total	136,136	67,201	(2,117)	–	201,220
2007 Total	137,757	1,835	(3,456)	–	136,136

Accumulated Amortization

	At beginning of year	Amortization during year	Disposals	At end of year	Net book value
Research and development	(2,455)	(1,605)	–	(4,060)	2,242
Software	(49,087)	(22,729)	169	(71,647)	59,971
Patents, royalties and similar rights	(15,324)	(2,275)	1,948	(15,651)	7,884
Other intangibles	(1,661)	(1,634)	–	(3,295)	6,733
Intangibles in progress	–	–	–	–	29,737
2008 Total	(68,527)	(28,243)	2,117	(94,653)	106,567
2007 Total	(40,431)	(31,552)	3,456	(68,527)	67,609

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	Acquisition cost increase	Additions-contribution	Additions	Disposals	Transfers	At end of year
Land	356,826	–	15,924	–	(881)	57,591	429,460
Constructions	56,433,895	81,413,962	235,908	4,608	(289,312)	4,480,462	142,279,523
Individual movable items	16,004,392	28,375,147	215,390	–	(356,210)	2,888,732	47,127,451
Art works and collections	337	–	–	–	–	10	347
Other tangibles	6,732	–	–	–	–	–	6,732
Tangibles in progress	3,304,415	–	–	8,117,794	(2,699)	(7,426,795)	3,992,715
Advances for tangibles	14,429	–	–	3,499	–	–	17,928
2008 Total	76,121,026	109,789,109	467,222	8,125,901	(649,102)	–	193,854,156
2007 Total	69,673,659	–	–	6,581,447	(134,080)	–	76,121,026

Accumulated Depreciation

	At beginning of year	Accumulated depreciation increase	Depreciation during year	Additions-contribution	Net book value of sold assets	Disposals	At end of year	Net book value
Land	–	–	–	–	–	–	–	429,460
Constructions	(7,903,870)	(81,413,962)	(2,774,917)	(171,563)	(1,133)	289,312	(91,976,133)	50,303,390
Individual movable items	(4,407,400)	(28,375,147)	(1,477,243)	(153,749)	(7,402)	356,210	(34,064,731)	13,062,720
Art works and collections	–	–	–	–	–	–	–	347
Other tangibles	(962)	–	(480)	–	–	–	(1,442)	5,290
Tangibles in progress	–	–	–	–	–	–	–	3,992,715
Advances for tangibles	–	–	–	–	–	–	–	17,928
2008 Total	(12,312,232)	(109,789,109)	(4,252,640)	(325,312)	(8,535)	645,522	(126,042,306)	67,811,850
2007 Total	(7,027,525)	–	(5,404,161)	–	(7,194)	126,648	(12,312,232)	63,808,794

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 11,879 thousand and CZK 8,808 thousand at acquisition cost as at 31 December 2008 and 2007, respectively.

6. Receivables

Allowances against outstanding receivables that are considered doubtful were charged to income based on their collectibility and ageing analysis in 2008 (see Note 7).

As at 31 December 2008 and 2007, receivables overdue for more than 30 days totaled CZK 34,791 thousand and CZK 29,363 thousand, respectively.

Receivables from related parties (see Note 19).

Unbilled revenue represents, in particular, unbilled distribution services.

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

Unbilled energy (UE)	Total	Retail business customer	Retail household customers
Opening balance at 1/1/2007	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
Changes in 2008	616,308	435,077	181,231
Closing balance as at 31/12/2008	9,377,257	3,000,311	6,376,946

Since the method of estimation of unbilled distribution services has been refined, the estimation of unbilled distribution services was increased by CZK 1,175,333 thousand in 2008.

