

**CEZ Finance B.V.**  
**Amsterdam**

Annual report and accounts  
for the year 2007

1031699



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## Report of the management

The management herewith presents to the shareholder the annual accounts of CEZ Finance B.V. (hereinafter: "the Company") for the year 2007.

### General

The Company is a limited liability company incorporated under the laws of The Netherlands and acts as a finance company for CEZ A.S., located in the Czech Republic.

### Overview of activities

The Company has issued Euro and USD bonds on the Luxembourg Stock Exchange and the New York Stock Exchange, of which the proceeds have been used for granting loans to its shareholder.

During the year, the loan facility and the outstanding bonds, each USD 178,000,000 matured. The proceeds from the loan facility were used to repay the bonds.

The Company does not perform any research and development activities.

### Results

The net asset value of the Company as at December 31, 2007 amounts to EUR 2,597,280 (2006: EUR 2,331,752). The result for the year 2007 amounts to a profit of EUR 265,528 (2006: 329,763).

Due to the maturing of the USD 178 million bonds and loans during the year, the total interest income on loans decreased by EUR 16,739,730, or 41.2% to EUR 23,916,182 from EUR 40,655,912 in 2006. The interest expense on bonds decreased by EUR 16,222,009, or 40.38% to EUR 23,592,749 from EUR 40,174,758 in 2006.

The risks to which the Company is exposed include foreign exchange risks, interest rate risks and solvability risks. The relating risk management policies are set out in note 19 of the notes to the annual accounts.

#### Selected indicators:

#### Formulas

-Debt to asset ratio: 0.99	(Liabilities / Assets)
-Debt to equity ratio: 157.75	(Total liabilities / Shareholders' equity)
-Current Ratio: 1.25	(Current assets / Current liabilities)

### Future outlook

The management is of the opinion that the remaining activities will be maintained during the next financial year.

Amsterdam, \_\_ February 2008  
Fortis Intertrust (Netherlands) B.V.

Jan Brozik

**Balance sheet as at December 31, 2007**

(Before the proposed appropriation of the result and expressed in Euro)

	Notes	Dec 31, 2007	Dec 31, 2006
<b>Fixed assets</b>			
Financial fixed assets			
Loans to shareholder	1	398,728,855	533,291,962
Deferred issue expenses	2	490,411	698,068
<b>Total fixed assets</b>		<u>399,219,266</u>	<u>533,990,030</u>
<b>Current assets</b>			
Loan interest receivable	3	10,647,400	15,145,579
Taxation	4	93,221	62,365
Cash at banks	5	2,354,919	2,407,635
<b>Total current assets</b>		<u>13,095,540</u>	<u>17,615,579</u>
<b>Current liabilities (due within one year)</b>			
Payable to shareholder	6	0	322,877
Bonds interest payable	7	10,491,781	14,945,456
Expenses payable	8	6,479	15,493
<b>Total current liabilities</b>		<u>10,498,260</u>	<u>15,283,826</u>
<b>Current assets less current liabilities</b>		<u>- 2,597,280</u>	<u>2,331,753</u>
<b>Total assets less current liabilities</b>		401,816,546	536,321,783
<b>Long term liabilities (due after one year)</b>			
Bonds	9	399,219,266	533,990,031
<b>Net asset value</b>		<u>2,597,280</u>	<u>2,331,752</u>
<b>Capital and reserves</b>	10		
Paid up and called up share capital		18,151	18,151
Share premium reserve		1,806,594	1,806,594
Other reserves		507,007	177,244
Unappropriated results		265,528	329,763
<b>Total capital and reserves</b>		<u>2,597,280</u>	<u>2,331,752</u>

The accompanying notes form an integral part of these financial statements.

**Profit and loss account for the year 2007**  
(Expressed in Euro)

	Notes	2007	2006
<b>Finance activities</b>			
Interest on loans to shareholder	11	23,916,182	40,655,912
Interest on bonds	12	(23,592,749)	(40,174,758)
Interest income deposit account		72,692	47,056
Other interest income		2,908	0
Amortisation of deferred financing fees	13	438,789	606,399
Amortisation of discount on bonds	14	(231,131)	(253,771)
Amortisation of deferred issue expenses	15	(207,657)	(352,628)
Currency exchange rate differences	16	(2,091)	(4,785)
<i>Total other financial income and expenses</i>		<u>396,943</u>	<u>523,425</u>
<b>Other income and expenses</b>			
General and administrative expenses	17	(47,275)	(52,266)
<i>Total other income and expenses</i>		<u>(47,275)</u>	<u>(52,266)</u>
<b>Result before taxation</b>		<u>349,668</u>	<u>471,159</u>
Taxation	18	(84,140)	(141,396)
<b>Result after taxation</b>		<u><u>265,528</u></u>	<u><u>329,763</u></u>

The accompanying notes form an integral part of these financial statements.

