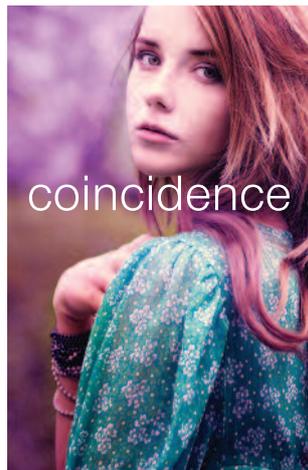
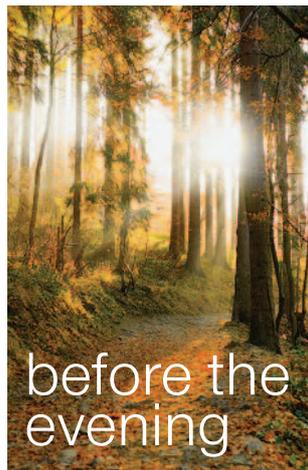
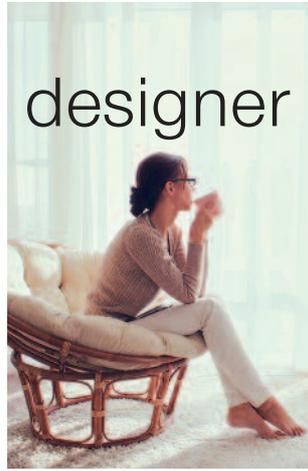
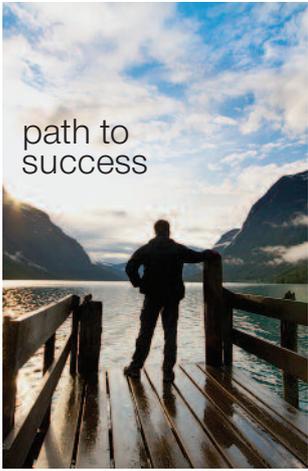


ČEZ Distribuce, a. s.

Annual Report 2014



# SEASON 2014

# 10

years the show has been on

# 3,589,039

customers played  
the starring role in it in 2014

# 162,583

km of power lines represented the length  
of film stock in 2014

# 57,918

MV/LV transformer stations made up  
the accompanying orchestra in 2014

# 5,461

MW was the grid peak  
load during filming in 2014

# 43,331

GWh of energy flowed  
into the filming of the show in 2014

Enjoy your time with ČEZ Distribuce, a. s.

STARRING  
Customers

MEDIA PARTNER  
Chief Executive Officer's Section

STORY BY  
Grid Management Section

MUSIC  
Employees

CASTING  
Distribution Asset Management Section

PRODUCTION DESIGNER  
Shareholder

SCRIPT  
Supervisory Board

PRODUCED BY  
Finance and Administration Section

PRODUCTION  
Grid Renovation and Maintenance Section

DIRECTED BY  
Board of Directors

## 2014 SEASON

A show featuring real customers and their experience with ČEZ Distribuce

Every season is full of interesting events, whether joyful, dramatic, enlightening, completely new, sophisticated, or routine.

The year 2014, summarized in this annual report, was no exception. Energy is all around us: it is a local road travelled by cars, a sidewalk with pedestrians, or a playground with playing children. Everybody's energy is completely unique and it's up to us how we will use it. Energy is infinity, it's actually an endless show that everyone takes part in during their lifetime. Nearly countless people; an incredible number of personal stories; an unimaginable amount of energy that we highly appreciate in you, our customers...

Our show has been running for almost ten years.

Our 2014 season focuses on real life stories of its protagonists, showing them in even seemingly common situations in which our company plays an important role. This makes the show immensely authentic, as the actors write their own roles for themselves.

The entire project shows that the crew and the producers root for their actors and want to create the conditions that will allow them to give their best performance.

The show is definitely not going to end soon. Casting is still open. Anybody can come and take a role in the show—there are no small parts in it...

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# SEASON 2014

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The ČEZ Distribuce, a. s. 2014 Annual Report contains QR codes that link to specific web pages (**www**) mentioned in the main text or next to the QR code.

To read a QR code you will need a mobile telephone with a camera and installed "QR code reader" software, and to view a web page you will also need an Internet connection.

Take a picture of the QR code and the reader will decode it and give you access to the information it contains.

# Information on Persons Responsible for the Annual Report

## Responsibility for the Annual Report

### Statutory Declaration

The information presented in the ČEZ Distribuce, a. s. 2014 Annual Report corresponds to facts and no significant circumstances that could affect the accurate and correct assessment of ČEZ Distribuce, a. s. have been omitted or misrepresented.

Děčín, May 6, 2015



Ing. Richard Vidlička, MBA  
Chairman of the Board of Directors



Ing. Pavel Filipi  
Member of the Board of Directors

# Independent Auditor's Report on the Annual Report

**To the Shareholder of ČEZ Distribuce, a. s.:**

- I. We have audited the financial statements of ČEZ Distribuce, a. s. ("the Company") as at 31 December 2014 presented in the annual report on pages 50–65, on which we have issued an auditor's report dated 6 February 2015, presented in the annual report on page 49.
- 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 respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. 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.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Martin Skácelík, auditor  
License No. 2119

6 May 2015  
Prague, Czech Republic

# Introduction by the Chairman of the Board of Directors

Ladies and gentlemen,

Our company reached record-breaking operating income before depreciation and amortization—EBITDA—of CZK 15.5bn for the second time in a row last year. We maintained the previous year's income and even increased it slightly, by CZK 2m. We managed to compensate for the downturn in permitted revenue as compared to 2013 by lower regulated costs, achieving operating income similar to that of 2013. Our regulated costs decreased by CZK 0.9bn year-on-year, due to planned cost-cutting measures as well as other steps such as asset capitalization or change to crucial processes.

We fulfilled the Company's capital investment program in all respects and evenly in terms of both its distribution throughout the calendar year and the structure of investment projects. We managed to do that thanks to a number of organizational measures we took. We initiated the reconstruction of a 110kV substation in Albrechtice, which allowed conditionally opening this node area for the connection of generating facilities, as well as the construction of transformer stations at Škoda Central Power Station III and Bavoryně. In 2014 we completed the reconstruction of the 110kV Bezděčín–Jeřmanice and Studénka–Třebovice lines, initiated the reconstruction of the Bezděčín–Semily, Vrchlabí–Nová Paka, and Pečky–Kolín West lines, and built a new 110kV line between Kletné and Suchdol.

The volumes of finished and commissioned investments we achieve not only improve the technical condition and allow future development of our assets but also have a positive impact on our financial performance—the Company's permitted income in the years to come. In 2014, we invested CZK 7.9bn in the distribution grid and recorded new assets worth CZK 8.3bn.

Additionally, we have long striven to reduce the volume of construction work in progress, which represents assets that do not generate resources for future investment from any company's point of view. In the past year we achieved an all-time low share of construction work in progress in the total annual investment, amounting to 23.8%.

The positive trend in supply quality indicators was partially influenced by favorable climatic conditions in 2014. For the most part, however, the values of the indicators resulted from increased use of our new operation control system. The work we did on reducing interruption duration allows us to realistically anticipate that the positive trend will continue.

Europe's energy sector is experiencing a period of significant changes arising from efforts to attain ambitious targets in increasing energy efficiency and reducing greenhouse gas emissions.

Distribution companies can thus expect integration of additional decentralized, unpredictable sources but also necessity for changes in the operation of the distribution grid. Our efforts are therefore focused not only on the monitoring and evaluation of trends but also on pilot projects under which we are verifying new functional solutions and evaluating technical and economic impacts. Our Vrchlabí Smart Region pilot project is reaching its final, evaluation stage. However, we are already preparing and undertaking a number of other pilot projects focusing on new communication technologies for distribution grids, on operational measurement at distribution substations, and on achieving quality parameters in the future development of decentralized sources of electric power. Changes in the energy sector also concern customers, their behavior and expectations. To ensure that the range of our services is stable and comprehensible on a long-term basis, we are also preparing a new model for serving distribution customers. ČEZ Distribuce has created the conditions for further improvement in customer service as well as for improving its value for the shareholder's benefit.

I would like to thank all our employees and business partners for their work and good collaboration, which I strongly believe will continue to provide excellent results.



Richard Vidlička  
Chairman of the Board of Directors  
and Chief Executive Officer of  
ČEZ Distribuce, a. s.

# Selected Indicators

## Selected Economic Indicators

	Unit	2011	2012	2013	2014
Workforce head count as at December 31	Persons	1,213	1,191	1,208	1,228
Revenues from sales of own products and services	CZK millions	52,483	52,365	57,063	50,260
of which: revenue from sales of electricity distribution	CZK millions	52,242	52,126	56,839	50,038
EBITDA	CZK millions	13,488	12,062	15,487	15,489
EBIT	CZK millions	7,346	5,739	8,948	8,742
Net income	CZK millions	5,674	4,306	6,876	6,769
Total assets	CZK millions	130,906	132,046	139,368	136,150
Equity	CZK millions	86,360	86,165	90,042	91,095
Net debt	CZK millions	16,447	18,993	13,034	13,269
Debt-to-capital ratio	%	19.73	22.75	20.77	19.43
Capital expenditures	CZK millions	10,224	8,594	7,879	7,953
Operational cash flow	CZK millions	11,777	10,768	16,694	13,334

### Selected Sector-Specific Indicators

	Unit	2011	2012	2013	2014
Service area	km <sup>2</sup>	52,001	52,001	52,001	52,001
Number of connection points	Quantity	3,556,514	3,566,175	3,575,188	3,589,039
of which: HV, MV—large end customers	Quantity	14,482	14,593	14,682	14,706
LV—commercial retail	Quantity	451,107	450,114	443,071	440,380
LV—residential retail	Quantity	3,090,925	3,101,468	3,117,435	3,133,953
Peak load	MW	5,727	6,159	5,583	5,461
Installed line length	km	158,267	159,456	160,915	162,583
of which: HV	km	9,720	9,745	9,782	9,808
MV	km	49,908	50,217	50,483	50,579
LV	km	98,639	99,494	100,650	102,196
MV/LV transformer stations	Quantity	56,710	57,423	57,510	57,918
of which: owned by the Company	Quantity	43,332	43,956	44,547	45,076
owned by a third party	Quantity	13,378	13,467	12,963	12,842
HV/HV, HV/MV transformer stations	Quantity	231	233	238	239

# Key Events of 2014 and 2015 Until the Annual Report Closing Date

## Key Events of 2014

### January

- A strategic construction project for the reconstruction of a 110kV substation in Albrechtice started on January 15, 2014.

### February

- On February 11, 2014, ČEZ Distribuce, a. s. obtained a Certificate of Facility Security Clearance for access to and handling of classified information at the level of Confidential.
- Company management held meetings with ČEZ Distribuce, a. s. employees in Moravia.

### March

- Reconstruction of the 35kV Hradec Králové–Airport line started in order to significantly improve grid reliability on the outskirts of Hradec Králové.

### April

- Collective bargaining started on a collective agreement to be in effect from 2015,
- On April 4, 2014, the Board of Directors of ČEZ Distribuce, a. s. approved the “Annual Report on Measures Adopted to Implement the Distribution Grid Operator’s Equal Treatment Program in 2013,”
- On April 28, 2014, a notarial record validated a change to the Company’s by-laws made to align them with the new legislation with effect from May 1, 2014,
- Construction of a new substation started at the 110/22kV Bavoryně TS, which serves the area between western and central Bohemia.

### May

- On May 13–14, 2014, the International Energy Agency reviewed the preparedness of ČEZ Distribuce, a. s. for a state of energy emergency in the Czech Republic,
- On May 29, 2014, the Ministry of Finance together with the General Financial Directorate gave ČEZ Distribuce, a. s. an award as one of the most significant payers of corporate income tax.

### June

- The Company handed over three new skin graft meshers for the Burn Clinic of the Královské Vinohrady Teaching Hospital in Prague.

### July

- Updated flood action plans for Lovochemie, a.s. in Lovosice, Mondí Štětí a.s., and Constellium Extrusions Děčín s.r.o. enhanced the reliability and safety of the companies’ electricity supplies.

### August

- On August 20–21, 2014, the protection of classified information at ČEZ Distribuce, a. s. was successfully tested by the National Security Authority,
- Reconstruction of the 110kV V1133 & V1134 Opočíněk–Týnec nad Labem line.

### September

- The “Safeguard 2014” exercise (more information can be obtained on the Internet page <http://www.cezdistribuce.cz/cs/zpravy-a-zajimavosti/tiskove-zpravy/>) taking place at the Kletné transformer station on September 11, 2014 tested collaboration between ČEZ Distribuce, a. s., ČEPS, a.s., Czech Army, Czech Police, and the Fire Rescue Force of the Czech Republic in the event of an emergency—attack on the Kletné transformer station,
- The Company finished the renovation of a major 110kV line, No. 651/652, which connects the 110/22kV Studénka transformer station and the 110/22kV Třebovice transformer station, with a loop to the 110/22kV Poruba transformer station.



#### October

- The “Smart System for Safe and Reliable Electricity Supplies to an Area” project in which ČEZ Distribuce, a. s. participates received a grant from the Technology Agency of the Czech Republic,
- On October 16, 2014 an amendment No. 9 to the collective agreement in effect at ČEZ Distribuce, a. s. for the period 2008–2014 was signed.

#### November

- On November 5–6, 2014, the Association for Quality System Certification conducted a re-certification audit of the environmental management system at ČEZ Distribuce, a. s. ČEZ Distribuce, a. s. was successfully re-certified for another three years,
- The most important construction project in the West region—reconstruction of a TR 110/22kV substation in Plzeň, Škoda Central Power Station III—was finished as part of a strategy to supply the city of Plzeň from the 110kV voltage level.

#### December

- On December 2–5, 2014, a disaster was declared in the districts of Chrudim, Přešov, and Svitavy due to freezing rain. Power outages were fixed in record-breaking times,
- On December 2, 2014, the Energy Regulatory Office issued a decision approving a change in the Rules for the Operation of Distribution Grids applicable to ČEZ Distribuce, a. s.,
- Substation reconstruction was finished at the 110kV Babylon TS, including service consumption and ripple control systems; reconstruction of the 110kV Bezděčín–Semily was finished.

#### Key Events of 2015 Until the Annual Report Closing Date

##### January

- On January 9–11, 2015, two fronts moved across the Company’s supply area, accompanied by strong wind gusts with velocities well above 100 kmph. The gusts caused a significant increase in the number of distribution system failures (1,496 failures),
- Reconstruction of the 110kV Pečky–Kolín line was started as a follow-up to extensive reconstruction of all 110kV lines between the Bohemia Center and Týnec nad Labem substations.

##### February

- Under an amendment to the connection agreement between ČEZ Distribuce, a. s. and ČEPS, a.s., the Vítkov node area in the West region was conditionally opened for the connection of generating facilities.

##### March

- On March 10, 2015, a decision on amendment to the Company’s by-laws was made by the sole shareholder exercising the powers of the General Meeting; in Article 14(1), the number of members of the Board of Directors changes from five to six.

##### April

- As from April 1, 2015, Ing. Petra Šárová moves to the position of Managing Director at ČEZ Prodej, s.r.o. and Ing. Karel Kohout moves to the position of Managing Director at ČEZ Distribuční služby, s.r.o.; based on the sole shareholder’s decision, Bc. Tomáš Murtinger became a member of the Board of Directors of ČEZ Distribuce, a. s. as from April 1, 2015 and was put in charge of the Finance and Administration Section; in addition, Ing. Jiří Kudrnáč became a member of the Board of Directors as from the same date and was put in charge of the Grid Renovation and Maintenance Section,
- On April 16, 2015, the Board of Directors of ČEZ Distribuce, a. s. approved the “Annual Report on Measures Adopted to Implement the Distribution Grid Operator’s Equal Treatment Program in 2014.”

**episode 85**

path to  
success

**Synopsis:** Studies are over and young men, design engineers, get back to real life. They are trying to find the right path to success and happiness, to claim their place in the sun. This multilayered story immerses viewers in the plot with everything a high-quality piece of work needs—good screenplay, excellent acting, superb music, perfect production, and last but not least nice costumes and sets. The authors succeeded in creating a unique atmosphere of the time when the carefree days and wild parties are over and a new stage of seeking and working at the first jobs starts. A design engineer's job is far from easy and our heroes attempt to overcome its everyday challenges until the Geoportal comes into play.

