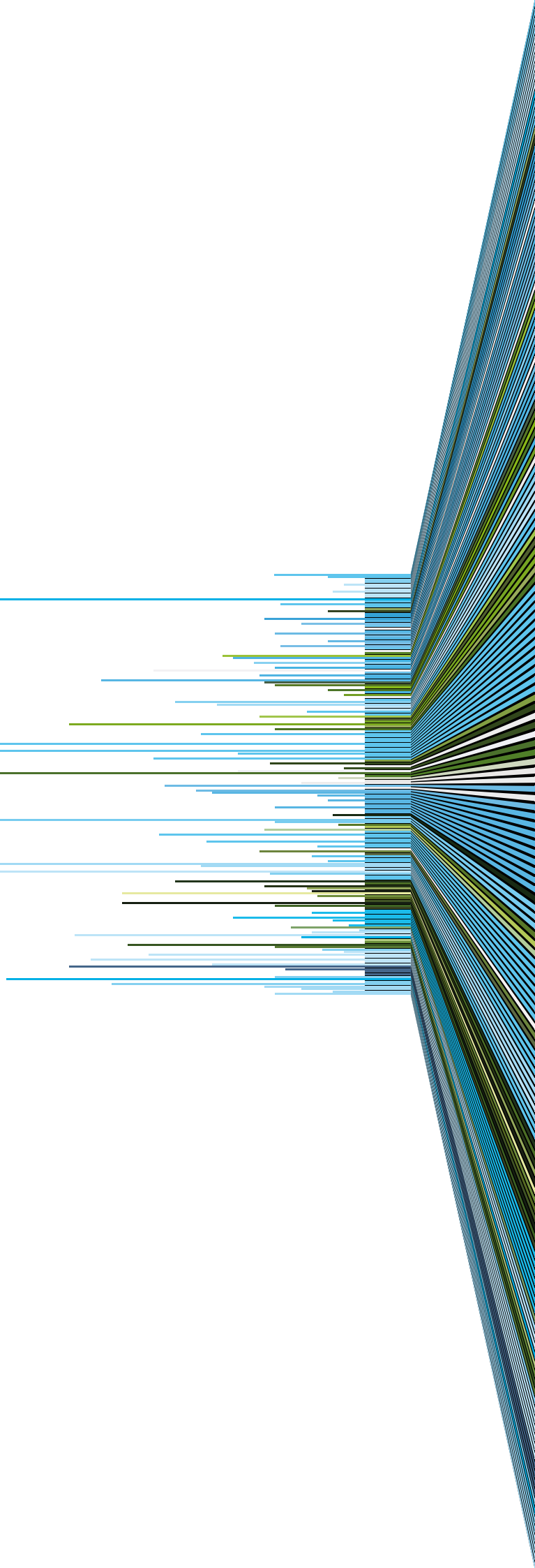


F

ČEZ Distribuce, a. s.  
Annual Report  
2017





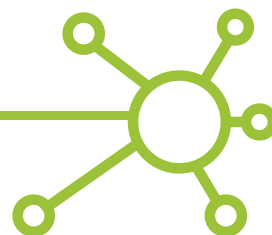
# E

With the use of new forms of energy sources and the increased efficiency of existing energy processes, the future is very bright.

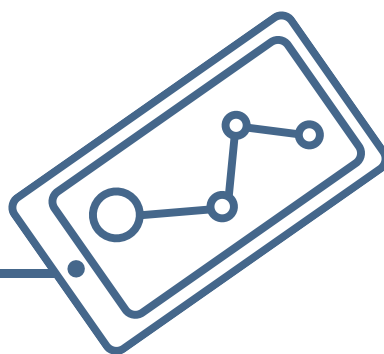
# F

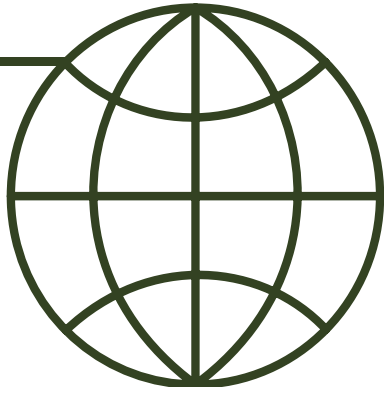
# B

**Distribution System Management**

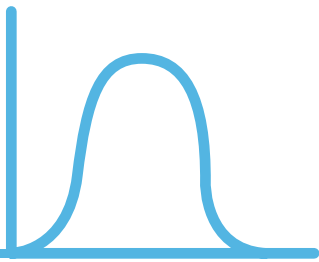


**Prokop Diviš Program**





New Technologies



Cybersecurity

# Table of Contents



Information About Persons Responsible for the Annual Report	3
Introduction by the Chairman of the Board of Directors	4
Selected Indicators	8
Key Events of 2017 and 2018 Until the Annual Report Closing Date	10
Governance Bodies	14
<b>Report on Operations</b>	<b>22</b>
Financial Performance	22
Economic and Financial Outlook for 2018	25
Capital Expenditure	26
Information on the Company's Core Business	28
Safety and Quality Management, Environmental Protection	34
Shares and Shareholders	36
Human Resources	37
Research and Development	38
Donorship and Sponsorship Program	39
Developments in the Legislative Framework for the Energy Sector	40
<b>Basic Organization Chart of ČEZ Distribuce, a. s., as at April 1, 2018</b>	<b>44</b>
Glossary of Terms and Abbreviations	46
List of Tables and Charts in the Annual Report	48
<b>Related Parties Report for 2017</b>	<b>49</b>
Structure of Relations Between the Managing Entity and the Controlled Entity and Between the Controlled Entity and Entities Controlled by the Same Managing Entity	49
Role of the Managing Entity in the Group of Businesses	50
Method and Means of Control	50
List of Acts Performed in the Last Accounting Period That Were Performed at the Instigation or in the Interest of the Managing Entity or Entities Controlled by the Managing Entity and Concerned Assets Exceeding 10% of the Equity of the Controlled Entity as Identified in Its Last Financial Statements	50
List of Mutual Contracts Between the Controlled Entity and the Managing Entity or Between Controlled Entities	50
Loss Incurred by the Controlled Entity and Its Settlement	54
Other Information	55
Conclusion	55
<b>Independent Auditor's Report</b>	<b>57</b>
<b>Financial Statements of ČEZ Distribuce, a. s., for the Year Ended December 31, 2017</b>	<b>60</b>
Balance Sheet	60
Statement of Income	63
Cash Flow Statement	64
Statement of Changes in Equity	65
Notes to the Financial Statements	66
<b>Identification of ČEZ Distribuce, a. s.</b>	<b>80</b>

# Information About Persons Responsible for the Annual Report

## Responsibility for the Annual Report

### Statutory Declaration

The information presented in the 2017 Annual Report of ČEZ Distribuce, a. s., 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, April 11, 2018



Richard Vidlička, MBA

Chairman of the Board of Directors



Tomáš Murtinger

Member of the Board of Directors

# Introduction by the Chairman of the Board of Directors



Ladies and Gentlemen,

The year 2017 can be seen as a year in which important milestones were reached and major changes were made in ČEZ Distribuce operations to date. Most importantly, CEZ Group's Distribution Segment Redesign project was completed successfully, resulting in the full consolidation of all key activities into ČEZ Distribuce. The project created the conditions for a subsequent merger by the acquisition of ČEZ Distribuční služby, s.r.o., with legal effect from January 1, 2018. This enhanced the Company's capability to perform the best part of its operations using its own employees and increased its competence to fulfill its role of a modern distribution company in the process of changes in the European energy sector. I am convinced that we are well prepared for continued energy sector decentralization, for its digitization, and for further development in renewable electricity sources.

Increasingly decentralized generation and other measures that will enable the advancement of electric mobility require that an electricity distributor be more capable of dispatching the distribution system at all voltage levels. That is why we started the first stage of our Distribution Transformer Station Measurements project in 2017, as a follow-up to our implementation of a new dispatch system in the past years. Once the project is completed, we will be able to process large amounts of data in near real time to flexibly respond to the operating condition of any point in the distribution system. A distinct part of our mission is support for strengthening the active role of customers in the energy sector. The Company has also been actively involved in the National Action Plan for Smart Grids project. We do not want to be a mere observer of changes in the energy sector; rather, we intend to take an active part in them.

ČEZ Distribuce continued developing the distribution system, building 584 km of new lines, 301 transformer stations, and connecting more than 23,500 new service points. The total number of service points thus grew to almost 3.65 million, and more than 2.94 million customer requests were handled. These figures prove that ČEZ Distribuce is able to react to increased economic activity in Czechia.

A crucial factor in the Company's further development is fulfillment of the owner's strategic assignment and the annual plan. I am pleased that the Company achieved all its financial targets and specified performance indicators once again in 2017. EBITDA was CZK 15.1 billion in the past year, and the net income of CZK 6.4 billion was positively affected not only by greater electricity consumption but also by improved expense efficiency.

We paid much attention to hiring new employees, enhancing the expertise of current employees, and scouting out new talents in 2017. I am happy that our Distribution Finals initiative turned out to be successful, with 77 students participating last year. We assured ourselves that there is still interest in technical study programs and that students and graduates consider energy industries promising. Another initiative that helps ČEZ Distribuce inform its prospective employees of future opportunities in electricity distribution is the Prokop Diviš Incentive Program, in which more than 500 students from selected secondary schools took part.