7. Allowances

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

Changes in the allowance accounts (in CZK thousands)

	Opening balance as at 1/1/2007	Additions	Deductions	Balance as at 31/12/2007	Additions	Deductions	Balance as at 31/12/2008
Allowances against receivables	35,280	21,777	(34,396)	22,661	17,612	(13,927)	26,346
of which: legal	13,459	3,962	(6,496)	10,925	7,981	(3,476)	15,430
other	21,821	17,815	(27,900)	11,736	9,631	(10,451)	10,916

Legal allowances are created in compliance with the Act on Provisions 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. Cash in CZK provided to the parent company ČEZ, a.s. within the cash pooling bears interest rate of PRIBID -0.15% p.a. (receivables), cash in CZK provided by the parent company within the cash pooling bears interest rate of PRIBOR +0.20% (payables). The balance of cash transferred to the parent company ČEZ, a.s. within the cash pooling system was CZK 2,389,712 thousand and CZK 4,638,906 thousand as at 31 December 2008 and 2007, respectively. The balance is reported as short-term receivable in the balance sheet caption "Receivables to group companies with majority control" as at 31 December 2008 and 2007.

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 consists of 63,578,396 registered shares with a nominal value of CZK 778 per share and 1 registered share with a nominal value of CZK 139,421,490 thousand. All shares are fully subscribed and paid.

The movements in the capital accounts during 2008 and 2007 were as follows (in CZK thousands):

	Balance as at 31/12/2006	Increase	Decrease	Balance as at 31/12/2007	Increase	Decrease	Balance as at 31/12/2008
Number of shares	63,578,396	–	–	63,578,396	1	–	63,578,397
Basic capital	49,463,992	–	–	49,463,992	139,421	–	49,603,414
Movements in basic capital	–	139,421	–	139,421	–	(139,421)	–
Share premium	–	1,489	–	1,489	–	–	1,489
Other capital funds	163	37	–	200	28	–	228
Legal reserve fund	2,405,684	18,105	(2,405,684)	18,105	185,179	–	203,284
Non-compensated losses B/F	(2,629,507)	–	2,629,507	–	(11,326)	–	(11,326)
Retained earnings	–	120,164	–	120,164	1,591,408	–	1,711,572

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, Lukáš Křístka, appraiser in economy, Spr. No. 405/2004, located at Jungmannova 1738, Roztoky u Prahy, post code 252 63, recorded under No. 44/5/2007 dated 10 August 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 recognized as share premium. The basic capital increase was entered in the Commercial Register on 22 January 2008.

In 2008, a basic capital increase was made through a non-cash contribution in the following itemization (in CZK thousands):

	Energetika Vítkovice, a.s.
Total assets	141,910
Total equity and liabilities	–
Total contributed net assets	141,910
Financial settlement	(1,000)
Share premium	(1,489)
Amount of basic capital increase	139,421

The accumulated losses brought forward in the amount of CZK 11,326 thousand arose as a result of the recognition of deferred tax liability as at the date of contribution of distribution assets of Energetika Vítkovice, a.s.

On 22 May 2008, ČEZ a. s., as the sole shareholder of ČEZ Distribuce, a. s., executing the powers of the general meeting approved by notarial registration a dividend distribution of CZK 1,927,000 thousand. The dividend was paid on 26 June 2008.

The Annual General Meetings held on 25 April 2007 and 22 May 2008, respectively, approved the following profit distribution for 2007 and 2006 (in CZK thousands):

Profit for 2007	3,703,587	Profit for 2006	362,092
Allocation to legal reserve fund	(185,179)	Allocation to legal reserve fund	(18,105)
Compensation of losses B/F	–	Compensation of losses B/F	(223,823)
Dividends	(1,927,000)	Dividends	–
Undistributed profits added to retained earnings	1,591,408	Undistributed profits added to retained earnings	120,164
Retained earnings as at 31/12/2008	1,711,572	Retained earnings as at 31/12/2007	120,164

11. Provisions

Provisions	Balance as at 31/12/2006	Increase	Decrease	Balance as at 31/12/2007	Increase	Decrease	Balance as at 31/12/2008
Provision for income tax	708,543	1,055,058	(708,543)	1,055,058	1,007,266	(1,055,058)	1,007,266
Other provisions	35,325	30,994	(1,685)	64,634	32,949	(6,633)	90,950

Other provisions in the amount of CZK 90,950 thousand were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement.