**Cash flow statement for the year ended December 31, 2007**

(Expressed in Euro)

	Notes	2007	2006
<b>Cash flows from operating activities</b>			
Net result		265,528	329,763
<b>Working Capital Movements</b>			
Movement receivables (excluding cash)		4,467,323	3,890,627
Movement current liabilities (excluding credit institutions)		(4,785,567)	(3,202,973)
		(52,716)	1,017,417
<b>Cash flows from investing activities</b>			
Decrease long term loans receivable		129,079,043	200,000,000
<b>Cash flows from financing activities</b>			
Decrease long term loans payable		(129,079,043)	(200,000,000)
Declared dividend		0	(322,877)
		(129,079,043)	(200,322,877)
<b>Net (Decrease)/Increase in cash</b>		(52,716)	694,540
Balance cash at bank and in hand as per opening balance		2,407,635	1,713,095
<b>Cash at bank as per balance sheet date</b>		2,354,919	2,407,635

Cash flows from operating activities includes the net interest paid/received in the amount of EUR 399,034 for the year 2007 (2006: EUR 528,210) as well as net taxes paid/received in the amount of EUR 87,005 (2006: EUR 141,396).

**Notes to the annual accounts****General**

The Company is incorporated in The Netherlands with limited liability on November 28, 1994.

The Company is a wholly owned subsidiary of CEZ A.S., located in the Czech Republic.

The Company is engaged in financing activities for group companies.

The financial statements of the Company are included in the consolidated financial statements of CEZ A.S., which have been filed at the Chamber of Commerce in Prague, the Czech Republic.

**Basis of presentation**

The accompanying accounts have been prepared in accordance with accounting principles generally accepted in The Netherlands, the most significant of which are as follows:

**a. Foreign currencies**

Assets and liabilities in foreign currencies are translated into Euro at the exchange rates prevailing on the balance sheet date. Transactions in foreign currencies are translated into Euro at the exchange rates in effect at the time of the transactions. The resulting currency exchange rate differences are taken to the profit and loss account.

The exchange rates used in the annual accounts are:

	Dec 31, 2007	Dec 31, 2006
US dollar - Euro	0.68004	0.75844

In accordance with the CEZ Group policy the Company had hedged the foreign currency positions through entering into a loan agreement with the parent company which covered the positions related to the USD bonds (matured during the year).

**b. Assets and liabilities**

Assets and liabilities are shown at face value, unless stated otherwise in the notes.

**c. Recognition of income**

Income and expenses, including taxation, are recognised and reported on accrual basis.

**d. Corporate income tax**

Provisions for taxation have been made in accordance with the standard ruling practice for finance companies in The Netherlands. Final corporate income tax assessments have been received for the financial years through 2005.

**e. Cash flow statement**

The cash flow statement has been prepared using the indirect method whereby the profit and loss account and the movements between the opening and closing balance are used as basis. The movement in funds consists of the movement in cash at banks. Interest income and expense are incorporated in cash flow from operating activities. The cash flows from investing and financing activities, although in fact settled by the parent Company, are presented in the cash flow statement of CEZ Finance B.V. to provide full insight in the operations of the Company.

**Notes to the annual accounts**  
(Expressed in Euro)

	Dec 31, 2007	Dec 31, 2006
<b>Balance sheet</b>		
<b>1 Loans to shareholder</b>		
Loan USD 178,000,000	0	135,001,896
Deferred financing fee USD 1,480,000	0	(68,503)
Loan EUR 400,000,000	400,000,000	400,000,000
Deferred financing fee EUR 2,592,000	(1,271,145)	(1,641,431)
	<u>398,728,855</u>	<u>533,291,962</u>

According to the loan agreement between the Company and its shareholder, the shareholder should pay a financing fee equal to the aggregate of the administration expenses in relation with the issue of the Bonds by the Company. As a result, the issue expenses in relation with the issue of the Bonds have been deducted from the principal loan amount granted to the shareholder. This deferred financing fee will be released to income over the term of the loan.

	Maturity	Interest rates applicable
USD 178,000,000	July 15, 2007	7.1936
EUR 400,000,000	June 08, 2011	4.6936
Balance as per January 01, 2007		533,291,962
Maturity loan USD 178,000,000		(129,079,043)
Amortisation deferred finance 2007		438,789
Currency exchange rate differences		(5,922,853)
Balance as per December 31, 2007		<u>398,728,855</u>

**2 Deferred issue expenses**

The issue expenses on the LTL Bond USD 178,000,000 are amortised in ten years according to a straight line method. The principal amount was USD 1,400,000 or EUR 1,297,585. The historic USD - EUR rate = 0.9266.