Important stabilization factors include the creation of good working conditions for Company employees and a good social environment. Company management considers it important that an amendment to the collective agreement was successfully made last year, updating the compensation policy and defining fringe benefits for Company employees until 2022. The fact that a fair social dialog takes place at ČEZ Distribuce can also be considered positive.

We continued improving our client service this year. To enhance the quality of our customer care, we kept developing our Distribution Portal. It is a self-service Internet communication channel for trades and ČEZ Distribuce clients, which provides efficient assistance in service to them. In addition, we are the first distributor in Czechia to offer traders direct communication between the distributor and trader information systems.

The Company's environmental management system underwent major changes and was newly certified to the current standard in the past year. The measuring instrument quality system was also recertified successfully. The Company expended no less effort on preparations for recertification under the Safe Enterprise program in 2018.

The amount of capital expenditure in 2017 reflects needs arising from higher economic growth, the number of customer requests, and the necessity to further develop the distribution network. Since we already reacted to the shifting trend in investor activities at the lower voltage level in previous years, we managed to complete a higher number of capital projects with a total capital expenditure of CZK 9.6 billion in the past year.

That said, ČEZ Distribuce also built important strategic facilities that help improve operational reliability or allow increasing economic activity in selected regions in Czechia and contribute to good investment conditions for major foreign investors.

The year 2017 was a successful one especially thanks to the professionalism, dedication, and great performance of Company employees, whom I would like to thank for their work. The Company Board of Directors would also like to thank partner companies in CEZ Group, whose collaboration allows ČEZ Distribuce to implement many strategic projects and leverage synergies.

I would also like to thank, on behalf of the Company Board of Directors, all partners and contractors for good cooperation in 2017. I believe that partnership, efficient collaboration, innovation, and highly qualified personnel will be key factors in our success in the next years.



**Richard Vidlička, MBA**

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



# T

The management of a modern distribution grid must deal with everyday perils in cyberspace. ČEZ Distribuce perceives cybersecurity as the biggest security challenge that is inevitable in entering the energy sector in the 21<sup>st</sup> century. We reliably secure the creation, processing, and transmission of all data we work with as well as distribution network operation as such.

# Selected Indicators

## Selected Financial Indicators

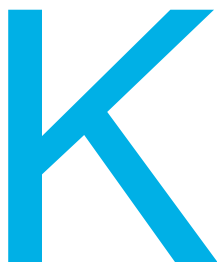
	Unit	2014	2015	2016	2017
Workforce headcount as at December 31	Number	1,228	1,470	2,640	2,807
Revenues from sales of own products and services	CZK millions	50,260	52,008	48,226	45,817
Of which: Revenue from sales of electricity distribution	CZK millions	50,038	51,788	48,022	45,627
EBITDA	CZK millions	15,489	15,227	16,011	15,105
EBIT	CZK millions	8,742	8,421	9,164	8,100
Net income	CZK millions	6,769	6,613	7,259	6,396
Total assets	CZK millions	136,150	139,132	141,280	140,223
Equity	CZK millions	91,095	92,766	95,473	97,601
Net debt	CZK millions	13,269	13,197	11,250	13,001
Total debt to total capital	%	19.43	20.27	18.71	17.51
Capital expenditure	CZK millions	7,953	7,697	7,946	9,593
Operating cash flow	CZK millions	13,334	12,777	13,940	12,000



Selected Sector-Specific Indicators

	Unit	2014	2015	2016	2017
Service area	km <sup>2</sup>	52,001	52,001	52,001	52,001
Number of service points	Number	3,589,039	3,608,324	3,625,976	3,649,489
Of which: HV, MV—large end-use customers	Number	14,706	14,829	14,860	14,892
LV—commercial retail	Number	440,380	437,762	436,797	435,844
LV—residential retail	Number	3,133,953	3,155,733	3,174,319	3,198,753
Peak load	MW	5,461	5,393	5,884	6,178
Installed line length	km	162,583	163,211	163,680	164,264
Of which: HV	km	9,808	9,834	9,853	9,845
MV	km	50,579	50,651	50,658	50,698
LV	km	102,196	102,726	103,169	103,721
MV/LV transformer stations	Number	57,918	58,259	58,574	58,865
Of which: Owned by the Company	Number	45,076	45,412	45,724	46,025
Owned by a third party	Number	12,842	12,847	12,850	12,840
HV/HV, HV/MV, MV/MV transformer stations	Number	293	292	283	283

# Key Events of 2017 and 2018 Until the Annual Report Closing Date



## Key Events of 2017

### January

- Mr. Tomáš Pleskač was elected as member of the Company's Supervisory Board with effect from January 2, 2017, by the sole shareholder's decision.
- The Supervisory Board of ČEZ Distribuce, a. s., elected Mr. Tomáš Pleskač as its vice-chairman at its meeting held on January 18, 2017, with effect from the date of election.
- Addition of communication units to existing MEg40 metering units was started under the DTS metering project; the units will allow transferring measured data remotely to end systems.
- A construction project was started at the Triangle industrial zone to connect Nexen s.r.o. at 110 kV.

### February

- Mr. Karel Čech and Mr. Václav Rašner were elected as members of the Company's Supervisory Board with effect from February 1, 2017, by the sole shareholder's decision.
- In a letter dated February 9, 2017, the sole shareholder confirmed its intent to merge ČEZ Distribuce, a. s., and ČEZ Distribuční služby, s.r.o., by acquisition.
- Mr. Ivo Hlaváč resigned as Chairman and member of the Company's Supervisory Board by a letter dated February 23, 2017, with effect from February 28, 2017.
- On February 24, 2017, a state of disaster was declared in select Company areas due to severe weather.
- By the sole shareholder's decision, Article 14 of the Company's bylaws, "Composition and Constitution of the Board of Directors and Term of Office of the Board of Directors," was amended to change the number of members of the Board of Directors from six to seven with effect from March 1, 2017.
- Mr. Karel Kohout was elected as member of the Board of Directors of ČEZ Distribuce, a. s., with effect from March 1, 2017, by the sole shareholder's decision.

### March

- Reconstruction of the 110kV Český Brod–Pečky line and HV switchyard at the Žamberk 110/35kV transformer station started.
- Employees of ČEZ Distribuce, a. s., were nominated for the Ď Award by the Jedlička Institute in Liberec for regularly supporting the activities of its Daily Service Center and for annually organizing trips and purchases of Christmas presents for the clients. The Ď Award is a Czech award for benefactors and supporters in the fields of culture, charity, science, education, and moral values in Czechia.
- Ms. Michaela Chaloupková was elected as member of the Board of Directors of ČEZ Distribuce, a. s., with effect from April 1, 2017, by the sole shareholder's decision.

#### April

- Reconstruction of equipment in the Frýdlant nad Ostravicí 110kV substation started.
- On April 4, 2017, a donation of CZK 550,000 was presented to the Královské Vinohrady Teaching Hospital in Prague, whereby ČEZ Distribuce, a. s., resumed long-term cooperation. The donation will be used for the treatment of people injured by electricity as well as all patients that need burn care.

#### May

- At its meeting held on May 10, 2017, the Supervisory Board of ČEZ Distribuce, a. s., elected Mr. Tomáš Pleskač as its chairman with effect from the date of election and Ms. Michaela Chaloupková as its vice-chairwoman with effect from the date of election.
- On May 16, 2017, the Board of Directors of ČEZ, a. s., approved a transformation project consisting in a merger by acquisition involving ČEZ Distribuce, a. s., as the acquiring company and ČEZ Distribuční služby, s.r.o., as the acquired company, with effect from January 1, 2018.
- Mr. Radim Černý was reelected as member of the Board of Directors of ČEZ Distribuce, a. s., with effect from June 2, 2017.
- Construction work started on a new 110/22kV TR Jirny substation, which will supply new industrial parks, storage and commercial facilities, and residential buildings in the locality.

#### June

- On June 28, 2017, the Board of Directors of ČEZ, a. s., approved a transformation project consisting in division by spin-off and merger based on the Draft Terms of Division by Spin-Off and Merger, involving ČEZ Distribuce, a. s., as the acquiring corporation and ČEZ Korporátní služby, s.r.o., which will result in the spin-off of a portion of assets consisting of a portion of a vehicle fleet with effect from January 1, 2018.

#### July

- Replacement of a 110kV transformer in operation at the Výškov transformer station was completed, increasing energy efficiency.
- A ceremony was held to announce the results of the Prokop Diviš Incentive Program, prepared in cooperation with the Association of Power Engineering Managers and the strategic recruitment unit of ČEZ, a. s. The program aims to increase interest in and awareness of ČEZ Distribuce, a. s., and motivate students from select secondary schools to gain additional knowledge in the electric power sector.
- The Fiber-Optic Infrastructure Development Strategy of ČEZ Distribuce, a. s., was approved.