12. Current Liabilities

As at 31 December 2008 and 2007, the Company had overdue current payables for more than 30 days totaling CZK 46,181 thousand and CZK 1,975 thousand, respectively.

As at 31 December 2008, the Company had liabilities of CZK 18,433 thousand owing to social security and health insurance premiums.

Unbilled deliveries represent, in particular, unbilled services related to electricity distribution, unbilled deliveries of electricity purchased to cover power grid losses and unpaid vacation claims for 2008.

Payables to related parties (see Note 19).

13. Other Liabilities

Movements in deferred income accounts in 2008 and 2007 (in CZK thousands)

Balance at 1 January 2007	5,963,247
Additions in 2007	1,054,290
Released to revenues in 2007	(456,697)
Balance at 31 December 2007	6,560,840
Additions in 2008	1,341,013
Released to revenues in 2008	(521,646)
Balance at 31 December 2008	7,380,207

Deferred income includes in particular connection fees within the meaning of Act No. 458/2000 Coll. (the Energy Act) and Decree 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.

14. Income Taxes

	2008 (in CZK thousands)	2007 (in CZK thousands)
Profit before taxes	4,678,079	2,795,848
Difference between book and tax depreciation	38,395	1,521,085
Difference between net book value of fixed assets for accounting and tax purposes	2,549	18,258
Non-deductible expenses:		
Creation of provisions	26,316	29,309
Creation (release) of allowances	(820)	(10,085)
Other (e.g. entertainment expenses, shortages and losses)	53,476	43,062
Taxable income	4,797,995	4,397,477
Current income tax rate	21%	24%
Tax	1,007,579	1,055,394
Tax allowance	(313)	(336)
Provision for income tax	1,007,266	1,055,058
Adjustment of the tax paid in previous years	(1,794)	4,779
Current tax expense	1,005,472	1,059,837

The calculation of the 2008 corporate income tax liability is preliminary. The Company will submit its regular tax return by 30 June 2009.

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

Deferred tax items	2008		2007	
	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	–	6,399,539	–	6,499,419
Other temporary differences:				
Allowance against receivables	2,186	–	2,465	–
Provisions	17,352	–	12,280	–
Other	3,738	–	3,818	–
Total	23,276	6,399,539	18,563	6,499,419
Net		6,376,263		6,480,856

As at 31 December 2008, the Company recorded a deferred tax liability of CZK 6,376,263 thousand. A part of deferred tax liability, which arose in the amount of CZK 11,326 thousand as at the date of contribution of part of enterprise in 2008 (see Note 10), was recorded against non-compensated losses brought forward. The change of the deferred tax in 2008 in the amount of CZK 104,593 thousand is recorded in the income statement.

15. Leases

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

Assets which are being used by the Company under finance leases (i.e. the assets are transferred to the Company when the lease term expires) as at 31 December 2008 consist of the following (in CZK thousands)

Description	Terms/ Conditions	Total lease	Payments made as at 31/12/2008	Remaining payments as at 31/12/2008	
				Due within one year	Due over one year
Transformers	72 months	30,450	30,450	–	–

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	–

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 2008, the Company had concluded contracts for future supplies of fixed assets in the amount of approx. CZK 2,191,350 thousand.

17. Revenues

The breakdown of revenues from the sale of own products and services in 2008 and 2007 is as follows (in CZK thousands)

	2008	2007
Provided reserved capacity	6,820,531	5,793,258
Provision of system services	5,254,351	5,169,425
Use of grids	20,407,536	19,384,001
Other energy services	1,037,699	786,811
Other non-energy services	231,411	207,784
Total	33,751,528	31,341,279

In 2008 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 2008.

18. Personnel and related expenses

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

	2008		2007	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	1,164	27	1,157	27
Wages and salaries	567,440	53,165	527,450	50,066
Bonuses to statutory body members	2,133	832	2,137	849
Social security and health insurance	194,352	18,608	187,288	17,567
Social cost	73,643	1,541	61,466	1,958
Total personnel expenses	837,568	74,146	778,341	70,440

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 2,133 thousand and CZK 2,137 thousand in 2008 and 2007, respectively.