**Facts: CEZ Group's Geoportal has already been used by over 600,000 users.**

**Petr:** Our work requires information such as reports on existing utility lines, digital data concerning the location and parameters of engineering infrastructure, or zoning documentation provided to authorized users for development planning. With this application, we get the necessary information easily, comfortably, and quickly, and on top of that completely free.

**STARRING** design engineers and Geoportal  
**MEDIA PARTNER** Chief Executive Officer's Section  
**STORY BY** Grid Management Section **MUSIC** employees  
**CASTING** Distribution Asset Management Section  
**PRODUCTION DESIGNER** shareholder **SCRIPT** Supervisory Board  
**PRODUCED BY** Finance and Administration Section  
**PRODUCTION** Grid Renovation and Maintenance Section  
**DIRECTED BY** Board of Directors

# Governing Bodies

In accordance with applicable legislation and the by-laws of ČEZ Distribuce, a. s., the General Meeting elects and removes members of the Board of Directors, Supervisory Board, and Personnel Committee. Employees elect employee candidates for the Supervisory Board.

## Supervisory Board

The Supervisory Board is the Company's control body; it supervises the exercising of the Board of Directors' powers and the conducting of the Company's business activities. In compliance with the current by-laws, the General Meeting elects six members of the Supervisory Board, including two members elected from candidates elected by employees according to the Company's Election Rules. Details of the Supervisory Board's sessions, approval procedure, meetings, and decision making are specified by the Rules of Procedure in accordance with the by-laws.

### Members of the Supervisory Board

#### Ivo Hlaváč (b. 1976)

Member of the Supervisory Board since March 1, 2014

Chairman of the Supervisory Board since May 28, 2014

A graduate of the Faculty of Arts, Palacký University, Olomouc, majoring in sociology.

He currently holds the position of Chief External Relations and Compliance Officer at ČEZ, a. s.

He is a member of the supervisory board of ČEZ Distribuční služby, s.r.o.

#### Jaroslav Janda (b. 1945)

Member of the Supervisory Board since January 1, 2012

Vice-Chairman of the Supervisory Board since January 24, 2012

A graduate of the College of Mechanical and Electrical Engineering in Plzeň (today University of West Bohemia in Plzeň).

He is currently the Director of Domestic Ownership Interest Administration at ČEZ, a. s.

He was the Chairman of the Supervisory Board of PPC Úžín, a.s. until June 30, 2014; the company ceased to exist on July 1, 2014.

He was the Chairman of the Supervisory Board of ČEZ Zákaznické služby, s.r.o. until August 6, 2014; he remains a member of the company's Supervisory Board.

He has been a member of the Supervisory Board of ČEZ Korporátní služby, s.r.o. since March 1, 2014.

#### Tomáš Pleskač (b. 1966)

Member of the Supervisory Board since January 1, 2012

Chairman of the Supervisory Board from January 24, 2012 to May 27, 2014

A graduate of the Faculty of Business and Economics, University of Agriculture, Brno (today Mendel University in Brno); MBA from Prague International Business School. He currently holds the position of Chief International Officer at ČEZ, a. s.

He is a member of the Board of Directors of ČEZ, a. s., Vice-Chairman of the Board of Directors of Akenerji Elektrik Üretim A.Ş. (Turkey), Vice-Chairman of the Board of Directors of Akcez Enerji Yatırımları Sanayi ve Ticaret A.S. (Turkey), Chairman of the Board of Directors of CM European Power International B.V. (Netherlands), member of the Supervisory Board of CEZ Razpredelenie Bulgaria AD, Chairman of the Supervisory Board of CEZ Bulgaria EAD, member of the Supervisory Board of CEZ Romania S.A.

#### Petr Štulc (b. 1968)

Member of the Supervisory Board since June 1, 2014

A graduate of the Faculty of Natural Sciences and Faculty of Mathematics and Physics of Charles University in Prague.

He currently holds the position of Director of Business Development at ČEZ, a. s.

He is the Vice-Chairman of the OECD BIAC Energy Committee and a member of Eurelectric's Energy Policy & Generation Committee. He is also a member of the Supervisory Boards of Veolia Energie ČR, a.s., Jadrová energetická spoločnosť Slovenska, a. s., and Akenerji Elektrik Üretim A.Ş.

#### Karel Čech (b. 1958)

Member of the Supervisory Board elected by employees since December 16, 2011

A graduate of an industrial school of electrical engineering. He works as a senior supplier management engineer in the Grid Renovation and Maintenance section of ČEZ Distribuce, a. s.

#### Irena Klůsová (b. 1953)

Member of the Supervisory Board elected by employees since December 16, 2011

A graduate of an industrial school of civil engineering. She works as an assistant/coordinator in the CEO's section of ČEZ Distribuce, a. s.

She is a member of the Board of Trustees of the CEZ GROUP SENIORS Endowment Fund.

## Board of Directors

The Board of Directors is the Company's statutory governing body, which manages its activities and acts on its behalf. Members of the Board of Directors are elected and removed by the General Meeting. The powers of the Board of Directors are defined by the Company's by-laws approved by the General Meeting. The Board of Directors makes decisions on all Company matters unless they are reserved for another company body by law or the Company's by-laws. Details of the Board of Directors' sessions, approval procedure, meetings, and decision making are specified by the Rules of Procedure of the Board of Directors of ČEZ Distribuce, a. s. The Board of Directors has five members; members elect and remove their Chairperson and Vice-Chairperson. Pursuant to law and the Company's by-laws, the Supervisory Board is notified of selected matters or asked for an opinion or prior authorization of the Board of Directors' decision.

### Richard Vidlička (b. 1966)

**Chairman of the Board of Directors since October 1, 2010**  
A graduate of the University of Economics, Prague. MBA from the University of Pittsburgh, Joseph M. Katz Graduate School of Business.  
He is a member of the Board of Directors of EDSO for Smart Grids (Brussels), Chairman of the Eurelectric DSO Committee, and Chairman of the Board of Trustees of the Czech Association of Regulated Power Supply Companies (CARPSC).

### Pavel Filipi (b. 1953)

**Member of the Board of Directors since October 1, 2010**  
A graduate of the Czech Technical University in Prague, an Energy System Management graduate program, and a certified corporate governance program.  
He is a member of the Board of Trustees of CARPSC.

### Radim Černý (b. 1974)

**Member of the Board of Directors since June 1, 2012**  
A graduate of the University of West Bohemia, Plzeň.

### Jiří Kudrnáč (b. 1965)

**Member of the Board of Directors since April 1, 2015**  
A graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague.

### Tomáš Murtinger (b. 1978)

**Member of the Board of Directors since April 1, 2015**  
Bachelor's degree in statistics and econometrics from the Faculty of Informatics and Statistics, University of Economics, Prague.

## Members of the Board of Directors Whose Term of Office Terminated in 2014 or Before the Annual Report Closing Date

### Petra Šárová (b. 1968)

**Vice-Chairwoman of the Board of Directors from October 1, 2010 to March 31, 2015**

### Karel Kohout (b. 1953)

**Member of the Board of Directors from March 1, 2012 to March 31, 2015**

## Principles of Remuneration of Members of the Board of Directors and Supervisory Board

The principles of remuneration of members of the Board of Directors and the Supervisory Board are governed by rules approved by the Company's General Meeting and incorporated in service contracts with members of the Board of Directors and the Supervisory Board, as approved by a decision of the sole shareholder exercising the powers of the General Meeting. Specific tasks for individual members of the Board of Directors are also approved by a decision of the sole shareholder exercising the powers of the General Meeting, as is the evaluation of their fulfilment, which, in accordance with the rules of unbundling, is dependent solely on the Company's performance. Such specific tasks are evaluated annually. ČEZ Distribuce, a. s. did not grant any credit or loan to members of the Board of Directors or the Supervisory Board and did not assume any liability or guaranty or performance on their behalf.

**Synopsis:** Halibut must be fresh and is meant to be grilled, preferably using olive oil, from both sides so that it is uniformly and well done all the way through. Then just pepper and salt to season to taste. Today, it must turn out especially well for Monika. It's the first time she had the courage to invite Vlado to her place for dinner. She bought superb halibut at an Italian place in Hlaváčova Street. Monika is nervous. Not because of the fish. She can handle that like a chef. But she's had bad luck with guys for five years now. Vlado will be here in ten minutes. She turns on the grill. But the red light won't come on.

**Facts: ČEZ Distribuce will inform you of planned power outages of longer than 20 minutes at least 15 days in advance on its website at [www.cezdistribuce.cz/odstavky](http://www.cezdistribuce.cz/odstavky) or through information posters put up near your location.**

**Monika:** I was on the verge of a breakdown. Why does something like this always happen to me? I had to invite Vlado for pizza at a place a couple of blocks away. Fortunately, he likes pizza too. And we had that halibut later that night—it was excellent.

# date

**STARRING** Monika and Vlado

**MEDIA PARTNER** Chief Executive Officer's Section

**STORY BY** Grid Management Section **MUSIC** employees

**CASTING** Distribution Asset Management Section

**PRODUCTION DESIGNER** shareholder **SCRIPT** Supervisory Board

**PRODUCED BY** Finance and Administration Section

**PRODUCTION** Grid Renovation and Maintenance Section

**DIRECTED BY** Board of Directors

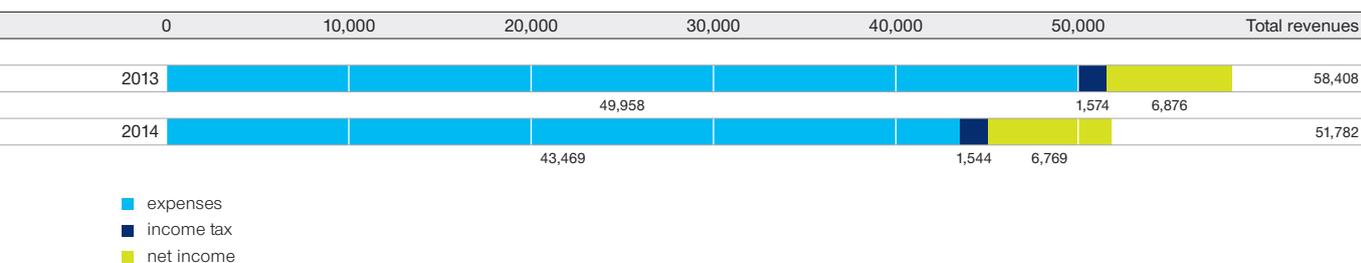
# Report on Operations

## Financial Performance

The joint stock company ČEZ Distribuce was formed under the Draft Terms of Domestic Merger by the Formation of a New Company with the merger record date of January 1, 2010 and came into existence by registration in the Commercial Register kept by the Regional Court in Ústí nad Labem, Section B, File 2145 on October 1, 2010. Its core business is operating a distribution grid and distributing electricity to individuals and legal entities.

### Revenues, Expenses, and Income

#### Income Structure (CZK millions)



The Company's income before taxes was CZK 8,313m in 2014. The net income of CZK 6,769m means a decrease of CZK 107m in comparison with 2013.

Operating income was CZK 8,742m, which is CZK 206m less than in 2013 primarily due to a CZK 997m decrease in gross margin on electricity distribution.

Financing activities generated a loss of CZK 429m due to interest on borrowings; the loss is CZK 69m less than in 2013.

Total expenses without income tax were CZK 43,469m in 2014. The highest amounts were expended on covering costs associated with support for renewable electricity, on purchasing system, transmission, and distribution services and on purchasing electric power to cover losses, totaling CZK 27,458m, followed by other production-related consumption of CZK 7,306m, depreciation and amortization of fixed assets amounting to CZK 6,747m, personnel expenses of CZK 1,068m, other expenses arising from operating activities of CZK 455m, and financial expenses of CZK 435m.

Total revenues amounted to CZK 51,782m in 2014 and consisted of revenue from sales of system and distribution services, including related components, amounting to CZK 50,038m; other revenues of operating nature amounting to CZK 1,737m; and financial revenue amounting to CZK 7m. In comparison with 2013, total revenues decreased by CZK 6,626m, of which revenues related to electricity distribution represent a decrease of CZK 6,801m.

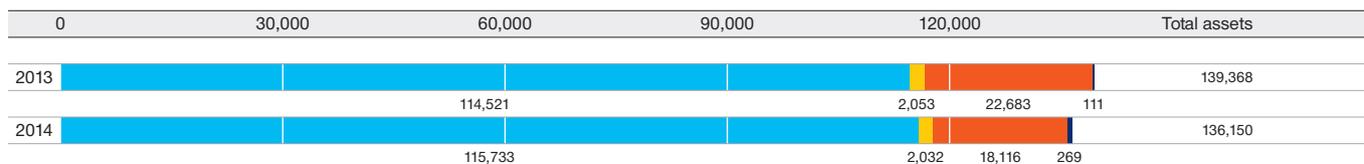
## Asset and Capital Structure

### Assets

Total assets reached CZK 136,150m, decreasing by CZK 3,218m against 2013.

Fixed assets reached CZK 117,765m, increasing by CZK 1,191m against 2013. The most significant item was buildings, halls, and constructions amounting to CZK 88,432m, followed by separate movable items amounting to CZK 26,130m, construction work in progress amounting to CZK 1,882m, land amounting to CZK 808m, and intangible fixed assets amounting to CZK 359m. Current assets in 2014 decreased by CZK 4,416m on the year before, amounting to CZK 18,344m. The highest amounts were contingencies amounting to CZK 10,173m, which represents mostly unbilled deliveries of services related to electricity distribution; receivables from the controlling and managing entity within Group cash pooling, amounting to CZK 5,933m; short-term trade receivables, amounting to CZK 1,473m; short-term advances paid, amounting to CZK 537m; and materials amounting to CZK 164m. Accruals reached CZK 41m, increasing by CZK 7m against 2013.

### Structure of Assets (CZK millions)



- property, plant & equipment and intangibles in use
- fixed tangible and intangible assets in progress + advances paid
- short-term receivables
- other current assets + other assets

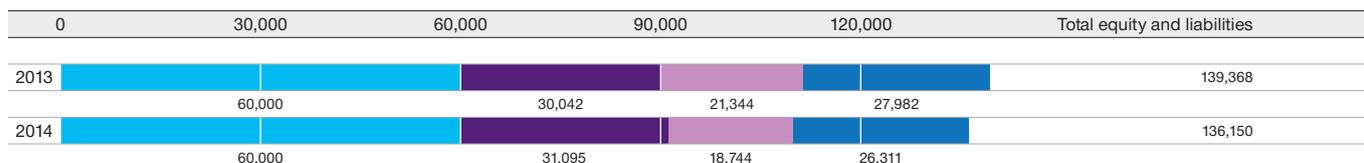
### Equity and Liabilities

The value of equity reached CZK 91,095m, growing by CZK 1,053m against 2013. The largest items of equity were the share capital registered in the Commercial Register, amounting to CZK 60,000m; legal reserve of CZK 12,000m; profits of past years amounting to CZK 12,325m; and the current year's profit of CZK 6,769m.

Liabilities totaled CZK 37,189m, decreasing by CZK 4,078m on the year before. The largest amounts were deferred taxes, amounting to CZK 11,477m; short-term advances received, amounting to CZK 11,368m; long-term liabilities to group companies with majority interest, amounting to CZK 6,437m; contingencies (estimated liabilities) amounting to CZK 2,903m; short-term trade payables, amounting to CZK 2,842m; and short-term liabilities to group companies with majority interest, amounting to CZK 1,288m.

Other liabilities, consisting primarily of deferred revenue from connection applicants' contributions, were CZK 7,866m, decreasing by CZK 193m on the year before.