#### August

- Renovation of the Kolín West transformer station was started in order to improve the reliability of electricity supplies in the region after completion.
- Construction of the new Kostelec 110/22kV transformer station was completed; it was built in line with the Company's long-term development goals and will supply a new industrial park in Ostrov u Stříbra.
- The service area of ČEZ Distribuce, a. s., was repeatedly hit by heavy storms accompanied by strong winds and, in many places, gales, starting from August 10, 2017. The most difficult was the situation in northern and central Moravia and eastern Bohemia. The control center of ČEZ Distribuce, a. s., registered 1,482 faults on high-voltage (2), medium-voltage (332), and low-voltage (1,148) lines during this August disaster.
- The first round of negotiations with labor union representatives concerning draft amendment 13 to the collective agreement took place on August 24, 2017.

## September

- The third Technical Consulting Point (TCP) for clients of ČEZ Distribuce, a. s., opened in Kladno on September 1, 2017.
- Construction of a new 2x110kV Jindřichov–Drmol line started.
- Reconstruction of the 110kV Neznášov–Všestary line was completed.
- Another round of the Energy Finals took place on September 19 to 21, 2017. The Energy Finals are a three-day event for selected students from partner schools with electrical engineering and energy study programs.
- Financial support from ČEZ Distribuce, a. s., helped repair a sports field on the site of the Jedlička Institute in Liberec, with which the Company and its employees collaborate on a long-term basis.
- The Council of the Energy Regulatory Office commenced a public consultation procedure concerning a two-year extension of the 4th regulatory period and a concurrent consultation procedure concerning price regulation theses for the 5th regulatory period.

## October

- Windstorm Xavier on October 5 and 6, 2017, resulted in dozens of faults on medium-voltage and low-voltage lines in the distribution system of ČEZ Distribuce, a. s., mainly in the Ústí and Liberec Regions, in central Bohemia, and in the area of Hradec Králové and Pardubice. For two-thirds of customers affected by a loss of power due to strong winds and heavy rains, faults were repaired and electricity supplies were restored already in the evening and over the night; most of the remaining faults were repaired the next day.
- Construction of a 110kV Hlinsko–Polička overhead line started.
- Construction work started on an extension to the 110kV TR Neratovice switchyard.
- Insulation and wire replacement was completed on line 314, Tuchlovice–Výškov.
- Presentations and award ceremonies under the 2nd annual Prokop Diviš Program were held at ten selected secondary schools starting from October 2017. Regional representatives of ČEZ Distribuce, a. s., informed students about program criteria and school projects in collaboration with ČEZ Distribuce, a. s. The program is for the 2017/2018 school year; results and winners (students with the highest score) will be announced in late May or early June 2018.

## November

- Representatives of ČEZ Distribuce, a. s., met with a delegation of experts from leading Japanese energy companies and institutions, headed by the Federation of Electric Power Companies of Japan, for the second time in Prague. They discussed selected aspects of the integration of decentralized generation into the distribution system and its management, planned integration of smart technologies, and construction of smart areas.
- Reconstruction of the 110kV Bohemia Center–Český Brod and Český Brod–Pečky lines was completed.

## December

- Modifications to line 5640 were completed, providing a supply line for a new 110/22kV substation necessitated by insufficient transformation capacity at Fifejdy.
- Complete reconstruction of 31 km of the 110kV Tuněchody–Hlinsko line was finished.
- The construction of a RC double unit was completed in the 110kV switchyard of the Výškov transformer station, which was undertaken in order to provide a permanent 183Hz signal in the North area on the basis of prepared propagation studies and the medium-term ripple control development strategy.
- The tenth traditional Christmas meeting was held between clients of the Jedlička Institute in Liberec and employees of ČEZ Distribuce, a. s. Since the meetings started with a Time for a Good Cause volunteering day in 2008, employees of ČEZ Distribuce, a. s., have visited the Institute every year, bringing presents for all people that stay there over Christmas.
- At its meeting held on December 14, 2017, the Board of Directors of ČEZ Distribuce, a. s., debated a letter of resignation from the position of a member and vice-chairman of the Board of Directors received from Mr. Vladimír Budinský and, at his proposal, approved the termination of his position of a vice-chairman and member of the Board of Directors with effect from December 31, 2017.
- Two changes to the Company's bylaws were approved by a decision of the sole shareholder of ČEZ Distribuce, a. s., exercising the powers of the shareholders' meeting:
  1. Addition of the following items to the Company's purpose in Article 5 of the bylaws:
    - Assembly, repair, inspection, and testing of pressure equipment and gas cylinders
    - Assembly, repair, inspection, and testing of gas appliances and filling of gas cylinders
    - Assembly, repair, inspection, and testing of hoisting equipment
  2. Change to the Bylaws of ČEZ Distribuce, a. s., consisting in the implementation of Section 448 of Act No. 90/2012 Sb., on business corporations, as amended with effect from February 1, 2017, concerning the election of members of the Supervisory Board from among employees.

## Key Events of 2018 Until the Annual Report Closing Date

### January

- The merger by acquisition between ČEZ Distribuce, a. s., and ČEZ Distribuční služby, s.r.o., came into effect on January 1, 2018. All assets of the acquired company ČEZ Distribuční služby, s.r.o., were transferred to the acquiring company ČEZ Distribuce, a. s., in the merger.
- The transformation consisting in division by spin-off and merger between ČEZ Distribuce, a. s., and ČEZ Korporátní služby, s.r.o., came into effect on January 1, 2018. Spun-off assets consisting of a portion of a vehicle fleet were transferred to the acquiring company ČEZ Distribuce, a. s.
- On January 11, 2018, agreement between the parties was reached on Amendment No. 13 to the Collective Agreement of ČEZ Distribuce, a. s.
- Strong winds caused dozens of faults on medium-voltage lines and dozens on low-voltage lines on January 18 and 19, 2018. The biggest problems occurred in the Karlovy Vary and Pilsen Regions (the areas of Sokolov, Tachov, and Karlovy Vary) but also in northern Moravia (the area of Karviná and in Frýdek-Místek) and in the Hradec Králové Region (the areas of Trutnov and Hradec Králové).

### February

- Construction of a new medium voltage line from the Šumperk substation towards Dolní Studénka was completed in connection with a planned extension to the Šumperk industrial park.
- Construction work started at the Mošnov transformer station—extension of the 110kV switchyard and modifications in the 22kV switchyard in order to allow further development of the adjacent industrial park.
- Unit heads met with employees from the Grid Renovation unit in the Central Bohemia, Western Bohemia, Northern Bohemia, and Liberec Regions.
- Ms. Daniela Havlová from the Meter Reading/West Region unit received an award for an exceptional humane act from the Company management; when carrying out regular meter reading in Havlíčkova Street in Pilsen, she saved the life of an elderly woman, who had lost consciousness.

### March

- An Executive Meeting of EDSO for Smart Grids, which ČEZ Distribuce, a. s., is a member of, was held in Prague on March 6 and 7, 2018. The Executive Committee comprises the key members of the organization and makes strategic plans, formulates a vision, and defines medium-term and long-term priorities for individual EDSO for Smart Grids committees. The organization has a total of three committees (project committee, technology committee, and policy committee), which address individual topics at thematic meetings and through collaboration on projects cofinanced by the European Commission.
- The service area of ČEZ Distribuce, a. s., was hit by heavy wind gusts on March 17 and 18, 2018, resulting in dozens of faults on medium-voltage and low-voltage lines and cutting the power to more than 12,000 service points. The windstorm caused the most damage in Moravia (in Olomouc and Přerov) and eastern Bohemia (in Rychnov nad Kněžnou and Náchod).
- A team comprising specialists from the Strategic Recruitment unit and experts from ČEZ Distribuce, a. s., visited a partner secondary and post-secondary school in Chomutov, where it presented job opportunities to final-year students in the power electrician and electrical engineering programs.

# Governance Bodies

In accordance with applicable legislation and the bylaws of ČEZ Distribuce, a. s., the shareholders' 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 bylaws, the shareholders' 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 bylaws.



## Members of the Supervisory Board as at the Date of Issue of the Annual Report

### Tomáš Pleskač (born 1966)

**Chairman of the Supervisory Board since May 10, 2017**  
**Member of the Supervisory Board since January 2, 2017**

A graduate of the Faculty of Business and Economics, University of Agriculture (today Mendel University) in Brno; MBA from Prague International Business School.

He is currently in charge of the Renewable Energy and Distribution Division of ČEZ, a. s.

He is a Vice-Chairman of the Board of Directors of ČEZ, a. s.; Chairman of the Supervisory Board of ČEZ OZ uzavřený investiční fond a.s.; Vice-Chairman of the Supervisory Board of ČEZ Obnovitelné zdroje, s.r.o.; Chairman of the Supervisory Board of Inven Capital, SICAV, a.s.; Vice-Chairman of the Board of Directors of Akenerji Elektrik Üretim A.S. (Turkey); Vice-Chairman of the Board of Directors of Akcez Enerji A.S. (Turkey); Chairman of the Supervisory Board of Distribuție Energie Oltenia S.A. (Romania); Vice-Chairman of the Supervisory Board of CEZ Romania S.A. (Romania); Chairman of the Supervisory Board of CEZ Polska sp. z o.o. (Poland).

### Michaela Chaloupková (born 1975)

**Vice-Chairwoman of the Supervisory Board since May 10, 2017**  
**Member of the Supervisory Board since April 1, 2017**

A graduate of the Faculty of Law, University of West Bohemia, Pilsen, and an Executive Master of Business Administration (MBA) program at the KATZ School of Business, University of Pittsburgh, specializing in the energy sector.