19. Related Party Information

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other benefits in 2008 and they do not hold any shares of the Company.

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

As at 31 December 2008 and 2007, advances granted to related parties amounted to a total of CZK 399,412 thousand and CZK 41 thousand, respectively.

Receivables from group companies with majority control in the amount of CZK 2,389,712 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 2008 and 2007, volumes of those sales were as follows (in CZK thousands):

Related party	2008	2007
ČEZ Prodej, s.r.o.	25,610,393	24,907,578
ČEZ, a. s.	88,500	70,761
ČEZ Obnovitelné zdroje, s.r.o.	376	274
MSEM, a.s.	– *	18
Energetika Vítkovice, a.s.	– * *	163,069
ČEZData, s.r.o.	– * * *	2,306
ČEZ Zákaznické služby, s.r.o.	2,499	3,658
VČE - montáže, a.s.	– *	35
ČEZ Správa majetku, s.r.o.	12,128	1,644
ČEZ Měření, s.r.o.	3,175	2,180
ČEZ Distribuční služby, s.r.o.	40,012	42,236
Severočeské doly a.s.	160,944	158,830
ČEZ Energetické služby, s.r.o.	140	–
ČEZ ICT Services, a. s. (former ČEZnet, a.s.)	68,608	65,479
Ústav jaderného výzkumu Řež a.s.	70	–
Total	25,986,845	25,418,068

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

** As at 1 January 2008 the company merged with its parent company ČEZ, a. s.

*** The company merged with ČEZ ICT Services, a. s. in 2008.

Short-term receivables from related parties as at 31 December 2008 and 2007 were as follows (in CZK thousands)

Related party	2008	2007
ČEZ Prodej, s.r.o.	9,246,444	8,590,671
ČEZ Logistika, s.r.o.	–	142
ČEZ Zákaznické služby, s.r.o.	229	1,271
ČEZData, s.r.o.	– *	474
ČEZ správa majetku, s.r.o.	197	338
ČEZ, a. s.	7,430	7,566
ČEZ Měření, s.r.o.	219	198
ČEZ Distribuční služby, s.r.o.	4,949	7,531
ČEZ ICT Services, a. s. (former ČEZnet, a.s.)	13,751	6,940
ČEZ Obnovitelné zdroje, s.r.o.	27	–
Severočeské doly a.s.	8,898	9,703
Energetika Vítkovice, a.s.	– * *	19,936
Total	9,282,144	8,644,770

* The company merged with ČEZ ICT Services, a. s. in 2008.

** As at 1 January 2008 the company merged with its parent company ČEZ, a. s.

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2008 and 2007 were as follows (in CZK thousands):

Related party	2008	2007
ČEZ, a. s.	496,698	593,762
ČEZ Obnovitelné zdroje, s.r.o.	134,433	137,280
ČEZ Měření, s.r.o.	1,683,616	1,621,187
VČE - montáže, a.s.	– *	35,213
ČEZ Prodej, s.r.o.	4,282,545	3,549,352
ČEZ Zákaznické služby, s.r.o.	909,836	875,449
ČEZData, s.r.o.	– **	829,806
ČEZ Správa majetku, s.r.o.	154,706	146,380
I & C Energo a.s.	– ***	16,018
Energetika Vítkovice, a.s.	– ****	6,881
MSEM, a.s.	– *	27,714
Severočeské doly a.s.	71	243
Ústav jaderného výzkumu Řež a.s.	1,257	1,327
ČEZ Energetické služby s.r.o.	512	–
ČEZ ICT Services, a. s. (former ČEZnet, a.s.)	1,175,739	309,336
ALLEWIA leasing s.r.o.	18	–
ČEZ Logistika, s.r.o.	3,622,856	2,890,928
ČEZ Distribuční služby, s.r.o.	4,018,522	3,846,797
Total	16,480,809	14,887,673

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

** The company merged with ČEZ ICT Services, a. s. in 2008.

*** The company ceased to be related party of ČEZ Distribuce, a. s. in 2008.

**** As at 1 January 2008 the company merged with its parent company ČEZ, a. s.

As at 31 December 2008 and 2007, advances received from related parties amounted to a total of CZK 8,318,694 thousand and CZK 7,953,523 thousand, respectively. The advances mostly comprised of advances for distribution services received from ČEZ Prodej, s.r.o.