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

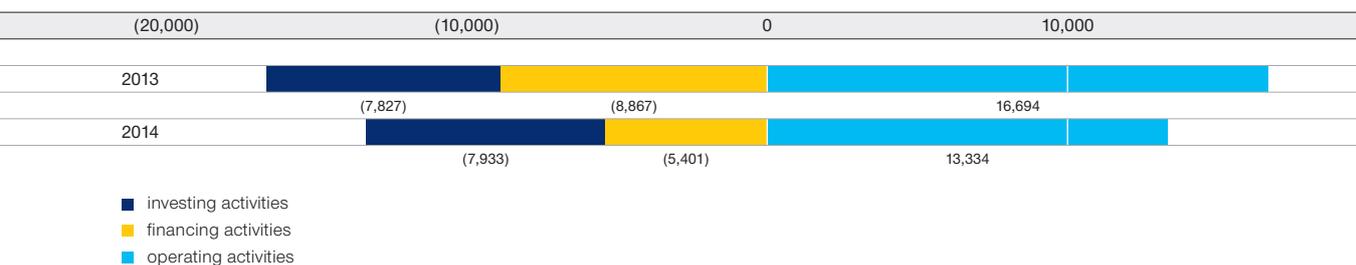


- share capital
- additional paid-in capital + funds from net profit + retained earnings + current year's profit
- short-term liabilities
- provisions + long-term liabilities + bank loans and short-term notes + other liabilities

## Company Financing

### Cash Flows

#### Cash Flows (CZK millions)



Short-term financial assets were CZK 0.04m as at December 31, 2014.

Cash from operating activities, amounting to CZK 13,334m, was generated by the following:

Profit on ordinary activities before taxation	CZK 8,313 million
Corporate income tax paid	CZK -1,757 million
Depreciation and amortization of fixed assets, write-offs	CZK 6,771 million
Changes in working capital	CZK 845 million
Other operating activities	CZK -838 million

Cash used for investing activities totaled CZK 7,933m, with expenditure on the acquisition of fixed assets of CZK 7,953m accounting for the biggest share thereof.

Cash used for financing activities totaled CZK 5,401m; the amount included dividend pay-out amounting to CZK 5,716m, change in cash under Group cash pooling amounting to CZK -1,603m, and change in the balance of loans amounting to CZK 1,288m.

#### Borrowings and Their Maturity

The Company had loans amounting to CZK 7,725m as at December 31, 2014. Of that amount, the long-term portion of loans amounted to CZK 6,437m and the current portion amounted to CZK 1,288m.

The loans mature on December 27, 2019 and June 7, 2022 and were provided to finance renovation and development of the distribution grid at the MV and LV levels.

#### Key Economic Indicators

	Unit	2013	2014
Return on equity (ROE), net	%	7.80	7.47
Return on assets (ROA), net	%	5.07	4.91
EBIT margin	%	15.32	16.94
Financial debt/equity	%	10.23	8.53
Net debt/EBITDA	%	84.16	85.50
Current ratio	%	77.52	69.09
Cash flow-to-debt ratio	%	86.58	74.43
Asset turnover	1	0.43	0.38
Fixed asset coverage	%	93.78	92.56
Depreciation-to-fixed assets ratio	%	52.68	53.33

# Commercial and Financial Outlook for 2015

The year 2015 is the sixth year of the third regulatory period. The plan for purchases and sales of services related to electricity distribution is based on the anticipated consumption of electricity in the region served by ČEZ Distribuce, a. s. in 2015 and on the prices stipulated by the Energy Regulatory Office for 2015, which reflect the principles of regulated prices for both purchases and sales. The principles should ensure coverage of a distribution company's legitimate costs, including the generation of resources for distribution grid renovation and development and revenue for shareholders.

The Company's plan for 2015 anticipates revenues from sales of own products and services amounting to CZK 49,150m, income before taxes of CZK 6,491m, and capital expenditure of CZK 7,956m.

# Capital Expenditures

## Capital Construction

The Company invested CZK 7,953m in distribution grid renovation and development in 2014. Distribution grid development involved most importantly ensuring sufficient distribution grid capacity and taking care of connection requests by customers and generating facilities.

## Principal Investment Policy Targets

Main capital investment activities were focused on renovating distribution grid equipment with the aim of improving the quality of supplies and the reliability and safety of distribution grid operation. Development projects were prepared and undertaken in compliance with applicable law, especially the Energy Regulatory Office's Decree No. 540/2005 Sb., on the quality of electricity supplies and related services in the electricity sector, and current rules for the operation of distribution grids. Ongoing development activities include the Smart Region project under which "Smart Grids" will enable efficiently combining electricity generated by conventional and alternative facilities. Such grids can respond to impending overloads by redirecting the flow of electricity to prevent potential outages, ensuring increased end customer satisfaction.

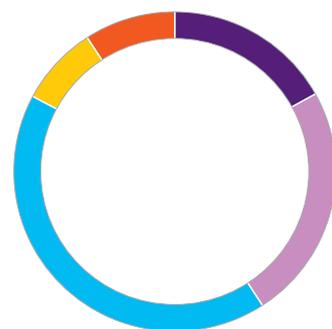
## Capital Expenditures in 2013 and 2014, Plan for 2015

### Capital Expenditures (CZK millions)

	2013	2014	Plan for 2015
HV structures	820	1,354	1,282
MV structures	2,547	1,927	2,232
LV structures	3,658	3,365	3,281
Electricity meters	549	618	427
Ancillary investments	305	689	734
<b>Total</b>	<b>7,879</b>	<b>7,953</b>	<b>7,956</b>

### Capital Expenditures

	%
■ HV structures	17
■ MV structures	24
■ LV structures	42
■ electricity meters	8
■ ancillary investments	9
<b>Total</b>	<b>100</b>



## Investments in the Distribution Grid

Investment activities in 2014 were principally focused on MV and LV structures. CZK 5,292m was invested in such equipment in 2014. Most of the projects involved reconstructing and renovating underground and overhead lines and constructing MV/LV distribution transformer stations.

Investments in HV structures amounted to CZK 1,354m. Most of the projects concerned reconstruction of TG/DG substations and reconstruction and construction of new HV overhead lines.

Investments in projects initiated at customers' request totaled CZK 2,159m.

### Major Projects

Internal investment projects:

- Přeštice, reconstruction of a 110kV substation,
- Albrechtice, reconstruction of a 110kV substation,
- Babylon, reconstruction of a 110kV substation and service consumption and ripple control systems,
- Mírovka, 400/110kV transformer station, substation reconstruction, stage 2,
- Studénka–Třebovice branch, reconstruction of 2x110kV lines,
- Bezděčín–Semily, reconstruction of a 110kV line,
- Pečky–Kolín West, reconstruction of a 110kV line,
- Opočíněk–Týnec nad Labem, reconstruction of a 110kV line,
- Plzeň, Škoda Central Power Station III, reconstruction of a 110/22kV transformer station,
- Bavoryně, construction of a new 110/22kV transformer station.

### Other

CZK 1,307m was invested in activities supporting main distribution processes, in particular the enhancement of operating and control systems, ICT capitalization, and purchases of warehousing facilities.

episode 277

# happy

**STARRING** Karel, his friend from a nearby village, Emergency Line

**MEDIA PARTNER** Chief Executive Officer's Section

**STORY BY** Grid Management Section **MUSIC** employees

**CASTING** Distribution Asset Management Section

**PRODUCTION DESIGNER** shareholder **SCRIPT** Supervisory Board

**PRODUCED BY** Finance and Administration Section

**PRODUCTION** Grid Renovation and Maintenance Section

**DIRECTED BY** Board of Directors

**Synopsis:** Karel, a rock musician and painter, returns to an old country house where he spent his childhood. Painting pictures in the isolated place, far from almost all of civilization, he tries to forget about his previous wild lifestyle. But his contemplation is disturbed by some trouble all the time. First he has to deal with a leaky roof, blocked chimney, peeling plaster, broken windows... Havoc culminates in the fall with rainstorms and strong winds that will not stop for several days. Karel finds himself on the verge of a breakdown; the ravages of the elements cut his phone line off and left him with no electricity. Torrents of water are raging all around him, trees are breaking, and his only access road is buried under mud and rocks. Will this terrifying story with elements of a psychological horror film have a happy ending?

**Facts: The Emergency Line is available 24 hours a day, 7 days a week. Most customers do not wait to be connected with an operator for more than 30 seconds. Emergency teams are on constant standby and can repair an overwhelming majority of faults within 3 hours under favorable conditions.**

**Karel:** Nobody can imagine having to go about their daily household tasks with no electricity for a long time. It was a desperate situation; around midnight I headed for the nearest village. Fortunately, I know the path well enough to be able to find my way in the dark. I woke up a friend and we found the Emergency Line number on the internet. The operators took the initiative and, with a timely repair, my power was restored as quickly as possible. A big thank you to all of them!

# ending

# Information on the Company's Core Business

The Company's main mission is distributing electricity to individuals and legal entities while continuously improving the quality and reliability of supplies to all end users. The Company manages distribution grid assets while controlling the distribution grid from its grid control center.

In 2014, the distribution grid was operated and maintained in line with quality standards and requirements defined in the Preventive Maintenance Regulations. The distribution grid's smooth operation during the year was negatively affected by two disaster declarations due to severe weather. During the declared disasters, there were 461 emergency interruptions of electricity distribution with impacts on customers that lasted more than three minutes. Outside the declared disasters, the grid control center registered 29 failures in the HV system, 6,139 failures in the MV system, and 24,406 failures in the LV system that lasted more than three minutes and affected at least one customer. In addition, 6,873 replacements of a damaged fuse in a customer's main fuse box or feeder box were carried out outside the declared disasters.

The Company monitors and evaluates indicators concerning the quality and reliability of electricity supply and distribution and the quality of provided services.

**System Average Interruption Duration Index (minutes)**

	0	50	100	150	200	250	Total
2013							266.3
2014							250.5

One of the indicators is the System Average Interruption Duration Index (SAIDI), which represents the overall average outage duration per customer during the whole year. The value includes all emergency and planned interruptions that occurred directly in the Company's distribution grid during the year with the exception of interruptions due to severe weather, which are excluded from the value.



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

#### Distribution Grid Infrastructure

	Unit	2013	2014
Installed line length	km	160,915	162,583
of which: HV	km	9,782	9,808
MV	km	50,483	50,579
LV	km	100,650	102,196
MV/LV transformer stations	Quantity	57,510	57,918
of which: owned by the Company	Quantity	44,547	45,076
owned by a third party	Quantity	12,963	12,842
HV/HV, HV/MV transformer stations	Quantity	238	239

The Company's distribution grid distributed 43,331 GWh of electricity in 2014.

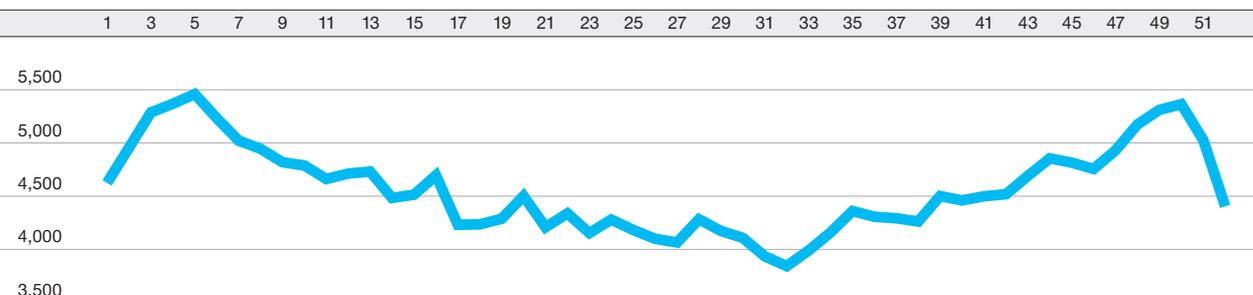
#### Annual Figures on Electricity Distribution (GWh)

	2013	2014
<b>Grid input</b>		
Supplied from transmission service providers' networks	22,148	23,094
Supplied from ČEZ, a. s. facilities	7,455	6,963
Supplied from neighboring distribution service providers	890	944
Supplied from facilities owned by other producers, including autoproduction	9,835	9,335
Supplied from other facilities	131	134
Imports (from abroad) at distribution service level	405	30
Distribution license holders (local distribution system)	2,489	2,831
<b>Grid input, total</b>	<b>43,353</b>	<b>43,331</b>
<b>Grid output</b>		
HV/MV customers	12,541	12,542
LV customers	14,168	13,641
Consumed by producers in distribution service providers' networks	1,721	1,765
Consumed by other facilities	131	134
Supplied to neighboring distribution service providers	5,493	5,806
Supplied to transmission service providers' networks	1,832	1,471
Exports (to abroad) at distribution service level	11	335
Distribution license holders (local distribution system)	5,194	5,570
Other consumption by distribution service providers	56	49
Losses	2,206	2,018
<b>Grid output, total</b>	<b>43,353</b>	<b>43,331</b>

The volume of electricity that flowed into the Company's distribution grid in 2014 was 43,331 GWh. In respect of the overall volume, the year 2014 is comparable with 2013. There was a decrease of 0.05%, which is 22 GWh less. The biggest percentage, 53.30%, was electricity supplied from the network of ČEPS, a.s.; its volume was 23,094 GWh, which was 946 GWh more than in 2013. The amount of electricity acquired directly from the facilities of ČEZ, a. s. was 6,963 GWh, which was 492 GWh less than in 2013. The amount of electricity from other facilities increased by 3 GWh and supplies from neighboring distribution service providers increased by 54 GWh year-on-year. Supplies from facilities owned by other producers, including autoproduction, decreased by 500 GWh; imports from abroad decreased by 375 GWh. Supplies from providers of local distribution services increased by 342 GWh.

The amount of electricity distributed to HV and MV customers increased by 1 GWh year-on-year; electricity distributed at those voltage levels accounted for 28.94% of total supplies. By contrast, the amount of electricity distributed at LV level decreased by 527 GWh, accounting for 31.48% of total supplies. Producers' consumption increased by 44 GWh against 2013; other facilities' consumption increased by 3 GWh. Supplies to neighboring distribution service providers increased by 313 GWh year-on-year; their share in the total amount of electricity distributed was 13.4%. The amount supplied back to the ČEPS, a.s. network decreased by 361 GWh; exports to abroad amounted to 335 GWh, increasing by 324 GWh year-on-year. Supplies to local distribution service providers increased by 376 GWh year-on-year. Other consumption decreased by 7 GWh; losses decreased by 188 GWh. The hourly maximum was 5,461 MW and was achieved on January 28, 2014 at 6 P.M.

#### Weekly Maximums (MWh)



ČEZ Distribuce, a. s. sells its services for electricity distribution to customers through electricity traders or by direct sales. In 2014, ČEZ Distribuce, a. s. had a framework contract with 87 active traders.

#### Number of Connection Points

	Unit	2013	2014
HV, MV—large end customers	Quantity	14,682	14,706
LV—commercial retail	Quantity	443,071	440,380
LV—residential retail	Quantity	3,117,435	3,133,953
<b>Total</b>		<b>3,575,188</b>	<b>3,589,039</b>

Around 16,000 new connection points were connected and around 15,000 connection points had their reserved capacity increased in 2014. Additionally, 170 new generating facilities with a total installed capacity of 49 MW were connected in 2014. CZK 460m was collected in contributions towards connection and capacity increases pursuant to Decree No. 51/2006 Sb., on conditions for connection to the electricity system, and CZK 2,069m was expended on fulfilling the requests in 2014.

#### New Connections, Increased Capacity

Voltage level	Expenditure on the distribution grid (CZK millions)	Contributions collected (CZK millions)	Connected or increased (MW)
HV	1	(32) *	56
MV	255	116	147
LV	1,813	376	417
<b>Total</b>	<b>2,069</b>	<b>460</b>	<b>620</b>

\* Contributions returned to applicants that withdrew their applications were greater than collected contributions.

# Safety and Quality Management, Environmental Protection

## Occupational Safety and Health

An optimally adjusted safety management system allowed the Company to keep a positive development trend in occupational safety and hygiene in the work environment. The good results were significantly helped by a certified OSH management system, implemented in line with the "Safe Enterprise" program. A regular internal audit of the OSH management system was conducted in ČEZ Distribuce, a. s. in 2014, verifying the system's compliance with the "Safe Enterprise" program.

In a continued effort to enhance the level of safety, the Company focused in the past years on closer cooperation with major contractors under its capital investment program in the field of work management with focus on minimizing the number of incidents and consequent occupational injuries. The Company registered a considerable improvement in contractors' approach to occupational safety in the past year.