She is currently in charge of the Administration Division of ČEZ, a. s. She is a member of the Board of Directors of ČEZ, a. s. She is a member of the Supervisory Board of the ČEZ Foundation and member of the Board of Trustees of Odyssey, z.s.

**Vladimír Říha (born 1962)**

**Member of the Supervisory Board since March 1, 2016**

A graduate of the College of Electrical Engineering in Wiesbaden, Germany.

He currently holds the position of Director of Ownership Interest Administration at ČEZ, a. s.

He is a Vice-Chairman of the Supervisory Board of Elektrárna Dukovany II, a. s.; Vice-Chairman of the Supervisory Board of Elektrárna Temelín II, a. s.; Chairman of the Supervisory Board of CEZ Bulgaria EAD (Bulgaria); Chairman of the Supervisory Board of CEZ Romania S.A. (Romania); member of the Supervisory Board of Distribuție Energie Oltenia S.A. (Romania); member of the Supervisory Board of Eco-Wind Construction S.A. (Poland); as well as Managing Director at CEZ Windparks Luv GmbH, CEZ Windparks Lee GmbH, CEZ Windparks Nordwind GmbH (Germany) and member of the Advisory Board of Elevion GmbH (Germany).

**Martin Zmelík (born 1975)**

**Member of the Supervisory Board since November 1, 2016**

A graduate of the Faculty of Business Administration, University of Economics, Prague; MBA from U.S. Business School Prague (Rochester Institute of Technology).

He currently holds the position of Country Manager at an international acquisition in Romania.

**Karel Čech (born 1958)**

**Member of the Supervisory Board elected from candidates elected by employees since February 1, 2017**

A graduate of an industrial school of electrical engineering.

He works as Head of MV/LV Construction in the Grid Renovation unit of ČEZ Distribuce, a. s.

**Václav Rašner (born 1966)**

**Member of the Supervisory Board elected from candidates elected by employees since February 1, 2017**

A graduate of a power engineering program at the Technical University of Ostrava.

He works as a Technical Support Specialist in the Grid Renovation unit of ČEZ Distribuce, a. s.

**List of Members of the Supervisory Board Whose Membership Terminated in 2017 or Before the Annual Report Closing Date**

**Ivo Hlaváč (born 1976)**

Chairman of the Supervisory Board from May 28, 2014, to February 28, 2017

Member of the Supervisory Board from March 1, 2014, to February 28, 2017

**Irena Klůsová (born 1953)**

Member of the Supervisory Board (elected by employees) from January 1, 2012, to January 1, 2017

## 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 shareholders' meeting. The powers of the Board of Directors are defined by the Company's bylaws approved by the shareholders' 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 bylaws. 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 seven members; members elect and remove their chairperson and vice-chairperson. Pursuant to law and the Company's bylaws, the Supervisory Board is notified of selected matters or asked for an opinion or prior authorization of the Board of Directors' decision.

### Members of the Board of Directors as at the Date of Issue of the Annual Report

#### Richard Vidlička (born 1966)

**Chairman of the Board of Directors since October 2, 2015**

A graduate of the Faculty of Commerce, 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), Vice-Chairman of Eurelectric's DSO Committee, and member of the Board of Trustees of the Czech Association of Regulated Power Supply Companies (CARPSC).

#### Radim Černý (born 1974)

**Member of the Board of Directors since June 1, 2012**

A graduate of the Faculty of Electrical Engineering, University of West Bohemia, Pilsen.

He is a member of the Board of Trustees of the Czech Association of Regulated Power Supply Companies (CARPSC).

#### Jiří Kudrnáč (born 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 (born 1978)

**Member of the Board of Directors since April 1, 2015**

A graduate of a bachelor's program of the Faculty of Informatics and Statistics, University of Economics, Prague.

#### Pavel Šolc (born 1962)

**Member of the Board of Directors since April 1, 2016**

A graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague.

#### Karel Kohout (born 1953)

**Member of the Board of Directors since March 1, 2017**

A graduate of a master's program and the Electricity Transmission and Distribution postgraduate program at the College of Mechanical and Electrical Engineering in Pilsen (today University of West Bohemia in Pilsen).

### Members of the Board of Directors Whose Term of Office Terminated in 2017 or Before the Annual Report Closing Date

#### Vladimír Budinský (born 1959)

Vice-Chairman of the Board of Directors from October 1, 2015, to December 31, 2017

### 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 shareholders' 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 shareholders' 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 shareholders' meeting, as is the evaluation of their fulfillment, 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 in 2017.

Richard Vidlička  
Chairman of the Board of Directors



Radim Černý  
Member of the Board of Directors

Jiří Kudrnáč  
Member of the Board of Directors



Pavel Šolc  
Member of the Board of Directors

Tomáš Murtinger  
Member of the Board of Directors



Karel Kohout  
Member of the Board of Directors



ČEZ Distribuce continued cooperating with secondary schools, colleges, and universities in 2017. One of its programs encouraging technical education is the Prokop Diviš Incentive Program, which is targeted at electrical program students from selected secondary schools. We motivate them for better academic performance, for participation in specialized competitions, and for other extracurricular activities. After taking part in them, the students have an advantage when applying for a job with our Company.

The Program's criteria include, for example, good grades, class activity, and participation in programs and projects organized by CEZ Group.



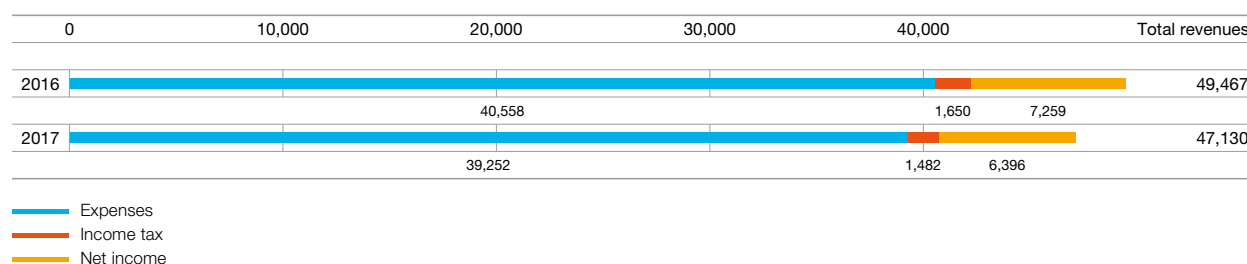
# Report on Operations

## 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 effective 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 providing electricity distribution system services to individuals and legal entities.

### Revenues, Expenses, and Income

#### Income Structure (CZK Millions)



The Company's 2017 income before taxes was CZK 7,878 million. Its net income of CZK 6,396 million decreased by CZK 863 million compared to 2016.

Operating income was CZK 8,100 million, which is CZK 1,064 million less than in 2016, primarily due to a decrease of CZK 880 million in gross margin on electricity distribution.

Financing activities generated a loss of CZK 222 million due to interest on borrowings; the loss decreased by CZK 33 million compared to 2016.

Total expenses without income tax were CZK 39,252 million in 2017. 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 23,611 million, followed by expenses on other production-related consumption of CZK 5,898 million, depreciation and amortization of fixed assets amounting to CZK 7,004 million, personnel expenses of CZK 2,290 million, other expenses arising from operating activities of CZK 165 million, and financial expenses of CZK 283 million.

Total 2017 revenues amounted to CZK 47,130 million and consisted of revenues from distribution system services amounting to CZK 45,627 million, other revenues of an operating nature amounting to CZK 1,442 million, and financial revenue amounting to CZK 61 million.

### Asset and Capital Structure

#### Total Assets

Total assets amounted to CZK 140,223 million, decreasing by CZK 1,057 million against 2016.

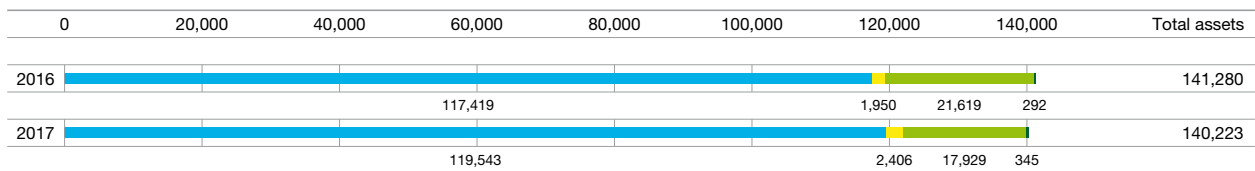
Fixed assets amounted to CZK 121,949 million, increasing by CZK 2,580 million compared to 2016. The most significant item was structures amounting to CZK 91,980 million, followed by tangible movable assets and sets thereof amounting to CZK 26,366 million, tangible fixed assets in progress amounting to CZK 2,248 million, land amounting to CZK 905 million, and intangible fixed assets amounting to CZK 302 million.



Current assets decreased by CZK 3,630 million year-on-year in 2017, amounting to CZK 18,248 million. The highest amounts were contingencies amounting to CZK 10,543 million, which represents mostly unbilled deliveries of services relating to electricity distribution, short-term receivables from Group companies within Group cash pooling amounting to CZK 5,295 million, short-term trade receivables amounting to CZK 1,339 million, short-term advances paid amounting to CZK 587 million, and materials amounting to CZK 255 million.