Short-term payables, except for received advances, to related parties as at 31 December 2008 and 2007 were as follows (in CZK thousands)

Related party	2008	2007
ČEZ, a. s.	91,465	83,404
ČEZData, s.r.o.	– *	188,618
ČEZ ICT Services, a. s. (former ČEZnet, a.s.)	176,409	35,430
ČEZ Logistika, s.r.o.	266,063	146,421
ČEZ Distribuční služby, s.r.o.	476,757	414,626
Energetika Vítkovice, a.s.	– **	1,954
I & C Energo a.s.	– ***	640
ČEZ Obnovitelné zdroje, s.r.o.	12,682	21,627
ČEZ Měření, s.r.o.	159,823	140,690
ČEZ Prodej, s.r.o.	384,727	230,216
ČEZ Zákaznické služby, s.r.o.	96,867	93,639
Ústav jaderného výzkumu Řež a.s.	399	628
ČEZ Správa majetku, s.r.o.	17,360	19,828
Total	1,682,552	1,377,721

* The company merged with ČEZ ICT Services, a. s. in 2008.

** As at 1 January 2008 the company merged with its parent company ČEZ, a. s.

*** The company ceased to be related party of ČEZ Distribuce, a. s. in 2008.

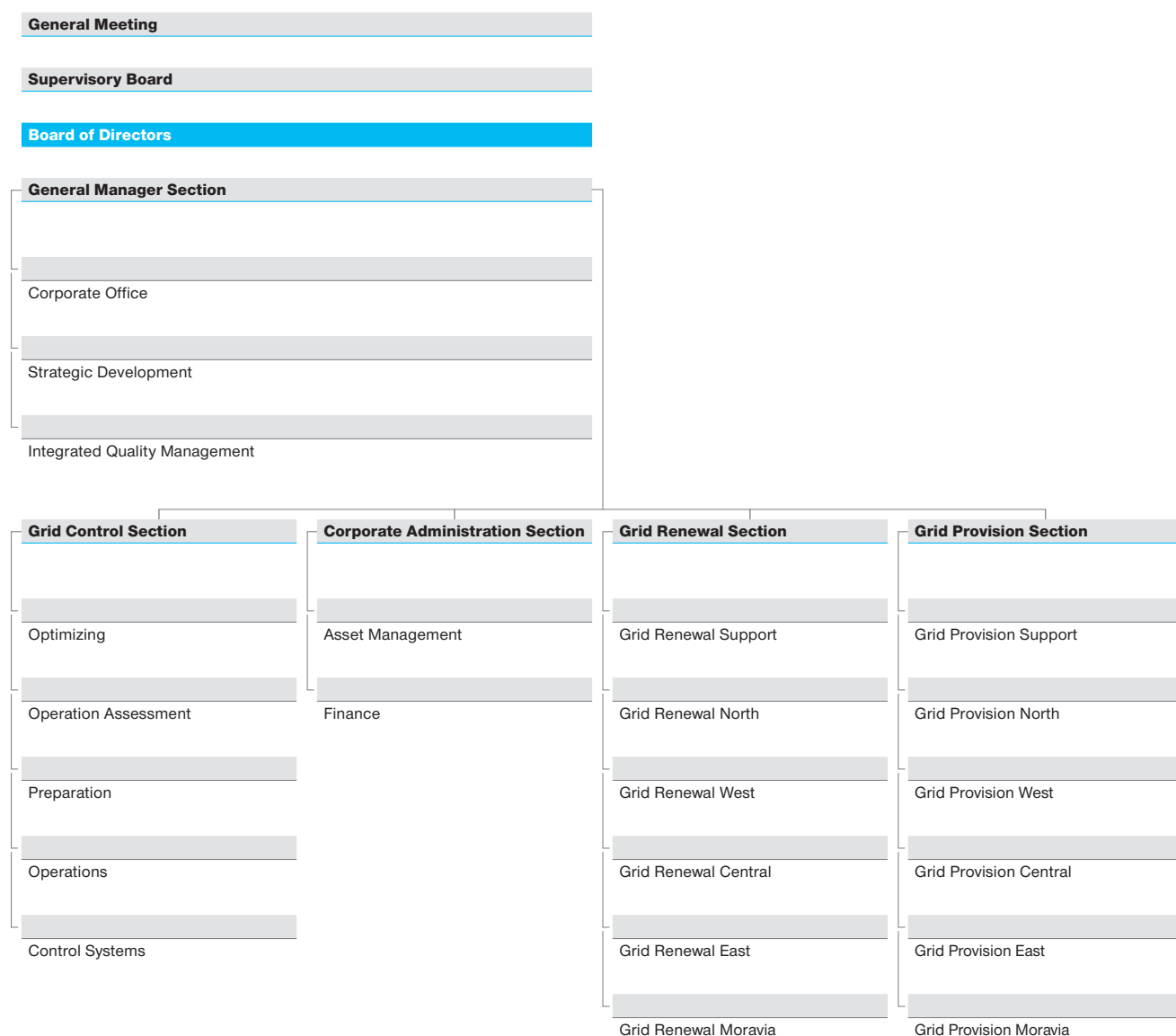
20. Significant Items of Income Statement