Preparations were started in 2014 for defending the "Safe Enterprise" certification, which the Company aims to defend in 2015.

## Fire Prevention

Fire protection management in 2014 focused on compliance with and fulfillment of the parameters of the "Safe Enterprise" certification. In this connection, the Company applied uniform internal regulations for fire protection in practice, ensured continuous safe operation of electrical equipment, protected its staff, and prevented fires. No fire causing damage exceeding CZK 1m broke out at the Company.

Professionally qualified persons checked and evaluated the situation in fire protection according to a plan of inspection activities. The inspections focused on the activities of ČEZ Distribuce, a. s. as an electricity distribution license holder and on the activities of companies that work on ČEZ Distribuce assets.

Contracts are in place to make sure fire protection equipment and fire prevention systems are officially inspected, checked, and maintained on an ongoing basis.

Continuous education of employees in fire prevention was ensured and provided in the form of general and professional training.

## Environmental Protection

The Company was committed to creating the conditions for effective protection of the environment and related components. Specialized company employees paid active attention to all environmental compartments in environmental care, especially to waste and water management, incident prevention, and last but not least nature conservation. Protecting birds against electrical accidents remains a major issue in nature conservation. It is the Company's statutory obligation to secure all HV overhead lines against bird injuries by 2024, so measures to map the overall safety of HV overhead lines in this respect are being prepared before a decision on the next steps is taken.

A total of 79 sites with old environmental burdens were identified within the Company's coverage area. As at December 31, 2014, environmental burdens were removed in compliance with the law and the Czech Environmental Inspectorate's opinions at 47 sites. Monitoring, additional surveying, or burden documentation updating take place at the remaining 32 sites.

New contracts concluded on the basis of a tendering procedure for an emergency service provider reduced the cost of a clean-up in case of an environmental disaster while maintaining a high quality standard.

The first EMS recertification audit according to ČSN EN ISO 14001 took place in November, confirming the validity of the Company's certification from December 2011 for a new period.

Act No. 185/2001 Sb., on waste, was amended in 2014. The changes brought about by the amendment were incorporated in the Company's waste management policies. Expenditure on waste disposal, waste water treatment, environmental clean-ups, and other environmental services amounted to CZK 9.8m in 2014.

# Shares and Shareholders

The total amount of the share capital of ČEZ Distribuce, a. s. registered in the Companies Register at the closing date of the Annual Report was CZK 60,000m. The Company's sole shareholder is ČEZ, a. s.  having its registered office at Prague 4, Duhová 2/1444, postal code 140 53, identification number 452 74 649, holding a 100% stake in the share capital of ČEZ Distribuce, a. s.

## Types and Volumes of Issued Stock

The share capital is divided into 600 registered materialized common shares of stock with a par value of CZK 100m. The common shares of stock are replaced with a Stock Certificate with a total nominal value of CZK 60,000m issued to ČEZ, a. s. having its registered office at Prague 4, Duhová 2/1444, postal code 140 53, identification number 452 74 649.



# Human Resources

## Developments in Employment

In the field of labor relations and social policy, the Company strove to maintain social peace, respecting the Labor Code and related legislation as well as collective agreements in effect at ČEZ Distribuce, a. s.

### New Hires and Exits in 2014

	Number of employees
New hires	42
Exits	52

The workforce headcount was 1,228 employees as at December 31, 2014.

## Education and Training

ČEZ Distribuce, a. s. places high demands on staff expertise and other qualification requirements. Emphasis is put especially on professional training with focus on electrical engineering. There was an ongoing management development program for top management and educational activities concerning the Mapping Managerial Competencies project for lower and middle management.

ČEZ Distribuce, a. s. invested CZK 7.5m in the development activities for its employees in 2014.

## Social Policy

Under its social policy, the Company provides its employees with monetary and non-monetary benefits. Non-monetary benefits have the form of shortened working time and an additional week of vacation beyond the statutory minimum. To enhance the protection of employees, vaccination against tick-borne encephalitis is provided to staff in selected jobs. The Company's expenditure on monetary benefits amounted to CZK 65.7m. The employer made contributions especially to pension and life insurance, meal plans, and health care. Personal accounts were opened for all employees under contract and they can use them, for example, to pay for their recreation or to get Flexi Pass vouchers.

## Relations with Labor Unions

There were a total of 29 local labor unions operating at ČEZ Distribuce, a. s. in 2014. The percentage of union members among all company employees was 48%. Collective bargaining on an amendment to the effective collective agreement took place in 2014, concerning mainly a renewal of the collective agreement. The collective bargaining culminated in the signing of amendment No. 9 to the collective agreement in October. The existing collective agreement will be in effect until December 31, 2017.

There were a total of 24 regular meetings held between the employer and labor union representatives in 2014, at which information was presented to the labor organizations and topics set down by the Labor Code and the collective agreement were discussed.

# Research and Development

In research and development, the Company collaborated on the preparation of studies, analyses, and consultations for putting prepared proposals into practice with experts from EGÚ Brno, a.s.; EGC - EnerGoConsult ČB s.r.o.; EGE, spol. s r.o., České Budějovice; as well as with VŠB—Technical University of Ostrava.

The Company focused mainly on the practical application of proposals made in studies in the past years. Such studies and analyses and pilot projects implementing new technologies in medium- and low-voltage networks included:

- Pilot projects implementing new technologies,
  - Implementing the “Smart Grids” project (more information can be obtained on the Internet page <http://www.cezdistribuce.cz/cs/zpravy-a-zajimavosti/smart-region.html> )
  - Testing BPL communication on 35kV overhead lines in practice,
  - Implementing a pilot project for a fault detector for MV insulated conductors in selected 22kV and 35kV lines,
  - Testing voltage stabilization by regulation of generation plants’ reactive energy,
  - Implementing and utilizing metering in the operation of a mesh network in Šumperk,
- Gathering basic data and setting a method for the calculation of the reliability of individual distribution system elements (element reliability),
- Voltage stabilization in MV and LV distribution networks with a high share of RESs and distributed generation—the study aims to assess the effect and impacts of a high share of distributed generation on voltage quality in MV and LV grids,
- Evaluating the operation, usability and effect of RESs on the Czech Republic’s electricity system.

ČEZ Distribuce, a. s. took part in opposition procedures for grants awarded to colleges and universities by the Czech Science Foundation and in final state examinations. The Company also participated in preparing specifications for master’s and bachelor’s theses for students at schools with electrical engineering programs.



# Donorship and Sponsorship Program

## Donorship

ČEZ Distribuce, a. s. contributed the same amount as in the previous year, namely CZK 66m, to projects undertaken by the CEZ Foundation. The CEZ Foundation's support went into developing leisure-time activities for children and youth, improving the quality of life for disadvantaged people, and improving the civic amenities of municipalities in regions where ČEZ Distribuce, a. s. operates. Donations made directly by ČEZ Distribuce, a. s. amounted to CZK 0.14m in 2014. The amount was divided between two selected projects. Under these projects, the Company supported the culture sector and helped improve social care. ČEZ Distribuce, a. s. contributed CZK 1.123m to the CEZ GROUP SENIORS Endowment Fund in 2014.

# Developments in the Legislative Framework

The basis of the legal framework for electricity distribution is formed by the following regulations, as amended:

- Act No. 458/2000 Sb., on the conditions for doing business and exercising state administration in the energy sectors and on amendments to some acts (Energy Act),
- Act No. 165/2012 Sb. (more information can be obtained on the Internet page <http://www.cezdistribuce.cz/cs/energeticka-legislativa.html> ) , on supported energy sources and on amendments to some acts (Support Sources Act),
- Act No. 406/2000 Sb., on energy management,
- Decree No. 541/2005 Sb., on Rules for the electricity market, principles for pricing the activities of the electricity market operator, and implementation of some other provisions of the Energy Act,
- Decree No. 436/2013 Sb., on the method of price regulation and procedures for price regulation in the electricity and heat sectors and on amendment to Decree No. 140/2009 Sb., on the method of price regulation in the energy sectors and procedures for price regulation, as amended,
- Decree No. 59/2012 Sb., on regulatory reporting,
- Decree No. 540/2005 Sb., on the quality of electricity supplies and related services in the electricity sector.

The following regulations were directly amended in 2014:

- Act No. 458/2000 Sb., on the conditions for doing business and exercising state administration in the energy sectors and on amendments to some acts (Energy Act) and Act No. 165/2012 Sb., on supported energy sources and on amendments to some acts were amended by Act No. 90/2014 Sb.

The main reason for and objective of amending Act No. 458/2000 Sb., Energy Act and Act No. 165/2012 Sb., Supported Sources Act by Act No. 90/2014 Sb. were:

- Clarifying the method and entities charging and paying the price to cover costs associated with support for electricity after the amendment to Act No. 165/2012 Sb. made by Act No. 310/2013 Sb. to eliminate legal uncertainty in relation to the collection of the price to cover costs associated with electricity support from customers.



### Other Legislation Changes in 2014

Secondary legislation implementing the above acts or amending other implementing regulations was promulgated in 2014:

- Decree No. 193/2014 Sb., of September 5, 2014, on methods and dates for charging and paying the price to cover costs associated with support for electricity and on the implementation of some other provisions of the act on supported energy sources.

The main reason for and objective of promulgating the above decree were:

- Unifying processes and defining how the price to cover costs associated with support for electricity should be charged to and paid by market participants, subsequently defining the method and dates for charging and paying the price to cover costs associated with support for electricity between the market operator, a transmission system operator, and a regional distribution system operator,
- Defining the charging and payment of the electricity distribution price component related to support for decentralized electricity generation,
- Regulating the method and procedure for determining the difference between hourly prices and purchase prices and reimbursing the market operator for it,
- Regulating the deadlines and method for a purchaser's or a mandatory purchaser's informing producers that a negative price has been reached on the day-ahead electricity market or that electricity supply and demand on the day-ahead market cannot be aligned,
- Repealing the Settlement Decree No. 439/2012 Sb., which no longer conformed to the new system of support payments under the Supported Sources Act.

# de

**Synopsis:** Ivana's life has been far from easy but in spite of her troubled childhood, she managed to graduate in fashion design and rather quickly become one of the most acclaimed designers in the country. She worked all the time, relatively quickly building her own successful brand, and started collaborating on limited collections as well as with a company selling ready-made clothes.

There was more and more work and the increasing pressure for high-quality presentation compelled her to start thinking about her own photographic studio. In her busy appointment book, she only could find time to look for suitable premises early in the morning or late at night. And one day she actually found them. An awesome basement downtown! There are three months until the launch of a new collection and the basement is totally unusable. It requires comprehensive reconstruction...

**Facts:** ČEZ Distribuce's website offers online service 24 hours a day. New customers can contact operators via e-mail at [info@cezdistribece.cz](mailto:info@cezdistribece.cz) or through an interactive form.

**Ivana:** I really shot the new collection in my studio. As soon as I got information on how to proceed with connection point re-registration, I hurried to ask for grid connection too. The reconstruction was a low-cost project. The premises as such do not need much in them; the most important items are equipment and good lighting.

**episode 415**

# signer

**STARRING** Ivana and the website

**MEDIA PARTNER** Chief Executive Officer's Section

**STORY BY** Grid Management Section **MUSIC** employees

**CASTING** Distribution Asset Management Section

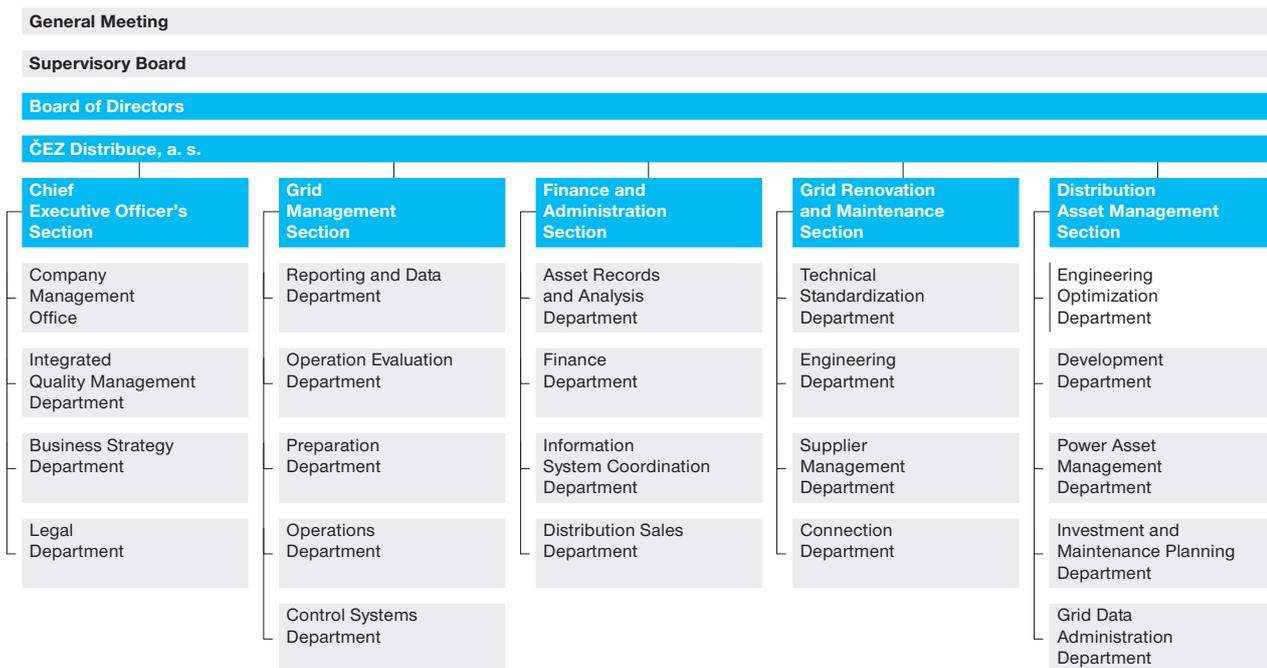
**PRODUCTION DESIGNER** shareholder **SCRIPT** Supervisory Board

**PRODUCED BY** Finance and Administration Section

**PRODUCTION** Grid Renovation and Maintenance Section

**DIRECTED BY** Board of Directors

# Basic Organization Chart of ČEZ Distribuce, a. s. as at April 1, 2015



# Glossary of Terms and Abbreviations

## Glossary of Terms and Abbreviations

Terms and abbreviations	Commentary
Broadband over Power Lines (BPL)	Communication over LV and MV power lines.
Cash pooling	A method for optimizing bank account management. Using this method, the account balances of participating companies are consolidated on a daily basis. Contractual credit and debit interest is calculated for accounts included in the cash pool.
Distribution grid (DG)	Interconnected set of 110kV lines and equipment, except selected 110kV lines and equipment that are part of the transmission grid, and 0.4/0.23kV, 3kV, 6kV, 10kV, 22kV, and 35kV lines and equipment that serve to distribute electricity in a defined area in the Czech Republic, including metering, protective, control, safeguarding, information, and telecommunication systems.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation, and amortization.
Electricity market operator (OTE)	A joint stock company founded by the government, whose task is to organize the electricity market in the Czech Republic, reconcile agreed and actual supplies and consumption for market participants, ensure the settlement of differences between agreed and actual supplies, and organize the electricity spot market.
EMS	Environmental management system.
Framework contract	A contract entered into by a trader and a distributor when the trader has at least one customer with a combined contract.
HV	High voltage—distribution equipment with phase-to-phase voltage over 52 kV.
LV	Low voltage—distribution equipment with phase-to-phase voltage up to and including 1 kV.
MV	Medium voltage—distribution equipment with phase-to-phase voltage from 1 kV to 52 kV.
OSH	Occupational safety and health.
Renewable energy sources (RESs)	Sources of energy that are naturally replenished. This means the energy of water, geothermal heat, sunlight, and wind or energy obtained by biomass combustion.
ROA	Return on assets.
ROE	Return on equity.
SAIDI	System Average Interruption Duration Index. The total duration of all electricity distribution interruptions in minutes per calendar year; the total time is presented as minutes/year/customer.