Accruals amounted to CZK 26 million, decreasing by CZK 7 million against 2016.

**Structure of Assets (CZK Millions)**



- Property, plant, and equipment and intangibles in use
- Fixed tangible and intangible assets in progress + advances paid
- Short-term receivables
- Other current assets + other assets

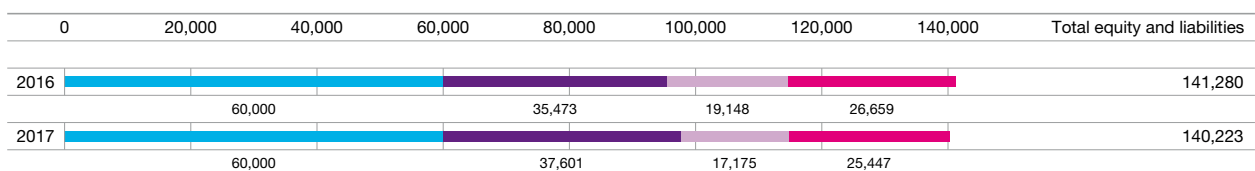
**Equity and Liabilities**

Equity amounted to CZK 97,601 million, increasing by CZK 2,128 million compared to 2016. The largest items of equity were the stated capital registered in the Commercial Register amounting to CZK 60,000 million, provisions amounting to CZK 12,000 million, retained earnings amounting to CZK 19,203 million, and the current period's profit of CZK 6,396 million.

Provisions and liabilities amounted to CZK 34,874 million, decreasing by CZK 3,186 million year-on-year. The largest amounts were deferred taxes amounting to CZK 11,383 million, short-term received advances amounting to CZK 10,674 million, long-term liabilities to Group companies amounting to CZK 5,581 million, contingent liabilities amounting to CZK 2,652 million, short-term trade payables amounting to CZK 1,899 million, and short-term liabilities to Group companies amounting to CZK 1,332 million.

Other liabilities, consisting primarily of deferred revenue from connection applicants' contributions, amounted to CZK 7,749 million, increasing by CZK 2 million over the previous period.

**Structure of Equity and Liabilities (CZK Millions)**

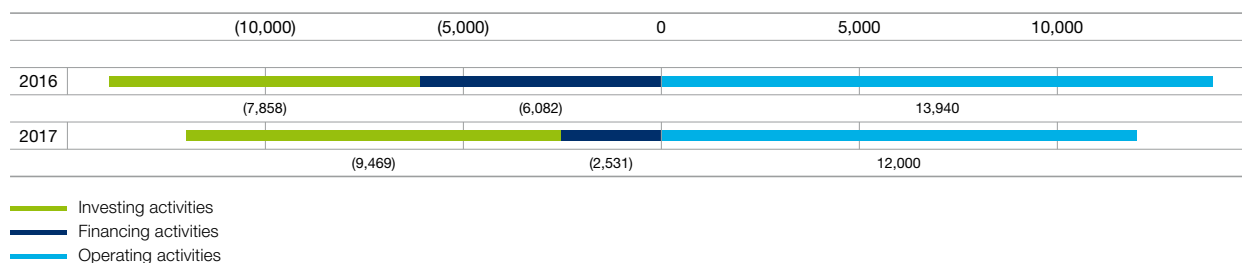


- Stated capital
- Additional paid-in capital + funds from net profit + retained earnings + current year's profit
- Current liabilities
- Provisions + long-term liabilities + bank loans and short-term notes + other liabilities

## Company Financing

### Cash Flows

#### Cash Flow Summary (CZK Millions)



Cash from operating activities, amounting to CZK 12,000 million, was generated by the following:

Profit on ordinary activities before taxes	CZK 7,878 million
Corporate income tax paid	(CZK 1,742 million)
Depreciation and amortization of fixed assets, write-offs	CZK 7,004 million
Changes in working capital	(CZK 541 million)
Other operating activities	(CZK 599 million)

Cash used in investing activities totaled CZK 9,469 million, with expenditure on purchases of fixed assets of CZK 9,479 million accounting for the greatest part thereof.

Cash used in financing activities totaled CZK 2,531 million; the amount included the payment of dividends amounting to CZK 4,269 million, change in cash under Group cash pooling of CZK -2,813 million, and change in the balance of loans of CZK 1,075 million.

### Borrowings and Their Maturity

The Company had loans amounting to CZK 6,914 million as at December 31, 2017. Of that amount, the long-term portion of loans amounted to CZK 5,581 million and the current portion amounted to CZK 1,332 million.

The loans mature on June 7, 2022, and December 31, 2025, and were provided to finance renovation and development of the distribution system at the MV and LV levels and for refinancing.

#### Key Financial Indicators

	Unit	2016	2017
Return on equity, net (ROE Net)	%	7.71	6.63
Return on assets, net (ROA Net)	%	5.18	4.54
EBIT margin	%	18.55	17.21
Financial debt to equity	%	8.49	7.16
Net debt to EBITDA	%	70.26	86.08
Current ratio	%	81.47	73.32
Operating cash flow to debt	%	76.24	70.74
Asset turnover	1	0.35	0.33
Fixed asset coverage	%	95.30	93.95
Depreciation-to-fixed assets ratio	%	54.65	54.98

# Economic and Financial Outlook for 2018

## E

The year 2018 is the third year of the fourth 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 2018 and on prices stipulated by the Energy Regulatory Office for 2018, 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 system renovation and development and revenue for shareholders.

The Company's plan for 2018 anticipates revenues from sales of own products and services amounting to CZK 47,312 million, income before taxes of CZK 8,728 million, and capital expenditure of CZK 10,751 million.

# Capital Expenditure

## Principal Goals of Capital Construction

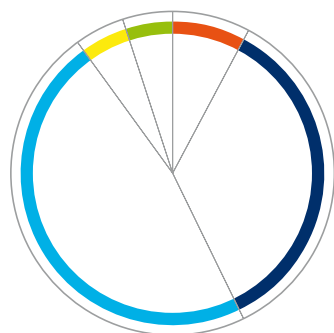
The Company invested CZK 9,593 million in distribution system renovation and development in 2017. Main capital construction activities focused on renovating and developing the distribution system infrastructure with the aim of improving the quality of supplies and the reliability and safety of distribution system operation and ensuring sufficient distribution system capacity to be able to meet demand for new customer connections. In the field of new technologies, the year 2017 was characterized by the continued preparation and partial execution of projects for metering at distribution substations, the implementation of another round of installation of remote-controlled elements in medium-voltage grids, and the execution of a pilot project for the installation of a fiber-optic line on a medium-voltage power line. Additional phases of all new technology projects will be implemented in 2018. All construction projects were prepared and undertaken in compliance with applicable law and current rules for the operation of distribution systems.

## Capital Expenditure in 2016 and 2017, Plan for 2018

### Capital Expenditure (CZK Millions)

	2016	2017	Plan for 2018
HV structures	768	771	1,075
MV structures	2,503	3,325	3,476
LV structures	3,885	4,527	4,620
Electricity meters	376	440	528
Ancillary investments	414	530	1,052
<b>Total</b>	<b>7,946</b>	<b>9,593</b>	<b>10,751</b>

### Capital Expenditure in 2017



	%
HV structures	8
MV structures	35
LV structures	47
Electricity meters	5
Ancillary investments	5
<b>Total</b>	<b>100</b>

## Investments in the Distribution System

Investment activities in 2017 were principally focused on MV and LV structures. CZK 7,852 million was invested in such equipment in 2017. Most of the projects involved reconstructing and renovating underground and overhead lines, as well as constructing the MV parts of HV/MV transformer stations and MV/MV switching stations.

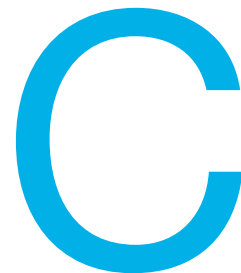
Investments in HV structures amounted to CZK 771 million. Most of the projects concerned reconstructing and constructing new HV/MV transformer stations and HV overhead lines.

CZK 970 million was invested in activities supporting main distribution processes, in particular the enhancement of operating and control systems and purchases of electricity meters.

Investments in projects initiated at customers' request totaled CZK 2,157 million.

### Major Projects

- Fifejdy—new 110/22kV transformer station
- Lichoceves—new 110/22kV transformer station
- Kostelec (Ostrov u Stříbra)—new 110/22kV transformer station
- Pilsen—new 110kV substation
- Verněřov—TR inlets for ČEPS's new transformer 401
- Liberec-Pavlovice—new 110/35kV and 110/22kV transformer station
- Náchod—reconstruction of 110kV substation
- Staré Místo—reconstruction of 110/35kV substation
- Tuněchody–Hlinsko HV overhead line, reconstruction of lines 1141–42
- Výškov–Most South HV overhead line—capacity enhancement



# Information on the Company's Core Business

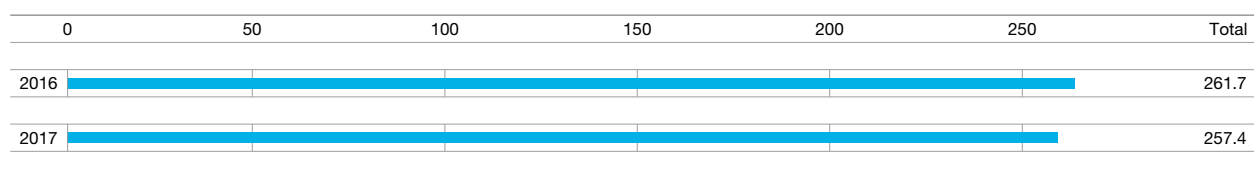


The Company's core business is providing electricity distribution services to individuals and legal entities.