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

The cash flow statement was prepared under the indirect method.

ČEZ Distribuce, a. s. Basic Organization Chart as of 20 April 2009



Glossary of Terms and Abbreviations

Glossary of Terms and Abbreviations

Term	Commentary
Cash pooling	A service under which the balances on all accounts of a particular client belonging to a given group are summed at the end of each day and the client receives a higher interest rate on its primary account based on that sum.
ČEPS, a.s.	Operator of the Czech Republic Transmission Grid.
Distribution grid	A mutually interconnected set of 110 kV power lines and equipment – with the exception of 110 kV power line and equipment that are part of the transmission grid, and power lines and equipment with voltages 0.4/0.23 kV, 3 kV, 6 kV, 10 kV, 22 kV and 35 kV that serves purposes of distributing electricity in a designated area of the Czech Republic, including metering, protective, control, security, information and telecommunications systems and technologies.
Energy Regulatory Office (ERO)	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.
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.
MV	Medium Voltage – distribution grid plant and equipment with voltage between phases of 1–52 kV.
OHS	Occupational health and safety.

Term	Commentary
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 mg/kg.
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.
SLA	Service Level Agreement.

Explanation of Units Used in this Document

Unit	Commentary
V	volt; a unit of electrical potential (voltage)
W	watt; a unit of power (load)
Wh	watt-hour; a unit of work

Method Used to Calculate Key Figures

Name of indicator	Calculation
EBIT	Operating income
EBIT margin	Operating income / (Sales of merchandise + Sales of own products and services)
EBITDA	Operating income + Depreciation and amortization
Extent of depreciation	Accumulated depreciation and impairment allowances on property, plant and equipment / Property, plant and equipment in use, gross
Financial debt	Long-term debt including current portion + Debentures + Short-term borrowings
Financial debt / EBITDA	(Long-term debt including current portion + Debentures + Short-term borrowings) / EBITDA
Financial debt / Equity	(Long-term debt including current portion + Debentures + Short-term borrowings) / Average equity
Net income	Income after income tax
Return on Assets (ROA), net	Net income / Average total assets
Return on Equity (ROE), net	Net income / Average equity
Return on Invested Capital (ROIC)	(EBIT + Net change in operating provisions and impairment allowances) * (1 - Income tax rate) / (Average tangible and intangible fixed assets + Average net working capital)