The issue expenses on the LTL Bond EUR 400,000,000 are amortised in seven years according to a straight line method. The principal amount was EUR 1,000,000.

Deferred issue expenses LTL Bond USD 178,000,000	0	1,297,585
Deferred issue expenses LTL Bond EUR 400,000,000	1,000,000	1,000,000
Accumulated amortisation	(509,589)	(1,599,517)
Total deferred issue expenses	<u>490,411</u>	<u>698,068</u>



**Notes to the annual accounts**  
(Expressed in Euro)

	Dec 31, 2007	Dec 31, 2006
<b>3 Loan interest receivable</b>		
Loan USD 178,000,000	0	4,496,810
Loan EUR 200,000,000	0	752
Loan EUR 400,000,000	0	617
Period June 08, 2007 - December 31, 2007	10,647,400	10,647,400
Total loan interest receivable	<u>10,647,400</u>	<u>15,145,579</u>

	Maturity	Interest rates applicable
USD 178,000,000	July 15, 2007	7.1936
EUR 400,000,000	June 08, 2011	4.6936

**4 Taxation**

Corporate income tax 2007	93,221	0
Corporate income tax 2006	0	54,899
Corporate income tax 2005	0	7,357
Corporate income tax 2004	0	109
	<u>93,221</u>	<u>62,365</u>

Income taxes are based on an Advance Pricing Agreement with the Dutch tax authorities. Under this Advance Pricing Agreement, the Company has to report an at arm's length remuneration of 6.86 basis points over the average balance of outstanding loans. The provision for income taxes is calculated in accordance with this Advance Pricing Agreement.

**5 Cash at banks**

Current account	154,919	507,635
Deposit account	2,200,000	1,900,000
	<u>2,354,919</u>	<u>2,407,635</u>

**6 Payable to shareholder**

Payable to shareholder	<u>0</u>	<u>322,877</u>
Balance as per January 01, 2007	322,877	
Receipts during the year	(322,877)	
Balance as per December 31, 2007	<u>0</u>	

## Notes to the annual accounts

(Expressed in Euro)

	Dec 31, 2007	Dec 31, 2006
<b>7 Bonds interest payable</b>		
Bond USD 178,000,000 - interest rate 7.125%	0	4,453,675
Bond EUR 400,000,000 - interest rate 4.625%		
Period June 08, 2007 - December 31, 2007	10,491,781	10,491,781
	<u>10,491,781</u>	<u>14,945,456</u>
<b>8 Expenses payable</b>		
Management / Administration fees	1,479	4,560
Tax consultant fee, estimated	5,000	10,933
	<u>6,479</u>	<u>15,493</u>
<b>9 Bonds</b>		
Bonds are specified as follows:		
Bond USD 178,000,000 - 7.125%	0	135,001,896
Discount	0	(3,702)
	<u>0</u>	<u>134,998,194</u>
Bond EUR 400,000,000 - 4.625%	400,000,000	400,000,000
Discount	(780,734)	(1,008,163)
	<u>399,219,266</u>	<u>398,991,837</u>
	<u>399,219,266</u>	<u>533,990,031</u>

The EUR Bonds have been issued at the Luxembourg Stock Exchange. The bonds are guaranteed by the shareholder. The USD Bonds have been issued at the New York Stock Exchange. The bonds are guaranteed by the shareholder. The proceeds of the Bonds have been lent through to the Company's shareholder.

	Maturity	Interest
USD 178,000,000	July 15, 2007	7.125
EUR 400,000,000	June 08, 2011	4.625
Balance as per January 01, 2007		533,990,031
Maturity bond USD 178,000,000		(129,079,043)
Depreciation discount		231,131
Currency exchange rate differences		(5,922,853)
Balance as per December 31, 2007		<u>399,219,266</u>

**Notes to the annual accounts**  
(Expressed in Euro)

**10 Capital and reserves**

The authorised share capital of the Company amounts to EUR 90,756.04 divided into 200 shares of EUR 453.78 each. Issued and paid up are 40 shares.

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Unappr.results</u>
Balance as per Jan 01, 2007	18,151	1,806,594	177,244	329,763
Transfer	0	0	329,763	(329,763)
Dividend	0	0	0	0
Result for the period	0	0	0	265,528
Balance as per Dec 31, 2007	18,151	1,806,594	507,007	265,528