The Company manages distribution system assets and controls the operation of the distribution system from its control center. In 2017, the distribution system was operated and maintained in line with quality standards and requirements defined in the Preventive Maintenance Regulations. The continuous operation of the distribution system during the year was negatively affected by eight massive failures (including two disasters) caused by severe weather, during which there were 8,700 emergency interruptions of electricity distribution with impacts on customers that lasted more than three minutes. Besides those interruptions, there were other unplanned interruptions that lasted more than three minutes and affected at least one customer: 45 interruptions at the HV level, 6,094 interruptions at the MV level, and 23,997 interruptions at the LV level. In addition, 7,759 damaged fuses were replaced in customers' main fuse boxes or feeder boxes.

The Company monitors and evaluates indicators concerning the quality and reliability of electricity supply and distribution and the quality of provided services. 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 system during the year. Exemptions are interruptions due to severe weather and planned interruptions that were not initiated by the distribution system operator and were acknowledged by the Energy Regulatory Office based on an approved application, which are excluded from the value.

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



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

**Distribution System Infrastructure**

	Unit	2016	2017
Installed line length	km	163,680	164,264
Of which: HV	km	9,853	9,845
MV	km	50,658	50,698
LV	km	103,169	103,721
MV/LV transformer stations	Number	58,574	58,865
Of which: Owned by the Company	Number	45,724	46,025
Owned by a third party	Number	12,850	12,840
HV/HV, HV/MV, MV/MV transformer stations	Number	283	283

The Company's distribution system distributed 45,573 GWh of electricity in 2017.

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

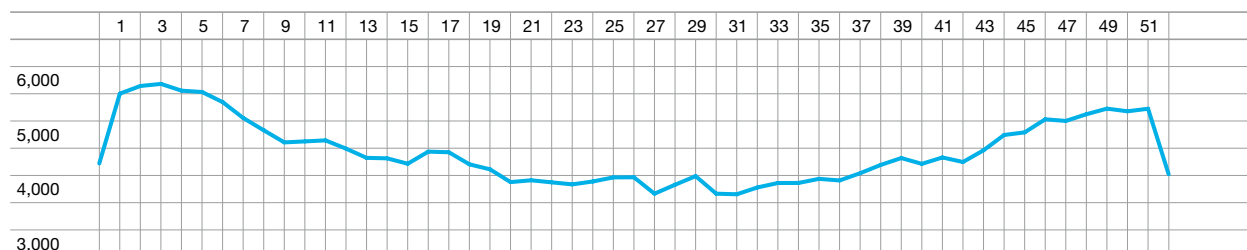
	2016	2017
<b>System inflow</b>		
Supplied from transmission service providers' grids	24,758	25,827
Supplied from facilities owned by ČEZ, a. s.	6,661	3,634
Supplied from neighboring distribution service providers	1,020	1,132
Supplied from facilities owned by other producers, including autoproducers	9,159	11,583
Supplied from other facilities	34	118
Imports (from abroad) at distribution service level	89	184
Distribution license holders (local distribution system)	3,274	3,095
<b>Total system inflow</b>	<b>44,995</b>	<b>45,573</b>
<b>System outflow</b>		
HV/MV customers	13,112	13,532
LV customers	14,245	14,499
Consumed by producers in distribution service providers' grids	1,727	1,782
Consumed by other facilities	33	118
Supplied to neighboring distribution service providers	5,884	6,168
Supplied to transmission service providers' grids	1,577	1,058
Exports (to abroad) at distribution service level	389	220
Distribution license holders (local distribution system)	5,866	5,992
Other consumption by distribution service providers	52	53
Losses	2,110	2,151
<b>Total system outflow</b>	<b>44,995</b>	<b>45,573</b>

Electricity inflow into the Company's distribution system was 45,573 GWh in 2017. This was an increase of 1.28%, that is, 578 GWh, over 2016. The greatest percentage, 56.67%, was electricity inflow from the transmission service provider's grid, which was 25,827 GWh. This was an increase of 1,069 GWh compared to 2016. The amount of electricity procured directly from the facilities of ČEZ, a. s., was 3,634 GWh, which was 3,027 GWh less than in 2016. Supplies from neighboring distribution service providers increased by 112 GWh year-on-year; supplies from facilities owned by other producers, including autoproducers, increased by 2,424 GWh. The amount of electricity from other facilities increased by 84 GWh. Imports from abroad increased by 95 GWh; supplies from local distribution systems decreased by 179 GWh.

The amount of electricity distributed to HV and MV customers increased by 420 GWh year-on-year; electricity distributed to customers at those voltage levels accounted for 29.69% of total supplies. The amount of electricity distributed at LV level increased by 254 GWh, accounting for 31.81% of total supplies. Producers' consumption and other facilities' consumption increased by 55 GWh and 85 GWh, respectively, compared to 2016. Supplies to neighboring distribution service providers increased by 284 GWh year-on-year; their share in the total amount of electricity distributed was 13.53%. The amount supplied back to the transmission service provider's grid decreased by 519 GWh. Exports to abroad amounted to 220 GWh, decreasing by 169 GWh year-on-year. Supplies to local distribution systems increased by 126 GWh year-on-year. Other consumption increased by 1 GWh; losses increased by 41 GWh.

The highest hourly peak was 6,178 MW, achieved on January 19, 2017, at 6 p.m.

#### Weekly Peaks (MW)



ČEZ Distribuce, a. s., sells its electricity distribution services to customers through electricity traders or by direct sales. In 2017, ČEZ Distribuce, a. s., had a framework contract with 110 active traders.

#### Number of Service Points

	2016	2017
HV, MV—large end-use customers	14,860	14,892
LV—commercial retail	436,797	435,844
LV—residential retail	3,174,319	3,198,753
<b>Total</b>	<b>3,625,976</b>	<b>3,649,489</b>

Around 21,000 new service points were connected in 2017. Additionally, 906 new generating facilities with a total installed capacity of 44 MW were connected in 2017. CZK 719 million was collected from customers in contributions towards connection and capacity increases pursuant to Decree No. 16/2016 Sb., on conditions for connection to the electricity system, and CZK 2,016 million was expended on fulfilling the requests in 2017.

#### New Connections, Increased Capacity

Voltage Level	Expenditure on the Distribution System (CZK millions)	Contributions Collected (CZK millions)	Connected or Increased (MW)
HV	35	7	35
MV	176	200	252
LV	1,805	512	567
<b>Total</b>	<b>2,016</b>	<b>719</b>	<b>854</b>



New technologies are a must in the operation of a modern distribution network. They facilitate decentralized control and help improve the quality and reliability of supplies and decrease grid losses. ČEZ Distribuce runs pilot projects to verify technologies and functions that it did not use before. Their results are important for the efficient and reliable deployment of new elements in the distribution network on a larger scale in the future.

N

# 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 excellent results in this area were significantly helped by a certified OSH management system, implemented in line with the “Safe Enterprise” program. The Company was successfully recertified for three years in 2015. During the recertification, the OSH management system in place was reviewed for compliance with the “Safe Enterprise” program established by the State Labor Inspection Office.

Nine time-loss injuries with a total of 666 days off work occurred at ČEZ Distribuce, a. s., in 2017. Unfortunately, one was an employee's fatal road accident. The Czech Police's investigation did not determine the cause of the accident. Based on the Czech Police's investigation and an internal investigation, it can be confirmed that the fatal occupational accident is not attributable to the Company's fault. All of the injuries were duly investigated and compensated for.

## Fire Prevention

Fire protection focused on the continuous creation of conditions for safe distribution system operation, the protection of employees and assets, continuous fire prevention, and preparations for recertification under the “Safe Enterprise” program in 2018. The system of fire protection management and performance was supported by inspection and audit activities according to approved annual plans. Activities ensuring fire prevention included updates to fire protection documents, staff training, and special training. No fire causing damage in excess of CZK 1 million occurred at the Company in the period concerned. Since fire protection requires systematic management, work on the creation of new control and record-keeping software was underway.

## Environmental Protection

In compliance with applicable law, ČEZ Distribuce, a. s., has always been committed to creating the conditions for effective protection of the environment and related compartments. Specialized Company employees in charge of environmental care paid active attention to all environmental compartments, especially waste and water management, incident prevention, and last but not least avian protection.

A total of 78 sites with old environmental burdens were identified within the service area of ČEZ Distribuce. Some of the burdens were already removed in the past years and preparations for the remedial process are underway for others. As of 2017, the environmental burdens had been removed in compliance with legal requirements and the Czech Environmental Inspectorate's opinions at 48 sites. Monitoring, additional surveying, or burden documentation updating are taking place at the remaining 30 sites.