Terms and abbreviations	Commentary
“Smart Grids”	Power and communication networks that allow regulating electricity generation and consumption in real time—on both a local and a global scale. They are based on interactive, bi-directional communication between generating facilities and appliances/customers concerning current power generation and consumption capacities.
TG/DG	Transmission grid/distribution grid.
Transmission grid (TG)	Interconnected set of 400kV and 220kV lines and equipment and selected 110kV lines and equipment that serves for electricity transmission throughout the Czech Republic and interconnection with the electricity systems of neighboring countries, including metering, protective, control, safeguarding, information, and telecommunication systems. The transmission grid is built and operated in the public interest.

### List of Units and Abbreviations Used

Unit	Commentary
GWh	Gigawatt-hour; $1 \text{ GWh} = 10^9 \text{ Wh} = 10^6 \text{ kWh}$ , Wh = unit of energy
km	Kilometer
kV	Kilovolt, $1 \text{ kV} = 10^3 \text{ V}$ , V = unit of electric potential (voltage)
m	Million
MW	Megawatt; $1 \text{ MW} = 10^6 \text{ W} = 10^3 \text{ kW}$ , W = unit of power
MWh	Megawatt-hour; $1 \text{ MWh} = 10^6 \text{ Wh} = 10^3 \text{ kWh}$ , Wh = unit of energy

### Method Used to Calculate Financial Indicators

Indicator name	Description
Current Ratio	$(\text{Current Assets} + \text{Accruals}) / (\text{Short-Term Liabilities} + \text{Short-Term Bank Loans and Notes} + \text{Accruals})$
Debt-to-Capital Ratio	$(\text{Long-Term Liabilities Including Current Portion} + \text{Short-Term Loans}) / (\text{Long-Term Debt Incl. Current Portion} + \text{Short-Term Loans} + \text{Equity})$
Net Debt	Long-Term Liabilities Including Current Portion + Short-Term Loans - Cash and Cash Equivalents - Highly Liquid Financial Assets
Net Debt/EBITDA	$(\text{Long-Term Liabilities Including Current Portion} + \text{Bonds} + \text{Short-Term Loans} - \text{Cash and Cash Equivalents} - \text{Highly Liquid Financial Assets}) / \text{Earnings Before Taxes and Other Expenses and Revenues} + \text{Depreciation and Amortization}$
Net Income	Earnings After Taxes (operating profit/loss of the current period)
EBIT	Earnings Before Taxes and Other Expenses and Revenues
EBIT Margin	$\text{EBIT} / \text{Operating Revenue}$
EBITDA	Earnings Before Taxes and Other Expenses and Revenues + Depreciation and Amortization
Financial Debt/Equity	$(\text{Long-Term Liabilities Including Current Portion} + \text{Bonds} + \text{Short-Term Loans}) / \text{Average Equity}$
Fixed Asset Coverage	$(\text{Equity} + \text{Non-Controlling Interests} + \text{Long-Term Liabilities} + \text{Deferred Tax Liability}) / \text{Fixed Assets}$
Asset Turnover	$\text{Total Operating Revenue} / \text{Average Assets}$
Cash Flow-to-Debt Ratio	$\text{Operating Cash Flow} / \text{Long-Term Liabilities}$
Return on Assets (ROA), Net	$\text{Earnings After Taxes} / \text{Average Total Assets}$
Return on Equity (ROE), Net	$\text{Earnings After Taxes} / \text{Average Equity}$
Depreciation-to-Fixed Assets Ratio	$-1 * (\text{Accumulated Depreciation and Allowances for Tangible Fixed Assets}) / \text{Depreciated Tangible Fixed Assets in Use, Gross}$

# List of Tables and Charts in the Annual Report

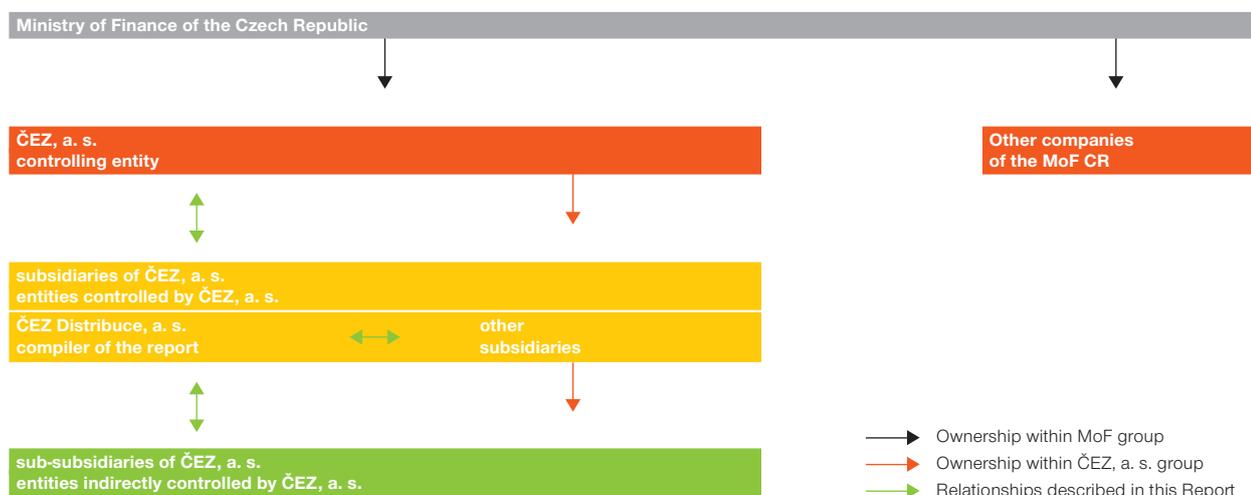
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# Related Parties Report for the Year 2014

Pursuant to the Provisions of Sections 82 Et Seq. of Act No. 90/2012 Sb., on Business Corporations, as Amended ("Business Corporations Act")

## 1. Structure of Relations Between the Controlling Entity and the Controlled Entity and Between the Controlled Entity and Entities Controlled by the Same Controlling Entity ("Related Entities")



For a chart showing the structure of relations with other subsidiaries and an alphabetical list of the subsidiaries, see a separate insert under the back cover flap.

### Controlling Entity

The entity controlling the commercial company ČEZ Distribuce, a. s. within the meaning of Sections 74 et seq. of the Business Corporations Act is the commercial company ČEZ, a. s.

Corporate name	ČEZ, a. s.
Having its registered office at	Duhová 2/1444, 140 53 Praha 4
ID No.	452 74 649
Registered in the Commercial Register	kept by the Municipal Court in Prague, Section B, File 1581
Manner of control	The controlling entity ČEZ, a. s. owns a 100% stake in ČEZ Distribuce, a. s.

### Controlled Entity—Preparer

Corporate name	ČEZ Distribuce, a. s.
Having its registered office at	Děčín, Děčín IV-Podmokly, Teplická 874/8, postal code 405 02
ID No.	247 29 035
Registered in the Commercial Register	kept by the Regional Court in Ústí nad Labem, Section B, File 2145

("Controlled Entity")

This Report contains data for the period from January 1, 2014 to December 31, 2014.

## 2. Role of the Controlled Entity

The Controlled Entity is a commercial company engaged primarily in electricity distribution and in other activities and services related to the performance of the aforementioned licensed activity. The Controlled Entity performs all its activities in accordance with business licenses granted to it within its line of business as defined in the Controlled Entity's by-laws and registered in the Commercial Register.

### 3. Manner of Control over the Controlled Entity

ČEZ, a. s. controls the Controlled Entity by being its sole shareholder and thus holding a 100% share in voting rights. Because of this share in voting rights, ČEZ, a. s. may appoint and remove most members of the Controlled Entity's statutory governing body. Means of control within CEZ Group include approval of strategic programs, business strategies, business plans, and annual budgets.

### 4. List of Acts Pursuant to Section 82(2)(d) of Act No. 90/2012 Sb., on Commercial Companies and Cooperatives

In the last accounting period, the Controlled Entity did not perform any legal acts to its detriment that would have been performed at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity and concerned assets exceeding 10% of the equity of the Controlled Entity as identified in its last financial statements.

### 5. List of Mutual Contracts

#### List of Concluded Contracts

This list contains an overview of mutual contracts between the Controlled Entity and Related Entities that were valid and effective from January 1 to December 31, 2014. Related Entities that the Controlled Entity has a valid contract with are listed in alphabetical order regardless of the amount of performance.

#### 1. ČEZ, a. s.

- Service Contract No. 33\_20100101\_01 of February 10, 2010 as amended by its annex of September 22, 2014,
- Personal information processing contract made in relation to Service Contract No. 33\_20101122\_01 on November 29, 2010,
- Trademark license agreement No. 33\_2011\_008 of December 30, 2010,
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_016 of February 27, 2012,
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013,
- Implementation agreement for concerted action in the public tender for "RC Control System Renovation and Repairs FA,"
- 14 lease contracts,
- 3 contracts on the provision of distribution services,
- Framework agreement on location swap and regulation for electricity supplies for the Poříčí isolated island,
- Agreement on location swap and the provision of regulation services for electricity supplies for the Ropice isolated island,
- Framework agreement on emergency assistance to the Poříčí island,
- Service contract for regulation services for electricity supplies for the Střelná isolated island,
- Ancillary service contract for voltage and reactive power regulation in 2014,
- Contract for facility connection to the distribution grid,
- 4 loan agreements.

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

- Service contract No. 1292-2014-002 of December 31, 2013 as amended by its annexes (under which 6,178 separate contracts for work were made),
- Contract for goods and service delivery No. 33\_2012\_006 of February 29, 2012 as amended by its annex (under which 15,189 material delivery contracts were made),
- Service contract for voltage regulation,
- 10 lease contracts as amended by their annexes,
- Software assignment and software license assignment agreement, assignor's agreement No. 2200140030,
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_010 of December 23, 2011,
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013.

### 3. ČEZ Energo, s.r.o.

- 18 agreements on support for electricity generation,
- 1 contract for work on power facility relocation,
- 1 lease contract,
- 1 precontract on facility connection to the distribution grid.

### 4. ČEZ Energetické služby, s.r.o.

- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013,
- Contract for waste water discharge and treatment No. 4100724739 of June 27, 2008 as amended by its annexes,
- Contract for potable water delivery and withdrawal No. 7410060 of June 27, 2008,
- 3 lease contracts as amended by their annexes,
- 6 precontracts on facility connection to the distribution grid,
- 4 contracts for facility connection to the distribution grid,
- 6 building contracts,
- 1 contract for an expert's opinion,
- 2 earning lease contracts.

### 5. ČEZ ICT Services, a. s.

- Framework ICT service delivery agreement No. 33\_20101230\_R of December 30, 2010 as amended by its annexes (under which 3 separate contracts were made),
- Service contract for TPS and FDS systems No. 13\_20100226\_01\_R of February 26, 2010 as amended by its annexes,
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013,
- 2 software assignment and software license assignment agreements and a sales contract,
- 14 service contracts,
- 1 contract for work,
- 13 lease contracts,
- 14 service contracts,
- 1 contract for facility connection to the distribution grid.

### 6. ČEZ Obnovitelné zdroje, s.r.o.

- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013,
- Back-charge agreement for waste water treatment No. DSO\_34\_2012\_015 of May 4, 2012,
- Precontract on facility connection to the distribution grid,
- Contract for facility connection to the distribution grid,
- 12 lease contracts.

### 7. ČEZ OZ uzavřený investiční fond a.s.

- 2 lease contracts.

### 8. ČEZ Prodej, s.r.o.

- Framework electricity distribution contract of August 31, 2005,
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_015,
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013,
- 1 lease contract as amended by its annexes,
- 1 supply contract for electricity for in-house consumption,
- 1 supply contract for electricity to cover distribution grid losses,
- 1 gas consumption contract,
- 1 reconnection contract.

#### 9. ČEZ Korporátní služby, s.r.o.

- Framework contract for the provision and procurement of services and leases No. 51\_20060701\_02 of July 1, 2006 as amended by its annexes,
- Separate contract for the provision of accounting services made under the FC on December 19, 2012 as amended by its annexes,
- Separate contract for the provision of human resources services made under the FC on December 13, 2012 as amended by its annexes,
- Separate contract for the provision of print and reprographic services made under the FC as amended by its annexes,
- Separate contract for the provision of document filing and destruction services made under the FC as amended by its annexes,
- Separate contract for the provision of correspondence processing services made under the FC as amended by its annexes,
- Separate contract for property management and the provision of other services made under the FC, as amended by its annexes,
- Separate contract for full service leasing made under the FC as amended by its annexes,
- Separate contract for fleet management made under the FC as amended by its annexes,
- Separate contract for vehicle hire made under the FC as amended by its annexes,
- Contract for the procurement of work and services for electrical inspections as amended by its annexes,
- 8 agreements on the back charge of actual costs of rainwater discharges,
- 1 lease contract as amended by its annexes,
- 2 sublease contracts as amended by their annexes,
- 1 sales contract and agreement on the establishment of a servitude,
- 10 sales contracts,
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_012 of December 21, 2011,
- Precontract on facility connection to the distribution grid,
- 5 contracts for facility connection to the distribution grid,
- 6 agreements on the establishment of an easement/servitude,
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013.

#### 10. ČEZ Teplárenská, a.s.

- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013,
- 2 contracts for facility connection to the distribution grid,
- 1 lease contract,
- 2 agreements on the establishment of an easement.

#### 11. ČEZ Zákaznické služby, s.r.o.

- Service contract No. 51\_20050831\_03 of August 29, 2005 as amended by its annex,
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013,
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_201 of December 21, 2011,
- 2 lease contracts as amended by their annexes.

#### 12. Energotrans, a.s.

- Ancillary service contract for voltage and reactive power regulation in 2014.

#### 13. MARTIA a.s.

- HCR framework agreement,
- HCR framework agreement II,
- PD HCR framework agreement,
- 629 contracts for work for PD preparation and building construction.

#### 14. OSC, a.s.

- 1 consultancy contract,
- 1 contract for work,
- 1 contract for material delivery.

#### 15. PRODECO, a.s.

- 1 easement agreement.

#### 16. Severočeské doly a.s.

- 1 agreement on the establishment of an easement,
- 2 lease contracts for non-residential premises.

#### 17. SINIT, a.s.

- 21 building contracts,
- 1 contract for fault remedy services and collaboration in inspection activities, repairs and servicing, and RC diagnostics in the Moravia and East regions,
- 1 contract for the procurement of service activities on selected ARCS equipment in the Moravia region, including preventive maintenance and repairs,
- 21 building contracts.

#### 18. Telco Pro Services, a. s.

- Contract for the provision of OSH, fire protection, and environmental protection services No. 13\_2014\_001 of May 27, 2015,
- 2 contracts for facility connection to the distribution grid,
- 1 lease contract.

#### 19. Tepelné hospodářství města Ústí nad Labem s.r.o.

- 1 sales contract,
- 2 lease contracts,
- 8 contracts for facility connection to the distribution grid.

#### 20. Elektrárna Dětmorovice, a.s.

- 1 ancillary service contract for voltage and reactive power regulation in 2014.

#### 21. CITELUM, a.s.

- 20 contracts for work for the preparation of project documentation.

#### 22. ÚJV Řež, a.s.

- 1 contract for work on relocation.

#### 23. LOMY MOŘINA spol. s r.o.

- 2 agreements on the establishment of an easement.

#### 24. Centrum výzkumu Řež s.r.o.

- 1 contract for work on relocation,
- 1 contract for facility connection to the distribution grid.

All contracts listed in Section 5 of this Report are contracts made in the ordinary course of business and their contents are not beyond its scope. Further information on contractual relations is not included in order to protect trade secrets and/or other confidential information.

## 6. Assessment of Harm Incurred and Compensation

The statutory governing body of the Controlled Entity states that the contracts listed in this Report did not cause any harm to the Controlled Entity within the meaning of the Business Corporations Act, in particular Section 71 and other related provisions of the Business Corporations Act.

## 7. Other Information

### 7.1. Confidentiality

Confidentiality applies to information and facts that are trade secrets of the Controlled Entities and its Related Entities, as well as information identified as confidential by those entities or arising from their business relations whose partial disclosure or disclosure in connection with other information or facts could be detrimental to those entities or their contractual partners, as well as information whose confidentiality and protection is required by law.