**Notes to the annual accounts**  
(Expressed in Euro)

			2007	2006
<b><u>Profit and loss account</u></b>				
<b>11 Interest on loans to shareholder</b>				
Loan USD 178,000,000 - 7.1936%			5,141,782	10,131,650
Loan EUR 200,000,000 - 7.3186%			0	11,749,862
Loan EUR 400,000,000 - 4.6936%			18,774,400	18,774,400
			<u>23,916,182</u>	<u>40,655,912</u>
<b>12 Interest on bonds</b>				
Bond USD 178,000,000 - 7.125%			5,092,749	10,035,032
Bond EUR 200,000,000 - 7.25%			0	11,639,726
Bond EUR 400,000,000 - 4.625%			18,500,000	18,500,000
			<u>23,592,749</u>	<u>40,174,758</u>
<b>13 Amortisation of deferred financing fees</b>				
Financing fee USD 1,317,200 at historic rate				
Straight line - 10 years	USD	73,909	68,503	122,084
Financing fee EUR 997,750				
Straight line - 7 years			0	114,029
Financing fee EUR 2,592,000				
Straight line - 7 years			370,286	370,286
			<u>438,789</u>	<u>606,399</u>
<b>14 Amortisation of discount on bonds</b>				
Discount USD 80,000 at historic rate				
Straight line - 10 years	USD	3,994	3,702	6,599
Discount EUR 172,750				
Straight line - 7 years			0	19,743
Discount EUR 1,592,000				
Straight line - 7 years			227,429	227,429
			<u>231,131</u>	<u>253,771</u>
<b>15 Amortisation of deferred issue expenses</b>				
Issue expenses USD 1,400,000 at historic rate				
Straight line - 10 years.	USD	69,914	64,800	115,485
Issue expenses EUR 825,000				
Straight line - 7 years.			0	94,286
Issue expenses EUR 1,000,000				
Straight line - 7 years.			142,857	142,857
			<u>207,657</u>	<u>352,628</u>
<b>16 Currency exchange rate differences</b>				
On outstanding bonds			5,922,853	15,399,456
On outstanding loans			(5,922,853)	(15,399,456)
On accrued interest bonds			50,719	318,975
On accrued interest loans			(52,810)	(323,760)
			<u>(2,091)</u>	<u>(4,785)</u>

**Notes to the annual accounts**

(Expressed in Euro)

	2007	2006
<b>17 General and administrative expenses</b>		
Management fees	4,320	4,320
Administration fees	31,976	37,580
Fiscal advisory services	10,492	10,000
Bank charges	279	222
General expenses	208	144
	<u>47,275</u>	<u>52,266</u>
<b>18 Taxation</b>		
Provision for corporate income tax 2007 (2006)	87,005	141,396
Provision for corporate income tax previous years	(2,865)	0
	<u>84,140</u>	<u>141,396</u>

**19 Risks and risk management**

The risks to which the Company is exposed include foreign exchange risks, interest rate risks and solvability risks.

**a. Foreign exchange risks**

The foreign exchange risks on the USD Bonds (matured during the year) were fully hedged through a loan agreement with the parent company.

**b. Interest rate risks**

The interest rate risk on the outstanding bonds is fully hedged through identical loan agreements entered into with the parent company.

**c. Solvability risks**

The solvability risks is limited as the bonds are fully guaranteed by the parent company, CEZ a.s.

**Related party transactions**

Apart from the transactions already disclosed in the notes to the accounts, the Company did not enter into other transactions with related parties.

**Staff numbers and employment costs**

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

**Directors**

The Company has two (previous year: two) managing directors, of which Fortis Intertrust (Netherlands) B.V. receives a remuneration in the amount of EUR 4,320.

The Company has no (previous year: none) supervisory directors.

Amsterdam, \_\_ February 2008  
Fortis Intertrust (Netherlands) B.V.

Jan Brozik

**Other information**

**Appropriation of results**

Subject to the provisions under Dutch law that no dividends can be declared until all losses have been recovered, other reserves and unappropriated results are at the disposal of the shareholder in accordance with the Company's articles of association.

Furthermore, Dutch law prescribes that any profit distribution may only be made to the extent that the shareholder's equity exceeds the amount of the issued capital and the legal and/or statutory reserves.

The management proposes to the shareholder to add the result for the year to the other reserves.

**Subsequent events**

No events have occurred since balance sheet date, which would change the financial position of the Company and which would require adjustment of or disclosure in the annual accounts now presented.

To: the Board of Directors and Shareholder of CEZ Finance B.V.

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the annual accounts (as set out on pages 4 to 13) for the year 2007 of CEZ Finance B.V., Amsterdam, which comprise the balance sheet as at December 31, 2007, the profit and loss account for the year then ended and the notes.

#### *Management's responsibility*

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the annual report of the board of directors, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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 the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

*Opinion*

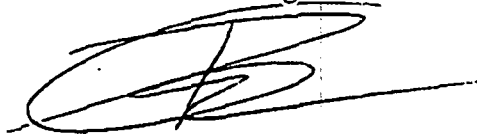
In our opinion, the financial statements give a true and fair view of the financial position of CEZ Finance B.V. as at December 31, 2007 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Director's Report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, February 29, 2008

for Ernst & Young Accountants



P.W.J. Laan