Protecting birds against electrical accidents is a very pressing matter in nature conservation. It is ČEZ Distribuce's statutory obligation to secure all MV overhead lines against bird injuries by 2024. To meet the obligation, the Company launched a strategic project for Perch Guard Installation on MV Line Supports and is actively involved in the creation of the Ministry of the Environment's guidance document aiming to introduce a uniform system to address this issue. No increase in bird injuries caused by electrocution or collision with overhead lines was registered during 2017.

Adopted measures resulted in a continuing downward trend in the number of environmental disasters caused by the theft of insulating liquids from MV distribution transformers in 2017, which ultimately meant reduced cost of clean-up. A successful EMS recertification audit took place in November 2017, confirming the implementation of an environmental protection system in compliance with the requirements of ČSN EN ISO 14001 and extending the validity of the certificate obtained in December 2014 for another period until 2020. In October 2016, the Company obtained a certificate for its energy management system (EnMS) in the operation of the technical and nontechnical equipment of its distribution system in accordance with the requirements of ČSN EN ISO 50001. An external surveillance audit took place in November 2017, confirming compliance with the requirements.

# Shares and Shareholders



The total amount of the stated capital of ČEZ Distribuce, a. s., as registered in the Companies Register at the closing date of the Annual Report, is CZK 60,000 million. The Company's sole shareholder is ČEZ, a. s. ([www.cez.cz](http://www.cez.cz)), having its registered office at Prague 4, Duhová 2/1444, postcode 140 53, company registration number 452 74 649, holding a 100% stake in the stated capital of ČEZ Distribuce, a. s.

## Types and Volumes of Issued Stock

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

# Human Resources

## Employment Changes

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 2017

	Number of employees
New hires	333
Exits	160

The workforce headcount as at December 31, 2017, was 2,807 employees.

## Education and Training

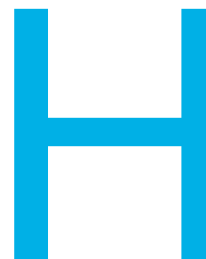
ČEZ Distribuce, a. s., places high demands on staff expertise and other qualification requirements. In addition to encouraging the enhancement of its employees' expertise, the Company focused on developing soft skills in 2017, specifically on enhancing communication skills and a pro-client approach. Training programs in 2017 were based on individual units' needs and were customized in order to achieve the required targets. Additionally, workshops focusing on the development of managerial skills and employee performance appraisal took place in 2017. ČEZ Distribuce, a. s., further supported already established and successful programs for internal and intercompany mentoring. ČEZ Distribuce, a. s., allocated funds amounting to CZK 12 million to employee development in 2017.

## Social Policy

Under its social policy, the Company provides its employees with monetary and nonmonetary benefits. Nonmonetary 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 153.4 million. The employer made contributions especially to pension and life insurance plans, personal accounts, 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 vouchers.

## Relations with Labor Unions

There were a total of 31 local labor organizations operating at ČEZ Distribuce, a. s., in 2017. The percentage of union members among all company employees was 47%. Collective bargaining on an amendment to the effective collective agreement took place in 2017, concerning mainly wages, salaries, and benefits. The collective bargaining culminated in the signing of Amendment 13 to the collective agreement. There were a total of 23 regular meetings held between the employer and labor union representatives in 2017, 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



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. It put up 44 topics for master's and bachelor's theses for students from schools with electrical engineering programs in 2017, focusing on a range of topics connected with electricity generation and distribution. In research and development, the Company collaborated on the preparation of studies and analyses and provided consultation for putting prepared proposals into practice together 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; Czech Technical University in Prague; and Brno University of Technology.

A significant activity of ČEZ Distribuce, a. s., is participation in a project for Resilient Critical Information Infrastructure in the Energy Sector, on which it collaborates with Masaryk University in Brno. The project concerns the resilience of critical information infrastructures in the energy sector (primarily in distribution systems), which globally face a marked increase in cyber risks due to transition to smart grids. The research project is divided into two interconnected subprograms, with one aiming to advance research on the architectures and models of critical information infrastructures in order to enhance reliability and resilience, and the other focusing specifically on security, processes, and compliance.

In addition to these activities, the Company focused on the practical application of proposals made in studies in the past years. This concerned, in particular, the following studies and analyses and pilot projects implementing new technologies in medium- and low-voltage grids:

- Pilot projects implementing new technologies:
  - The InterFlex project was started in 2017 (for more information, visit <http://www.enedis.fr/interflex-0>), focusing on the testing of functionalities that are not yet standard in distribution systems. The main goal of the project is to enhance capabilities for connecting decentralized generating facilities and streamline the integration of electric vehicle charging stations into the distribution system. It focuses on the integration of PV power plants with advanced autonomous functions for active and reactive power regulation, reactive power regulation at generating facilities connected at the MV level, on the development and deployment of smart charging stations for electric vehicles, and on the integration of PV installations combined with accumulation on the customer side. The project will involve the commissioning of two charging stations, in which different operating modes will subsequently be tested to verify the effect of fast electric vehicle charging on possible deterioration in some electricity quality parameters. In addition, voltage stabilization methods will be tested at selected points in MV and LV distribution networks with a high share of RES and distributed generation. The goal is to assess the effect and impacts of a high share of distributed generation on voltage quality in MV and LV grids.
  - Implementation and practical testing of BPL communication on a 22kV cable line.
  - Installation and testing of second-generation fault detectors for MV insulated conductors under a pilot project on selected 22kV and 35kV lines.
- Gathering basic data and setting up a method for the calculation of the reliability of individual distribution system elements (element reliability).
- Testing facilities with controllers for the management/utilization of excessive renewable generation, which, according to current experience, often causes deterioration of certain electricity quality parameters.

# Donorship and Sponsorship Program

## Donorship

ČEZ Distribuce, a. s., contributed a total of CZK 75 million to projects undertaken by the ČEZ Foundation ([www.nadacecez.cz](http://www.nadacecez.cz)) in 2017. The ČEZ 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., totaled CZK 4.5 million in 2017. The amount was divided among nine selected projects, which provided support to the health service and prevention sector, education, improvement in social care, and the revitalization of several urban parks and playgrounds. The Company contributed CZK 2.7 million to the CEZ GROUP SENIORS Endowment Fund in 2017.



# Developments in the Legislative Framework for the Energy Sector

The basis of the legislative framework for electricity distribution consists of the following regulations, as amended (for more information, visit <http://www.cezdistribuce.cz/cs/energeticka-legislativa.html>):

- Act No. 458/2000 Sb., on the conditions for doing business and exercising state administration in energy industries and on amendments to some acts (Energy Act)
- Act No. 165/2012 Sb., on promoted energy sources and on amendments to some acts (Promoted Sources Act)
- Act No. 406/2000 Sb., on energy management
- Act No. 194/2017 Sb., on measures to reduce the cost of deploying high-speed electronic communications networks and on amendment to certain related acts
- Decree No. 408/2015 Sb., on electricity market rules
- Decree No. 194/2015 Sb., on the method of price regulation and procedures for price regulation in the electricity and heat sectors
- Decree No. 262/2015 Sb., on regulatory reporting
- Decree No. 540/2005 Sb., on the quality of electricity supplies and related services in the electricity sector
- Decree No. 16/2016 Sb., on conditions for connection to the electricity system
- Decree No. 82/2011 Sb., on electricity metering and the method for determining damages in case of unauthorized consumption, unauthorized supply, unauthorized transmission, or unauthorized distribution of electricity

New Act No. 194/2017 Sb., on measures to reduce the cost of deploying high-speed electronic communications networks and on amendment to certain related acts, has been in effect since July 1, 2017. The act is based on Directive 2014/61/EU of the European Parliament and of the Council of May 15, 2014, on measures to reduce the cost of deploying high-speed electronic communications networks. The directive and the act aim to encourage the rollout of high-speed electronic communications networks by promoting the joint use of existing physical infrastructure, construction coordination, increased transparency in publishing information concerning ongoing or planned civil works, and installation of in-building physical infrastructure. The act introduces a whole range of new obligations for system operators, who are “obligated entities” under the act.



Act No. 165/2012 Sb., on promoted energy sources and on amendments to some acts, was amended in 2017. Pursuant to the amended law, reconstructed or refurbished renewable electricity generating facilities using hydropower with an installed capacity of up to 10 MW are deemed to be put into operation as at the reconstruction or refurbishment completion date. Secondary legislation implementing the above acts or amending other implementing regulations was also issued in 2017.

For Act No. 458/2000 Sb., on the conditions for doing business and exercising state administration in energy industries and on amendments to some acts (Energy Act):

- Decree No. 127/2017 Sb., amending Decree No. 408/2015 Sb., on Electricity Market Rules. The amendment aimed to clarify ambiguities and unclear interpretations concerning, in particular, supplier switches, the initiation of supplies by a supplier of last resort, the process of service point registration, as well as the exemption of first-category producers from payments for reserved capacity.
- Decree No. 50/2017 Sb., amending Decree No. 262/2015 Sb., on regulatory reporting. The amendment to the decree was adopted on the basis of an effective amendment to Act No. 563/1991 Sb., on accounting, and an amendment to its implementing Decree No. 500/2002 Sb. These amendments changed the guideline chart of accounts, including the arrangement and identification of items in a statement of profit or loss. The guideline chart of accounts and the statement of profit or loss are the basis for preparing regulatory reports that companies that are subject to price regulations complete and submit to the Energy Regulatory Office. To ensure clear, comprehensible, and transparent reporting based on financial statements, the Energy Regulatory Office amended decree No. 262/2015 Sb., on regulatory reporting, and modified the regulatory reports to correspond to the modified financial statements.