### 7.2. Auditor's Opinion on the Related Parties Report

The Report has been audited. The auditor's opinion on the Report is included in the auditor's report on the Controlled Entity's 2014 Annual Report.

### 7.3. Glossary of Abbreviations Used in the Report

OSH	Occupational safety and health
ARCS	Automatic remote control system
RC	Ripple control
HCR	Hourly charging rate
OPGW	Optical ground wire
MF CR	Ministry of Finance of the Czech Republic
PD	Project documentation
SLA	Service level agreement

## 8. Conclusion

Based on available information, the Controlled Entity's Board of Directors assessed advantages and disadvantages resulting from the Controlled Entity's position within CEZ Group, i.e. from relations between the Controlled Entity and Related Entities, and did not observe any disadvantages resulting from those relations. The Controlled Entity takes advantage of synergistic effects within CEZ Group and of CEZ Group's expertise to efficiently perform its licensed activity and the related ancillary services. It also takes advantage of involvement in a risk management system and a system of internal controls, in an insurance program, in the CEZ Group safety and quality management system, etc. The Controlled Entity's statutory governing body did not observe any negative circumstances that would arise from relations between the Controlled Entity and Related Entities. The Report has been prepared with due diligence, with commitment to providing objective information gathered from available documents and data for the specified purpose of this Report, with maximum effort, and with respect to including all relevant circumstances that otherwise could affect the accurate and correct appraisal of this Report. The Report was submitted to the Controlled Entity's Supervisory Board for review within the meaning of and in compliance with Article 12(8)(d) of the Controlled Entity's by-laws as well as in compliance with Section 83 of the Business Corporations Act.

The Controlled Entity's statutory governing body approved this Report on March 19, 2015.

Děčín, March 19, 2015



Ing. Richard Vidlička, MBA  
Chairman of the Board of Directors



Ing. Petra Šárová  
Vice-Chairwoman of the Board of Directors

## Independent Auditor's Report

### To the Shareholder of ČEZ Distribuce, a. s.:

We have audited the accompanying financial statements of ČEZ Distribuce, a. s., which comprise the balance sheet as at 31 December 2014, and 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

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



Martin Skácelík, statutory auditor  
License No. 2119

6 February 2015  
Prague, Czech Republic

# ČEZ Distribuce, a. s.

## Balance Sheet as at December 31, 2014

(in thousands of CZK)

		2014			2013
		Gross	Allowances	Net	Net
	<b>TOTAL ASSETS</b>	<b>267,863,011</b>	<b>(131,712,731)</b>	<b>136,150,280</b>	<b>139,368,150</b>
A.	Stock subscriptions receivable	-	-	-	-
B.	<b>Fixed assets</b>	<b>249,002,106</b>	<b>(131,236,974)</b>	<b>117,765,132</b>	<b>116,573,876</b>
B. I.	Intangible assets	690,610	(331,286)	359,324	270,939
B. I. 1.	Foundation and organization expenses	86	(86)	-	8
	2. Research and development	1,907	(1,907)	-	129
	3. Software	491,763	(222,191)	269,572	180,832
	4. Patents, royalties and similar rights	44,502	(33,413)	11,089	17,445
	5. Goodwill	-	-	-	-
	6. Other intangibles	145,186	(73,689)	71,497	68,457
	7. Intangible assets in progress	7,166	-	7,166	4,068
	8. Advances granted for intangible assets	-	-	-	-
B. II.	<b>Tangible assets</b>	<b>248,311,496</b>	<b>(130,905,688)</b>	<b>117,405,808</b>	<b>116,302,937</b>
B. II. 1.	Land	807,847	-	807,847	733,779
	2. Buildings, halls and constructions	184,138,496	(95,706,443)	88,432,053	87,220,692
	3. Separate movable items and groups of movable items	61,325,620	(35,195,176)	26,130,444	26,293,403
	4. Permanent growth	-	-	-	-
	5. Livestock	-	-	-	-
	6. Other tangible assets	14,441	(4,069)	10,372	6,133
	7. Tangible assets in progress	1,881,688	-	1,881,688	1,896,458
	8. Advances granted for tangible assets	143,404	-	143,404	152,472
	9. Gain or loss on revaluation of acquired property	-	-	-	-
B. III.	<b>Financial investment</b>	-	-	-	-
B. III. 1.	Majority shareholdings and participating interests (shareholdings > 50%)	-	-	-	-
	2. Substantial shareholdings and participating interests (shareholdings of 20%-50%)	-	-	-	-
	3. Other long-term securities and interests	-	-	-	-
	4. Loans to subsidiary and associates	-	-	-	-
	5. Other long term investments	-	-	-	-
	6. Long term investments in progress	-	-	-	-
	7. Advances granted for long-term investment	-	-	-	-
C.	<b>Current assets</b>	<b>18,819,320</b>	<b>(475,757)</b>	<b>18,343,563</b>	<b>22,759,769</b>
C. I.	<b>Inventory</b>	<b>227,098</b>	<b>-</b>	<b>227,098</b>	<b>76,811</b>
C. I. 1.	Materials	163,512	-	163,512	-
	2. Work in progress and semi-finished production	63,586	-	63,586	76,811
	3. Finished products	-	-	-	-
	4. Livestock	-	-	-	-
	5. Goods	-	-	-	-
	6. Advances granted for inventory	-	-	-	-
C. II.	<b>Long-term receivables</b>	<b>219</b>	<b>-</b>	<b>219</b>	<b>235</b>
C. II. 1.	Trade receivables	-	-	-	-
	2. Receivables from group companies with majority control	-	-	-	-
	3. Receivables from group companies with control of 20%-50%	-	-	-	-
	4. Receivables from partners, co-operative members and participants in association	-	-	-	-
	5. Long-term advances granted	-	-	-	-
	6. Unbilled revenue	-	-	-	-
	7. Other receivables	219	-	219	235
	8. Deferred tax assets	-	-	-	-
C. III.	<b>Short-term receivables</b>	<b>18,591,960</b>	<b>(475,757)</b>	<b>18,116,203</b>	<b>22,682,705</b>
C. III. 1.	Trade receivables	1,932,770	(460,131)	1,472,639	2,211,703
	2. Receivables from group companies with majority control	5,932,789	-	5,932,789	7,535,463
	3. Receivables from group companies with control of 20%-50%	-	-	-	-
	4. Receivables from partners, co-operative members and participants in association	-	-	-	-
	5. Receivables from social security	-	-	-	-
	6. Due from government – tax receivables	-	-	-	-
	7. Short-term advances granted	536,844	-	536,844	576,689
	8. Unbilled revenue	10,188,800	(15,401)	10,173,399	12,358,254
	9. Other receivables	757	(225)	532	596
C. IV.	<b>Short term financial assets</b>	<b>43</b>	<b>-</b>	<b>43</b>	<b>18</b>
C. IV. 1.	Cash	43	-	43	18
	2. Bank accounts	-	-	-	-
	3. Short-term financial assets	-	-	-	-
	4. Short-term financial assets in progress	-	-	-	-
D. I.	<b>Accrued assets and deferred liabilities</b>	<b>41,585</b>	<b>-</b>	<b>41,585</b>	<b>34,505</b>
D. I. 1.	Prepaid expenses	38,372	-	38,372	34,133
	2. Complex prepaid expenses	-	-	-	-
	3. Unbilled revenues	3,213	-	3,213	372

(in thousands of CZK)

	2014	2013
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>136,150,280</b>	<b>139,368,150</b>
<b>A. Equity</b>	<b>91,095,343</b>	<b>90,042,053</b>
<b>A. I. Basic capital</b>	<b>60,000,000</b>	<b>60,000,000</b>
A. I. 1. Registered capital	60,000,000	60,000,000
2. Own shares and own ownership interests (-)	-	-
3. Changes in basic capital	-	-
<b>A. II. Capital funds</b>	<b>1,314</b>	<b>1,314</b>
A. II. 1. Share premium (agio)	-	-
2. Other capital funds	1,314	1,314
3. Gain or loss on revaluation of assets and liabilities	-	-
4. Gain or loss on revaluation of company transformations	-	-
5. Gain or loss on company transformations	-	-
6. Gain or loss on revaluation upon company transformations	-	-
<b>A. III. Reserve funds and other funds created from profit</b>	<b>12,000,000</b>	<b>12,000,000</b>
A. III. 1. Legal reserve fund/indivisible fund	12,000,000	12,000,000
2. Statutory and other funds	-	-
<b>A. IV. Profit (loss) for the previous years</b>	<b>12,324,740</b>	<b>11,164,681</b>
A. IV. 1. Retained earnings for the previous years	12,324,740	11,164,681
2. Accumulated loss of previous years	-	-
3. Other retained earnings for previous years	-	-
<b>A. V. 1. Profit (loss) for the year (+/-)</b>	<b>6,769,289</b>	<b>6,876,058</b>
2. Decided on advance for payment of a profit share (-)	-	-
<b>B. Liabilities</b>	<b>37,189,385</b>	<b>41,267,432</b>
<b>B. I. Provisions</b>	<b>531,625</b>	<b>642,009</b>
B. I. 1. Provisions created under special legislation	-	-
2. Provision for pensions and similar obligations	-	-
3. Provision for corporate income tax	247,644	380,548
4. Other provisions	283,981	261,461
<b>B. II. Long-term liabilities</b>	<b>17,913,827</b>	<b>19,281,429</b>
B. II. 1. Trade payables	-	-
2. Liabilities to group companies with majority control	6,436,950	7,724,500
3. Liabilities to group companies with control of 20%–50%	-	-
4. Liabilities to partners, co-operative members and participants in association	-	-
5. Long-term deposits received	-	-
6. Bonds payable	-	-
7. Long-term notes payable	-	-
8. Unbilled deliveries	-	-
9. Other payables	-	-
10. Deferred tax liabilities	11,476,877	11,556,929
<b>B. III. Current liabilities</b>	<b>18,743,933</b>	<b>21,343,994</b>
B. III. 1. Trade payables	2,841,532	2,479,904
2. Liabilities to group companies with majority control	1,287,550	1,287,564
3. Liabilities to group companies with control of 20%–50%	-	-
4. Liabilities to partners, co-operative members and participants in association	-	-
5. Liabilities to employees	45,264	38,676
6. Liabilities arising from social security and health insurance	26,254	22,025
7. Due to government – taxes and subsidies	263,538	492,006
8. Short-term advances received	11,367,582	12,733,120
9. Bonds payable	-	-
10. Unbilled deliveries	2,903,245	4,286,329
11. Other liabilities	8,968	4,370
<b>B. IV. Bank loans and borrowings</b>	<b>-</b>	<b>-</b>
B. IV. 1. Long-term bank loans	-	-
2. Short-term bank loans	-	-
3. Borrowings	-	-
<b>C. I. Accrued liabilities and deferred assets</b>	<b>7,865,552</b>	<b>8,058,665</b>
C. I. 1. Accruals	1,045	1,227
2. Deferred income	7,864,507	8,057,438

# ČEZ Distribuce, a. s.

## Profit and Loss Statement as at December 31, 2014

(in thousands of CZK)

	2014	2013
I. Revenues from sale of goods	-	-
A. Costs of goods sold	-	-
+ Gross margin	-	-
II. Production	50,531,102	57,184,796
II. 1. Revenue from sale of finished products and services	50,260,021	57,063,345
2. Changes in inventory produces internally	(13,225)	(85,115)
3. Own work capitalized	284,306	206,566
B. Production related consumption	34,764,031	41,458,962
B. 1. Consumption of material and energy	3,321,072	4,182,939
2. Services	31,442,959	37,276,023
+ Value added	15,767,071	15,725,834
C. Personnel expenses	1,068,322	1,016,543
C. 1. Wages and salaries	721,739	699,086
2. Bonuses to members of company or cooperation bodies	11,219	2,132
3. Social security and health insurance	249,843	237,338
4. Other social expenses	85,521	77,987
D. Taxes and charges	12,526	8,184
E. Amortization and depreciation of intangible and tangible fixed assets	6,747,136	6,538,843
III. Revenue from sale of intangible and tangible fixed assets and materials	106,071	56,189
III. 1. Revenues from sale of intangible and tangible fixed assets	19,721	27,896
2. Revenue from sale of materials	86,350	28,293
F. Net book value of intangibles, tangibles and material sold	45,295	24,647
F. 1. Net book value of intangibles and tangibles sold	14,196	24,647
2. Materials sold	31,099	-
G. Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	96,900	(10,858)
IV. Other operational revenues	1,138,307	1,163,326
H. Other operational expenses	299,383	419,607
V. Transfer of operational revenues	-	-
I. Transfer of operational expenses	-	-
* Profit or loss on operating activities	8,741,887	8,948,383
VI. Revenues from sale of securities and interests	-	-
J. Securities and interests sold	-	-
VII. Income from financial investments	-	-
VII. 1. Income from subsidiaries and associates	-	-
2. Income from other long-term securities and interests	-	-
3. Income from other financial investments	-	-
VIII. Income from short-term financial assets	-	-
K. Expenses related to financial assets	-	-
IX. Gain on revaluation of securities and derivatives	-	-
L. Loss on revaluation of securities and derivatives	-	-
M. Change in provisions and allowances relating to financial activities	-	-
X. Interest revenues	6,578	3,501
N. Interest expenses	430,839	496,973
XI. Other financial revenues	-	-
O. Other finance cost	4,308	4,727
XII. Transfer of financial revenues	-	-
P. Transfer of finance cost	-	-
* Profit or loss on financial activities	(428,569)	(498,199)
Q. Tax on profit or loss on ordinary activities	1,544,029	1,574,126
Q. 1. - Due	1,624,081	1,666,429
2. - Deferred	(80,052)	(92,303)
** Profit or loss on ordinary activities after taxation	6,769,289	6,876,058
XIII. Extraordinary gains	-	-
R. Extraordinary losses	-	-
S. Tax on extraordinary profit or loss	-	-
S. 1. - Due	-	-
2. - Deferred	-	-
* Extraordinary profit or loss	-	-
T. Transfer of share of profit or loss to partners (+/-)	-	-
*** Profit or loss for the year (+/-)	6,769,289	6,876,058
**** Profit or loss before taxation	8,313,318	8,450,184

# ČEZ Distribuce, a. s.

## Cash Flow Statement for the Year Ended December 31, 2014

(in thousands of CZK)

	2014	2013
P. Cash and cash equivalents at beginning of period	18	28
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Z. Profit or loss on ordinary activities before taxation (+/-)	8,313,318	8,450,184
A.1. Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	6,356,431	6,387,400
A.1.1. Depreciation and amortization of fixed assets and write-off of receivables	6,771,029	6,645,764
A.1.2. Change in allowances, provisions and accruals	(833,334)	(748,587)
A.1.2.1. Change in allowances and adjustments	44,001	(43,564)
A.1.2.2. Change in provisions	(110,384)	32,706
A.1.2.3. Change in accruals and contingencies	(766,951)	(737,729)
A.1.3. Gain on disposal of fixed assets	(5,525)	(3,249)
A.1.4. Interest expense and interest income	424,261	493,472
A.1.4.1. Interest expense	430,839	496,973
A.1.4.2. Interest income	(6,578)	(3,501)
A.1.5. Other non-cash movements	-	-
A.1.6. Income from dividends and profit sharing	-	-
A.* Net cash from operating activities before taxation, changes in working capital and extraordinary items	14,669,749	14,837,584
A.2. Change in non-cash components of working capital	845,294	3,725,881
A.2.1. Change in trade receivables, in prepaid expenses and unbilled revenues	2,888,885	(1,308,553)
A.2.2. Change in trade payables, short-term loans, in accruals and deferred income	(1,893,304)	4,949,319
A.2.3. Change in inventory	(150,287)	85,115
A.** Net cash from operating activities before taxation, interest paid and extraordinary items	15,515,043	18,563,465
A.3. Interest paid	(430,839)	(496,973)
A.4. Interest received	6,578	3,501
A.5. Tax paid	(1,756,986)	(1,375,974)
A.6. Gains and losses on extraordinary items	-	-
A.7. Dividends received	-	-
A.*** Net cash provided by (used in) operating activities	13,333,796	16,694,019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
B.1. Purchase of fixed assets	(7,952,602)	(7,854,899)
B.2. Proceeds from sale of fixed assets	19,721	27,896
B.*** Net cash provided by (used in) investing activities	(7,932,881)	(7,827,003)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
C.1. Change in long-term liabilities and long-term, resp. short-term, loans	(1,287,564)	(1,287,536)
C.2. Change in receivables/payables related to group cash pooling	1,602,674	(4,579,490)
C.3. Effect of changes in equity on cash	(5,716,000)	(3,000,000)
C.3.1. Effect of changes in basic capital on cash	-	-
C.3.2. Cash donations recorded in equity	-	-
C.3.3. Cash payments from equity funds	-	-
C.3.4. Dividends or profit sharing paid	(5,716,000)	(3,000,000)
C.3.5. Acquisition/sale of own shares	-	-
C.*** Net cash provided by (used in) financing activities	(5,400,890)	(8,867,026)
F. Net increase (decrease) in cash	25	(10)
R. Cash and cash equivalents at end of year	43	18

# ČEZ Distribuce, a. s.

## Notes to the Financial Statements

### for the Year Ended 31 December 2014

#### 1. Description of the Company

ČEZ Distribuce, a. s., ("the Company") was founded, based on a merger by consolidation, as a successor company of the dissolving companies ČEZ Distribuční zařízení, a.s., and ČEZ Distribuce, a. s., with a decisive merger date being 1 January 2010. As a result of the merger by consolidation, the business assets, including employment related rights and obligations, of the dissolving companies were transferred to the successor company.