List of Tables and Graphs

Tables

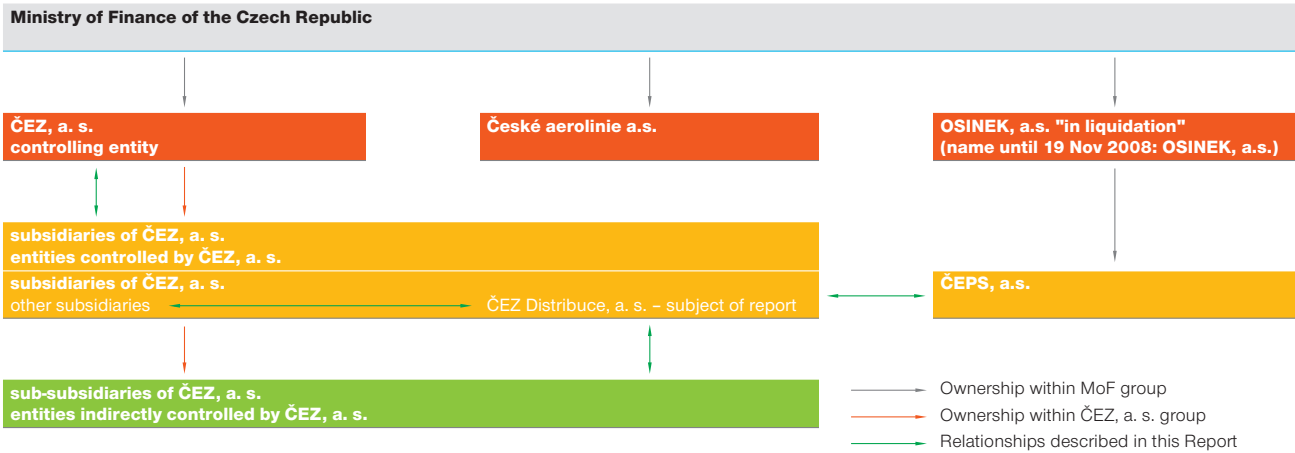
Selected Economic Indicators	8
Selected Sector-specific Indicators	9
Key Performance Indicators	22
Distribution Grid Plant and Equipment	24
Analysis of Electricity Distribution (GWh)	25
Number of Connection Points	26
New Connections and Connection Capacity Increases	26
Overview of Capital Expenditure in 2006–2008, Plan for 2009 (CZK millions)	30
Shareholder Structure as of 20 April 2009	33
Hires and Terminations in 2008 (number of employees)	34

Graphs

Income Breakdown (CZK millions)	20
Structure of Assets (CZK millions)	21
Structure of Equity and Liabilities (CZK millions)	21
Cash Flows (CZK millions)	22
Total Duration of Electricity Supply Interruption per Customer (minutes)	24
Weekly Peak Loads (MW)	26
Capital Expenditure in 2008	30
Distribution of ČEZ Distribuce Direct Donations in 2008	35

ČEZ Distribuce, a. s. Related Parties Report for the Year Ended December 31, 2008

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 of ČEZ Distribuce, a. s., 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 Prague 4
ID No.	452 74 649
Incorporated in Commercial Register maintained by	Prague Municipal Court, Part B, insert 1581
Manner of control	The controlling entity, ČEZ, a. s., owns a 100% equity stake in 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
Incorporated in Commercial Register maintained by	Ústí nad Labem Regional Court, 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 2008 Annual Report, contains data only for the period January 1 – December 31, 2008.

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 the controlled entity, i.e. ČEZ Distribuce, a. s., with related parties within the MoF group. The companies are listed alphabetically, regardless of amount of consideration.

1. ALLEWIA leasing s. r. o.

One lease.

2. ČEPS, a.s.

One contract on provision of electricity transmission and system services.

3. ČEZ, a. s.

21 contracts: one framework agreement on assignment of receivables, four contracts on provision of accounting, financial, and tax services, four contracts on provision of services within the core business, five contracts on distribution and regulation of energy, four leases, two audit contracts, one contract on connection of Dětmarovice Power Station.