The Company's registered office is located at Děčín IV-Podmokly, Teplická 874/8, post code: 405 02, Czech Republic, and the business registration number (IČ) is 24729035. The Company is involved in the operation of the power grid and in the distribution of electricity to individuals and legal entities.

The sole shareholder is ČEZ, a. s., Duhová 2/1444, post code: 140 53, Prague 4, business registration number (IČ): 45274649.

The Company is included in the ČEZ Group and in the consolidated group of the parent company ČEZ, a. s.

The Company has no foreign branch.

#### Members of the statutory bodies as at 31 December 2014 were as follows

Board of Directors		Supervisory Board	
Chair	Ing. Richard Vidlička, MBA	Chair	PhDr. Ivo Hlaváč
Vice-chair	Ing. Petra Šárová	Vice-chair	Ing. Jaroslav Janda
Member	Ing. Karel Kohout	Member	Ing. Tomáš Pleskač, MBA
Member	Ing. Pavel Filipi	Member	Karel Čech
Member	Ing. Radim Černý	Member	Irena Klůsová
		Member	Mgr. Dr. Petr Štulc

On 27 February 2014, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., PhDr. Ivo Hlaváč was appointed by the Board of Directors of ČEZ, a. s., the member of the Supervisory Board of ČEZ Distribuce, a. s., with effect from 1 March 2014.

On 30 April 2014, the position of Ing. Pavel Cyrani as Supervisory Board member terminated based on the approval of his written request for removal.

On 28 May 2014, the Supervisory Board acknowledged the decision of Ing. Tomáš Pleskač, MBA, to resign from the position of Supervisory Board chair of ČEZ Distribuce, a. s., due to his workload, and appointed PhDr. Ivo Hlaváč the Supervisory Board chair. Ing. Tomáš Pleskač, MBA, continued the position of the Supervisory Board member.

On 1 June 2014, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., Mgr. Dr. Petr Štulc was appointed by the Board of Directors of ČEZ, a. s., the member of the Supervisory Board of ČEZ Distribuce, a. s.

These changes were entered in the Commercial Register as at 31 December 2014.

The Company's organizational structure is as follows:

- CEO Office,
- Network Management Division,
- Finance & Administration Division,
- DS Renewal and Maintenance Division,
- Distribution Assets Management 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 2014 and 2013.

#### 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 2014 and 2013 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 in 2014 and 2013 are amortized over their useful economic lives.

Intangible fixed assets include software provided that it has been developed internally for trading purposes, or it has been acquired from other parties, irrespective of its cost. The above also applies to software licenses, if such licenses are not part of the valuation of the acquired software, or part of the technical improvement of the existing software.

#### Amortization

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

	Years
Foundation and organization expenses	5
Research and development	6
Software	4–6
Patents, royalties and similar rights	6
Other intangible fixed assets	6

#### b) Tangible Fixed Assets

Tangible fixed assets are recorded at their acquisition cost, which consists of purchase price, freight, customs duties and other related costs.

Purchased tangible fixed assets with a cost exceeding CZK 40 thousand and CZK 20 thousand in 2014 and 2013, respectively are depreciated over their useful economic lives. Transformer station technologies, transformers of the distribution company and power meters are deemed the tangible fixed assets regardless of their valuation.

Starting in 2014, easements on land and building, excluding the right to use and enjoy, are also deemed the tangible fixed assets regardless of their valuation, unless they are reported as part of the building valuation.

Internally-developed tangible fixed assets are recorded at their accumulated cost, which consists of direct material, labor costs and production overheads.

Tangible fixed assets acquired free of charge are valued at their replacement cost and are recorded with a corresponding credit to the 'Other capital funds account' on the date of acquisition. The costs of technical improvements are capitalized. Repairs and maintenance expenses are expensed as incurred.

#### Depreciation

Depreciation 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	10–50
Machinery and equipment	4–30
Vehicles	10–20
Furniture and fixtures	8–30
Other tangible fixed assets	6–30

Acquisition costs and net book values of depreciated intangible and tangible fixed assets were revalued in an expert opinion as at 1 January 2010. The revaluation of acquisition costs and net book value of assets was made in connection with the merger project (see Note 1).

### **c) Financial Assets**

Short-term financial assets consist of liquid valuables.

#### **Cash**

Within the ČEZ Group, a system for utilization of idle money of individual group companies, i.e. cash pool, has been introduced. Cash deposited in or used from this system as at the date of the financial statements is reported in 'Short-term receivables from group companies with majority control' or 'Current liabilities to group companies with majority control', as appropriate, in the accompanying balance sheet and the change in the deposited cash is reported in 'Change in receivables/payables from group cash pool' in the accompanying cash flow statement.

### **d) Inventory**

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

Finished goods and work-in-progress (services) are recorded at actual cost. Actual cost includes, in particular, direct costs of material, manufacturing costs of relaying and cost of inventory produced internally. The cost of inventory produced internally includes direct labor costs, including overhead costs, and are allocated to work-in-progress on the basis of hours actually worked.

### **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. Contributions in excess of basic capital are recorded as share premium. Other capital funds consist of monetary and non-monetary contributions in excess of basic capital, such as tangible assets donations, etc.

In accordance with the Articles of Association, the Company creates a reserve fund from profit.

The Company is required to establish a reserve fund from profit after tax disclosed in the annual financial statements in the year, in which profit is generated for the first time; the reserve fund is allocated a minimum of 20% of profit after tax, however not more than 10% of basic capital.

The reserve fund is allocated 5% of profit after tax for each particular year until the fund reaches 20% of basic capital of the Company. The fund can only be used to offset losses. The amounts used from the fund are replenished in the same manner as the reserve fund has been established.

### **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.

Short-term and long-term liabilities are recorded at their nominal values.

Short-term and long-term loans are recorded at their nominal values. Any portion of long-term debt which is due within one year of the balance sheet date is classified as short-term debt.

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

#### **h) 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 finance income for the year.

#### **i) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company management prepared these estimates and predictions based on all available relevant information. These estimates and assumptions are based on information available as at the date of the financial statements and may differ from actual results.

#### **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. Sales revenue is recorded net of value added tax and any discounts.

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 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 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.). In addition, the following items are taken into consideration: tax base decreasing items (donations), tax deductible items and income tax reliefs.

The Company records an outstanding income tax liability, net of paid tax prepayments, in provisions. If income tax prepayments exceed the estimate of current income tax expense as at the balance sheet date, the difference will be recorded as a short-term receivable.

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.

Deferred tax asset is recognized when it becomes probable that the asset will be realized in the future.

#### **l) Subsequent Events**

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Fixed Assets

### a) Intangible Fixed Assets (in CZK thousands)

#### Cost

	At beginning of year	Additions	Disposals	Transfers	At end of year
Foundation and organization expenses	86	-	-	-	86
Research and development	2,555	-	(648)	-	1,907
Software	354,887	-	(16,672)	153,548	491,763
Patents, royalties and similar rights	46,019	-	(2,187)	670	44,502
Other intangibles	122,284	-	(1,288)	24,190	145,186
Intangibles in progress	4,068	181,506	-	(178,408)	7,166
<b>2014 Total</b>	<b>529,899</b>	<b>181,506</b>	<b>(20,795)</b>	<b>-</b>	<b>690,610</b>
<b>2013 Total</b>	<b>455,149</b>	<b>109,204</b>	<b>(34,454)</b>	<b>-</b>	<b>529,899</b>

#### Accumulated Amortization

	At beginning of year	Amortization during year	Disposals	At end of year	Net book value
Foundation and organization expenses	(78)	(8)	-	(86)	-
Research and development	(2,426)	(129)	648	(1,907)	-
Software	(174,055)	(64,808)	16,672	(222,191)	269,572
Patents, royalties and similar rights	(28,574)	(7,026)	2,187	(33,413)	11,089
Other intangibles	(53,827)	(21,150)	1,288	(73,689)	71,497
Intangibles in progress	-	-	-	-	7,166
<b>2014 Total</b>	<b>(258,960)</b>	<b>(93,121)</b>	<b>20,795</b>	<b>(331,286)</b>	<b>359,324</b>
<b>2013 Total</b>	<b>(211,501)</b>	<b>(80,148)</b>	<b>32,689</b>	<b>(258,960)</b>	<b>270,939</b>

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

As at 31 December 2014 and 2013, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 5,326 thousand and CZK 5,285 thousand at acquisition cost, respectively.

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

#### Cost

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	733,779	-	(1,947)	76,015	807,847
Constructions	179,549,856	-	(878,070)	5,466,710	184,138,496
Separate movable items	60,359,022	-	(1,276,432)	2,243,030	61,325,620
Art works and collections	347	-	-	-	347
Other tangibles	9,199	-	-	4,895	14,094
Tangibles in progress	1,896,458	7,775,880	-	(7,790,650)	1,881,688
Advances for tangibles	152,472	303,486	(312,554)	-	143,404
<b>2014 Total</b>	<b>242,701,133</b>	<b>8,079,366</b>	<b>(2,469,003)</b>	<b>-</b>	<b>248,311,496</b>
<b>2013 Total</b>	<b>236,503,945</b>	<b>7,802,548</b>	<b>(1,605,360)</b>	<b>-</b>	<b>242,701,133</b>

#### Accumulated Depreciation and Allowances

	At beginning of year	Depreciation during year	Cost of sales	Disposals	Other movements	At end of year	Net book value
Land	-	-	-	-	-	-	807,847
Constructions	(92,329,164)	(4,248,483)	(1,669)	878,070	(5,197)	(95,706,443)	88,432,053
Separate movable items	(34,065,619)	(2,404,927)	(445)	1,276,432	(617)	(35,195,176)	26,130,444
Art works and collections	-	-	-	-	-	-	347
Other tangibles	(3,413)	(656)	-	-	-	(4,069)	10,025
Tangibles in progress	-	-	-	-	-	-	1,881,688
Advances for tangibles	-	-	-	-	-	-	143,404
<b>2014 Total</b>	<b>(126,398,196)</b>	<b>(6,654,066)</b>	<b>(2,114)</b>	<b>2,154,502</b>	<b>(5,814)</b>	<b>(130,905,688)</b>	<b>117,405,808</b>
<b>2013 Total</b>	<b>(121,465,633)</b>	<b>(6,458,695)</b>	<b>(10,050)</b>	<b>1,542,941</b>	<b>(6,759)</b>	<b>(126,398,196)</b>	<b>116,302,937</b>

The total value of small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 43,184 thousand and CZK 26,690 thousand at acquisition cost as at 31 December 2014 and 2013, respectively.

As at 31 December 2014 and 2013, the Company recorded assets of CZK 84,378 thousand and CZK 140,287 thousand, respectively acquired conditionally.

## 5. Receivables

Allowances against outstanding receivables that are considered doubtful were charged to income based on collectability and ageing analysis of receivables (see Note 6).

As at 31 December 2014 and 2013, receivables overdue for more than 30 days totaled CZK 472,087 thousand and CZK 490,479 thousand, respectively.

The Company wrote off receivables of CZK 24,802 thousand and CZK 107,723 thousand in 2014 and 2013, respectively as they were irrecoverable or due to unsatisfying the claims in bankruptcy proceedings. The receivables remain off-balance sheet.

Receivables from related parties (see Note 18).

Unbilled revenue represents, in particular, unbilled distribution services.

### Changes in unbilled distribution services were as follows in 2014 and 2013 (in CZK thousands)

	Total	Retail business customers	Retail household customers
<b>Unbilled distribution services</b>			
Closing balance as at 31/ 12/ 2012	10,840,594	3,837,077	7,003,517
Changes in 2013	600,126	3,287	596,839
Closing balance as at 31/ 12/ 2013	11,440,720	3,840,364	7,600,356
Changes in 2014	(1,991,104)	(573,449)	(1,417,655)
Closing balance as at 31/ 12/ 2014	9,449,616	3,266,915	6,182,701

## 6. Allowances

Allowances reflect a temporary diminution in the value of assets.

### Changes in the allowance accounts (in CZK thousands)

	Balance as at 31/ 12/ 2012	Additions	Deductions	Balance as at 31/ 12/ 2013	Additions	Deductions	Balance as at 31/ 12/ 2014
<b>Allowances against:</b>							
Fixed assets in progress	53,474	-	(53,474)	-	-	-	-
Fixed assets	22	-	(22)	-	-	-	-
Receivables	391,445	230,439	(220,507)	401,377	183,313	(108,933)	475,757
of which:							
- Legal	217,089	80,946	(105,348)	192,687	107,299	(27,424)	272,562
- Accounting	174,356	149,493	(115,159)	208,690	76,014	(81,509)	203,195

Legal allowances are created in compliance with the Act on Provisions and are tax deductible.

## 7. Short-term Financial Assets

The Company is a part of cash pooling system for the companies in the ČEZ Group managed by Komerční banka, a.s. Cash in CZK provided to the parent company ČEZ, a. s., within the cash pooling bears an interest rate of PRIBID O/N -0.21% p. a. with 0.05% p. a. at minimum (receivables); cash in CZK provided by the parent company within the cash pooling bears an interest rate of PRIBOR +0.35% p. a. (payables).

Cash in EUR provided to the parent company ČEZ, a. s., within the cash pooling bears an interest rate of EUR LIBOR O/N -0.19% p. a. with 0.05% p. a. at minimum (receivables); cash in EUR provided by the parent company within the cash pooling bears an interest rate of EUR LIBOR O/N +0.35% p. a. (payables).

The balance of cash transferred to the parent company ČEZ, a. s., within the cash pooling system was CZK 3,932,789 thousand and CZK 7,535,463 thousand as at 31 December 2014 and 2013, respectively.

Pursuant to a contract for credit line No. 2014/2 signed on 7 October 2014, a credit line of CZK 2 billion was provided to ČEZ, a. s. The credit line can be drawn on the basis of request for drawing at a certain date for a certain period (the ultimate maturity date is the 365th day after the contract signature).

## 8. Other Assets

As at 31 December 2014 and 2013, prepaid expenses include in particular a fee of CZK 25,220 thousand and CZK 28,823 thousand, respectively for arranging a loan.

Expenses are charged to income for the year in which they were incurred.

## 9. Equity

The basic capital of the Company consists of 600 registered shares in a certificate form with a nominal value of CZK 100,000,000 per share. The shares are transferrable only with the consent of the Board of Directors which is based on a prior approval by the Supervisory Board. All shares are fully subscribed and paid.

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

	Balance as at 31/ 12/ 2012	Increase	Decrease	Balance as at 31/ 12/ 2013	Increase	Decrease	Balance as at 31/ 12/ 2014
Number of shares (pcs.)	600	-	-	600	-	-	600
Basic capital	60,000,000	-	-	60,000,000	-	-	60,000,000
Other capital funds	776	538	-	1,314	-	-	1,314
Reserve fund	12,000,000	-	-	12,000,000	-	-	12,000,000
Retained earnings	9,858,961	1,305,720	-	11,164,681	1,160,059	-	12,324,740

The Annual General Meetings held on 20 June 2014 and 17 June 2013 approved the following profit distribution for 2013 and 2012 (in CZK thousands):

Profit for 2012	4,305,720	Profit for 2013	6,876,058
Dividend distribution	(3,000,000)	Dividend distribution	(5,716,000)
Undistributed profits added to retained earnings	1,305,720	Undistributed profits added to retained earnings	1,160,059
Retained earnings as at 31/ 12/ 2012	9,858,961	Retained earnings as at 31/ 12/ 2013	11,164,681
Retained earnings as at 31/ 12/ 2013	11,164,681	Retained earnings as at 31/ 12/ 2014	12,324,740

## 10. Provisions

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

Provisions	Balance as at 31/ 12/ 2012	Additions	Deductions	Balance as at 31/ 12/ 2013	Additions	Deductions	Balance as at 31/ 12/ 2014
Provision for income tax	90,093	380,548	(90,093)	380,548	247,644	(380,548)	247,644
Other provisions	228,755	40,971	(8,265)	261,461	44,286	(21,766)	283,981

As at 31 December 2014 and 2013, the provision for corporate income tax was offset against paid prepayments totaling CZK 1,375,455 thousand and CZK 1,278,503 thousand, respectively and the resulting liability is recorded in the caption "Provision for income tax".

Other provisions were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement.

## 11. Long-term Liabilities

As at 31 December 2014 and 2013, the Company had the following long-term liabilities (in CZK thousands):

	Due date	31/ 12/ 2014	31/ 12/ 2013
1st credit line	27/ 12/ 2019	2,551,000	3,061,200
2nd credit line	27/ 12/ 2019	1,313,250	1,575,900
3rd credit line	07/ 06/ 2022	3,860,250	4,374,950
<b>Total</b>		<b>7,724,500</b>	<b>9,012,050</b>
Current portion		1,287,550	1,287,550
Long-term portion		6,436,950	7,724,500

A contract for 1st credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 13 November 2009. The loan was withdrawn on 16 November 2009 and is repayable by 27 December 2019. The interest rate has been set at 5.87% p. a.

A contract for 2nd credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 21 January 2010. The loan was withdrawn on 25 and 26 January 2010 and is repayable by 27 December 2019. The interest rate has been set at 5.757% p. a.

A contract for 3rd credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 7 June 2012. The loan was withdrawn on 11 June 2012 and is repayable by 7 June 2022. The interest rate has been set at 3.91% p. a.

All the loans were provided to finance the implementation of the Project of reconstruction and development of the power grid in the Czech Republic (the "Project").

The interest expense relating to loans for 2014 and 2013 was CZK 430,767 thousand and CZK 496,958 thousand, respectively.

#### The aggregate maturities of loans (in CZK thousands)

	Loans
2015	1,287,550
2016	643,775
2017	1,287,550
2018	1,931,325
2019 and thereafter	2,574,300
<b>Total</b>	<b>7,724,500</b>

The loan agreement with ČEZ, a. s., includes terms and conditions to be fulfilled by the Company:

1. Maintenance	To maintain, repair and refurbish real estate that is part of the Project
2. Assets	To maintain legal title to and possession of the assets that are part of the Project
3. Insurance	To insure all work and real estate that is part of the Project
4. Servitude and beneficial use	To maintain use and enjoyment rights necessary for the Project operation
5. The environment	To implement the Project in compliance with the environment protection legislation

In addition, the Company undertook to pay interest and principal according to the payment schedule, inform the creditor of significant overdue payables and not to change the Company's ownership structure.

The Company was in compliance with these terms and conditions as at 31 December 2014 and 2013.

## 12. Current Liabilities

As at 31 December 2014 and 2013, the Company had overdue current payables for more than 30 days totaling CZK 402 thousand and CZK 1,471 thousand, respectively.

As at 31 December 2014 and 2013, the Company had liabilities of CZK 26,254 thousand and CZK 22,025 thousand, respectively owing to social security and health insurance premiums.

Short-term advances received relate in particular to unbilled distribution services.

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 2014 and 2013.

Payables to related parties (see Note 18).

## 13. Other Liabilities

Deferred income includes connection fees and is recognized into income for the year in which it was earned. These are 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 Office (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.

#### Movements in deferred income accounts in 2014 and 2013 (in CZK thousands)

Balance as at 31/ 12/ 2012	8,190,432
Additions in 2013	604,735
Released to revenues in 2013	(737,729)
<b>Balance as at 31/ 12/ 2013</b>	<b>8,057,438</b>
Additions in 2014	574,020
Released to revenues in 2014	(766,951)
<b>Balance as at 31/ 12/ 2014</b>	<b>7,864,507</b>

## 14. Income Taxes

	2014 (in CZK thousands)	2013 (in CZK thousands)
Profit before taxes	8,313,318	8,450,184
Difference between book and tax depreciation	126,300	166,490
Difference between net book value of fixed assets for accounting and tax purposes	91,843	69,924
Non-deductible expenses		
Creation of provisions	22,520	32,706
Release of allowances	(5,494)	(19,163)
Expenses relating to previous tax period	(18,563)	(14,403)
Other	13,449	46,779
Taxable income	8,543,373	8,732,517
Current income tax rate	19%	19%
Tax	1,623,241	1,659,178
Tax allowance	(141)	(126)
Provision for income tax	1,623,100	1,659,052
Adjustment of the tax paid in previous years	981	7,377
Current tax expense	1,624,081	1,666,429

The calculation of the 2014 corporate income tax liability is preliminary. The Company submits regular tax return prior to 30 June 2015.

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

Deferred tax items	31/ 12/ 2014		31/ 12/ 2013	
	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	-	(11,586,528)	-	(11,663,289)
Other temporary differences:				
Allowance against receivables	38,607	-	39,651	-
Provisions	53,956	-	49,677	-
Other	18,460	(1,372)	17,659	(627)
<b>Total</b>	<b>111,023</b>	<b>(11,587,900)</b>	<b>106,987</b>	<b>(11,663,916)</b>
<b>Net</b>		<b>(11,476,877)</b>		<b>(11,556,929)</b>

## 15. Commitments and Contingencies

The Company has affected the following types of insurance:

- Insurance of buildings, constructions and selected movable items (transformer stations, administrative buildings);
- Insurance of civil engineering structures (very high voltage and high voltage overhead 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 2014 and 2013, the Company had concluded contracts for future supplies of fixed assets in the amount of approx. CZK 3,768,926 thousand and CZK 3,879,860 thousand, respectively. As at 31 December 2014 and 2013, an amount of contractual liabilities for next years comprises a contractual fee totaling CZK 3,393,904 thousand and CZK 3,607,036 thousand, respectively for investments, CZK 303,257 thousand and CZK 203,047 thousand, respectively for repairs and CZK 71,765 thousand and CZK 69,777 thousand, respectively for relaying.

The Company is a party to a number of legal disputes relating primarily to connection of solar power plants to the power grid. Based on the analysis performed, the Company's management believes that the risk of losing these disputes is very small and it is unlikely the Company would be imposed any significant obligations in the future arising from these disputes.

## 16. Revenues

The breakdown of revenues on ordinary activities (in CZK thousands)

	2014	2013
Use of grids, incl. reserved capacity at low voltage level	18,672,559	21,394,893
Support of electricity from renewable sources	18,432,941	21,940,109
Provided reserved capacity at very high voltage and high voltage levels	8,290,317	8,318,585
Provision of system services	4,186,853	4,637,051
OPE charges	286,258	284,597
Other energy services	169,306	263,996
Other non-energy services	221,787	224,114
<b>Total revenues</b>	<b>50,260,021</b>	<b>57,063,345</b>

In 2014 and 2013, the revenues of the Company comprised primarily sales from the provision of distribution network services to customers and electricity producers and traders. The prices for services related to providing of distribution network are subject to price regulations of the Energy Regulatory Office and were determined by the Energy Regulatory Office's price decision for 2014 and 2013, respectively.

The revenues were realized in the Czech Republic.

## 17. Personnel and Related Expenses

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

	2014		2013	
	Total	Of which: company bodies and senior management <sup>1)</sup>	Total	Of which: members of managerial <sup>3)</sup> bodies
Average number of employees <sup>2)</sup>	1,222	5	1,200	25
Wages and salaries	721,739	9,451	699,086	47,216
Bonuses to members of company bodies	11,219	11,219	2,132	–
Social security and health insurance	249,843	3,277	237,338	12,247
Social cost	85,521	1,107	77,987	2,030
<b>Total personnel expenses</b>	<b>1,068,322</b>	<b>25,054</b>	<b>1,016,543</b>	<b>61,493</b>

<sup>1)</sup> Members of Supervisory Board and Board of Directors, chief executive officer and directors of divisions (sections).

<sup>2)</sup> Average registered number of employees recalculated as headcount based on the length of individual working arrangements to (full) working hours set by the employer. This information does not include the Supervisory Board members.

<sup>3)</sup> In 2013 this information includes even managers of departments. As a result of unifying the methodologies within the ČEZ Group, the information pertaining to the year 2014 is given only for chief executive officer and directors of sections.

## 18. Related Party Information

The members of statutory and supervisory bodies and executive officers receive life assurance contributions and other benefits including remuneration to statutory body members. The members of statutory and executive officers may use automobiles for private purposes.

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other benefits in 2014 and 2013 and they do not hold any shares of the Company.

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

As at 31 December 2014 and 2013, advances granted to related parties were CZK 166 thousand and CZK 855 thousand, respectively.

As at 31 December 2014 and 2013, receivables from group companies with majority control in the amount of CZK 5,932,789 thousand and CZK 7,535,463 thousand, respectively represent the balance of cash in the cash pooling system (see Note 7) and a short-term loan granted to ČEZ, a. s., in the amount of CZK 2,000,000 thousand.

The Company has loans granted by the parent company (see Note 11).

The Company provides services to related parties in the ordinary course of business.

In 2014 and 2013, sales were as follows (in CZK thousands):

Related party	2014	2013
ČEZ Prodej, s.r.o.	24,309,315	29,127,809
Severočeské doly a.s.	345,759	401,661
ČEZ, a. s.	126,631	135,689
ČEZ ICT Services, a. s.	97,289	88,951
ČEZ Distribuční služby, s.r.o.	33,389	39,120
Elektrárna Dětmarovice, a.s.	14,748	17,180
ÚJV Řež, a. s.	8,381	8,875
ČEZ Zákaznické služby, s.r.o.	2,619	2,285
ČEZ Korporátní služby, s.r.o.	885	605
MARTIA a.s.	456	364
ČEZ Energetické služby, s.r.o.	431	691
Telco Pro Services, a. s.	423	–
ČEZ Energo, s.r.o.	397	399
Centrum výzkumu Řež s.r.o.	332	–
ČEZ OZ uzavřený investiční fond a.s.	227	509
Energotrans, a.s.	180	430
ČEZ Obnovitelné zdroje, s.r.o.	15	1,336
<b>Total</b>	<b>24,941,477</b>	<b>29,825,904</b>

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

Related party	2014	2013
ČEZ Prodej, s.r.o.	7,467,910	9,493,026
ČEZ Distribuční služby, s.r.o.	170,687	190,492
ČEZ Zákaznické služby, s.r.o.	75,020	60,853
Severočeské doly a.s.	43,173	65,219
ČEZ ICT Services, a. s.	30,425	9,415
ČEZ, a. s.	25,712	67,428
Elektrárna Dětmarovice, a.s.	1,984	5,795
ČEZ Korporátní služby, s.r.o.	6,124	5,611
ÚJV Řež, a. s.	529	722
Telco Pro Services, a. s.	47	-
ČEZ Energetické služby, s.r.o.	43	306
MARTIA a.s.	37	107
ČEZ Energo, s.r.o.	8	48
ČEZ Obnovitelné zdroje, s.r.o.	-	139
ČEZ OZ uzavřený investiční fond a.s.	-	416
<b>Total</b>	<b>7,821,699</b>	<b>9,899,577</b>

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

Related party	2014	2013
ČEZ Prodej, s.r.o.	915,044	817,797
ČEZ Distribuční služby, s.r.o.	810,716	1,129,703
ČEZ ICT Services, a. s.	372,471	110,662
ČEZ Zákaznické služby, s.r.o.	49,894	54,443
ČEZ, a. s.	37,471	34,878
ČEZ Korporátní služby, s.r.o.	26,487	27,681
ČEZ Energetické služby, s.r.o.	12,153	774
MARTIA a.s.	6,412	9,787
SINIT,a.s.	884	624
Elektrárna Dětmarovice, a.s.	530	466
ČEZ Obnovitelné zdroje, s.r.o.	324	193
ČEZ Teplárenská, a.s.	250	242
Energotrans, a.s.	173	20,433
OSC, a.s.	158	114
ČEZ Energo, s.r.o.	3	4
Severočeské doly a.s.	2	2
CITELUM, a.s.	-	191
LOMY MOŘINA spol. s r.o.	-	2
<b>Total</b>	<b>2,232,972</b>	<b>2,207,996</b>

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2014 and 2013 were as follows (in CZK thousands):

Related party	2014	2013
ČEZ Distribuční služby, s.r.o.	7,789,985	8,781,032
ČEZ Prodej, s.r.o.	3,107,472	4,006,342
ČEZ ICT Services, a. s.	1,092,963	1,011,725
ČEZ Zákaznické služby, s.r.o.	430,595	465,871
ČEZ Korporátní služby, s.r.o.	445,437	249,798
ČEZ, a. s.	190,155	191,624
MARTIA a.s.	37,261	56,065
ČEZ Energetické služby, s.r.o.	18,857	7,662
SINIT,a.s.	7,226	8,313
Elektrárna Dětmarovice, a.s.	4,214	4,043
ČEZ Obnovitelné zdroje, s.r.o.	2,186	1,898
Tepelné hospodářství města Ústí nad Labem s.r.o.	1,436	2,755
ČEZ Teplárenská, a.s.	1,182	1,539
Energotrans, a.s.	989	1,231
CITELUM, a.s.	779	1,538
OSC, a.s.	185	614
ČEZ Energo, s.r.o.	31	177
Severočeské doly a.s.	27	15
PRODECO, a.s.	1	10
LOMY MOŘINA spol. s r.o.	1	2
ČEZ OZ uzavřený investiční fond a.s.	-	1,600
<b>Total</b>	<b>13,130,982</b>	<b>14,793,854</b>

As at 31 December 2014 and 2013, advances received from related parties were CZK 8,114,448 thousand and CZK 9,532,947 thousand, respectively. The advances mostly comprised of advances for distribution services received from ČEZ Prodej, s.r.o.

## 19 Other Operating Revenues

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

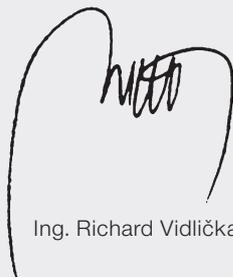
## 20. Statement of Cash Flows (see Page 53)

The cash flow statement was prepared under the indirect method.

## 21. Statement of Changes in Equity (see Note 9)

Prepared on:  
6 February 2015

Signature of accounting  
unit's statutory body:



Ing. Richard Vidlička, MBA



Ing. Petra Šárová

# ČEZ Distribuce, a. s. Company Identification

## ČEZ Distribuce, a. s.

Teplická 874/8  
405 02 Děčín IV-Podmokly  
Czech Republic

Registered in the Commercial Register kept by the  
Regional Court in Ústí nad Labem, Section B, File 2145

Established: 2010  
Legal form: Joint-stock company  
ID No.: 247 29 035  
VAT ID No.: CZ24729035  
Bankers: Komerční banka, a.s., account No. 35-4544580267/0100  
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Closing date of the 2014 Annual Report: May 6, 2015



**Relation Structure Diagram**  
**Alphabetical List of Companies**

## THE END

We would like to thank all viewers  
who watched these selected episodes  
from 2014 with us again.

But the show goes on.

We've got enough energy and there are  
more and more actors. We are hoping to make future seasons  
even more interesting than the one you just watched.

We will do our best.

We look forward to seeing you again!