4. ČEZ Distribuční služby, s.r.o.

5,980 contracts: 5,977 service contracts, 2 SLAs on provision of services, one contract on provision of OHS, fire protection, and environmental protection services.

5. ČEZ Logistika, s.r.o.

11,428 contracts: 11,425 contracts on supply of materials, three contracts on supply of goods and provision of services within the core business.

6. ČEZ Měření, s.r.o.

Nine contracts: 4 SLAs on provision of services, five contracts on supply of materials.

7. ČEZ Prodej, s.r.o.

Two contracts: one contract on provision of services within the core business, one contract on supply of electricity and losses in the distribution grid.

8. ČEZ Správa majetku, s.r.o.

24 contracts: six contracts on provision of services within the core business, two contracts on provision of transport services, eleven contracts on supply of services, three contracts on creation of a right in rem, one lease, one purchase contract.

9. ČEZ Zákaznické služby, s.r.o.

Three contracts: two SLAs on provision of services, one contract on supply of services.

10. ČEZData, s.r.o.

Three contracts: two contracts on provision of services within the core business, one project contract.

11. ČEZ ICT Services, a. s.

17 contracts: one framework agreement on provision of repair and maintenance services, 12 contracts on provision of services within the core business, four contracts on supply of services.

12. Energetika Vítkovice, a.s.

12 contracts: four contracts on supply of services, one lease, one contract on supply of electricity, one agreement on supply and use of industrial steam for heating, three contracts on supply and use of heating water, one contract on connection of a generating plant, one contract on distribution of electricity.

13. ENPRO, a.s.

177 contracts on drawing up project documentation and implementing projects.

14. ENPROSPOL, s.r.o.

313 contracts on drawing up project documentation and implementing projects.

15. I & C Energo a.s.

294 contracts on drawing up project documentation and implementing projects.

16. OSC, a.s.

Two contracts: one contract on drawing up project documentation and implementing projects, one project contract.

17. SINIT,a.s.

32 contracts: 30 contracts on drawing up project documentation and implementing projects, two project contracts.

18. STE - obchodní služby spol. s r.o. (abbreviated name: STE-OS s.r.o.) in liquidation

One contract on supply of services.

All contracts listed in Section 5 of this Report are contracts entered into in the framework of day-to-day business and their content does not exceed this framework.

6. Other Relationships

ČEZ Distribuce, a. s. did not perform any legal act injurious to itself in the interests of related parties nor did it accept or perform any other measures in the interests or in support of related parties.

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 or to contractual partners of said entities.

For the above reasons, the Report for 2008 does not include:

- information on prices, installments, interest rates, currency rates, and other financial amounts,
- information on quantities.

7.2. Auditor's Report on the Related Parties Report

This Report has been audited. The auditor's opinion on the Report is included in the Auditor's Opinion on the 2008 Annual Report of ČEZ Distribuce, a. s., which is contained in the Company's Annual Report.

7.3. Abbreviations Used

DG	distribution grid
MoF	Ministry of Finance of the Czech Republic
OHS	occupational health and safety
PD	project documentation
SLA	Service Level Agreement

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

8. Conclusion

The Report was compiled with due care, with maximum effort to ensure the disclosure of objective information obtained for the stipulated purpose of this Report, from available documents and materials, with the use of best efforts and with regard to the disclosure of all relevant circumstances that could otherwise influence an accurate and correct assessment of this Report. The statutory body hereby states that the contracts entered into among related parties in the past accounting period did not cause any damage to ČEZ Distribuce, a. s. in the sense of Commercial Code, Section 66a(9). The statutory body of ČEZ Distribuce, a. s. approved this Report at its meeting of 9 February 2009. The Report was submitted to the Supervisory Board for review pursuant to the Commercial Code, Section 66a(10), despite the obvious fact stated in paragraph 16 of said statute.

Děčín, 31 March 2009



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

License number: 120504641

OTE registration number: 715

Closing date of 2008 Annual Report: 20 April 2009

Design and production:
© B.I.G. Prague, 2009