- Decree No. 330/2017 Sb., amending Decree No. 401/2010 Sb., on requirements for the contents of Transmission System Operation Rules, Distribution System Operation Rules, Transmission System Operator Codes, Distribution System Operator Codes, Gas Storage Operator Codes, and market operator terms of business. The amended decree stipulates that Distribution System Operation Rules must include technical conditions for the connection of equipment allowing electricity storage and technical conditions for the connection of electric vehicle charging stations. Furthermore, the terms of business of a market operator in the electricity sector should include procedures for the initiation and termination of electricity supplies by a supplier of last resort and procedures concerning, in particular, the assessment of differences between consumption metering and consumption estimates based on load profiles and procedures for the determination of residual load curves.

The Distribution System Operation Rules were also updated in 2017 in reaction to network codes published by the European Commission and defining rules for the connection of different kinds of generators and consumers to electricity systems and in response to the amendment to Decree No. 401/2010 Sb.

Disclaimer:  
The Developments in the Legislative Framework section contains selected information concerning legislation and was drawn up with the greatest care possible. However, it cannot be regarded as qualified legal advice. ČEZ Distribuce, a. s., may not be held liable for any legal act carried out or refrained from by anyone on the basis of the provided overview.



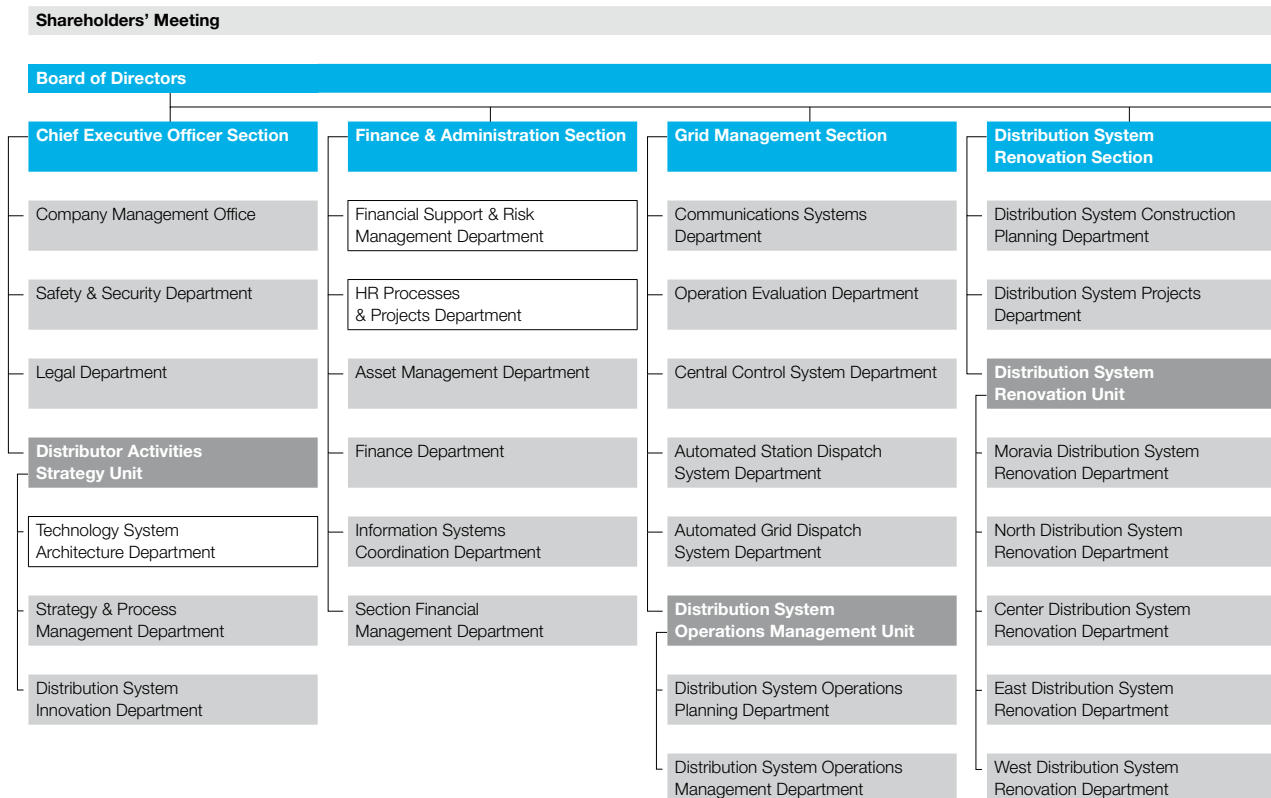


ČEZ Distribuce focused on improving its tools for online client service in 2017. Its Geoportal, which most importantly allows obtaining information on existing utility lines, was complemented with a new Distribution Portal. Clients can use it to handle most of their requests—for example, to get information about electricity consumption and scheduled outages, submit their own meter readings, or request service point connection.

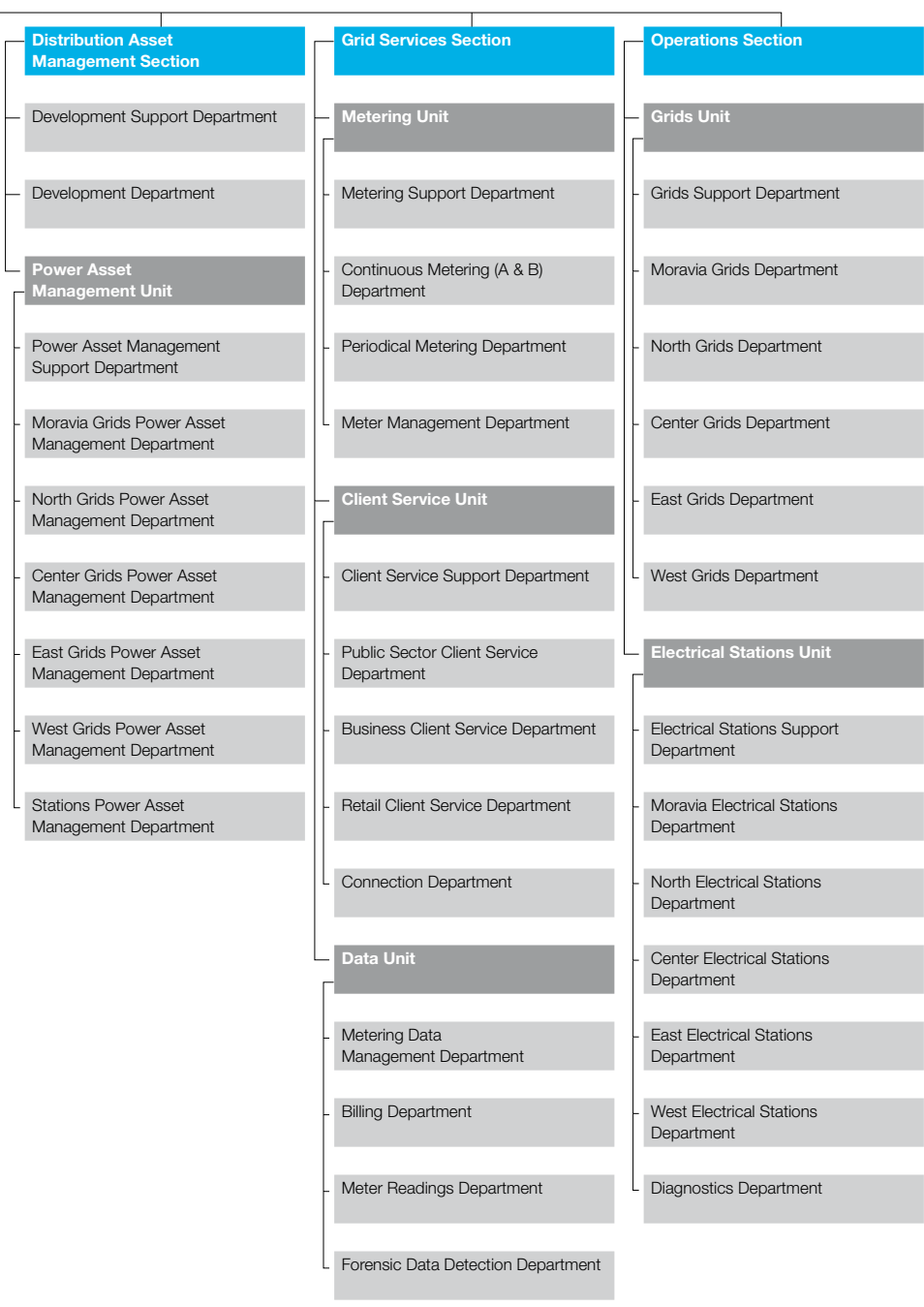
Clients that prefer personal communication over online can use our technical consulting points, which are located in Děčín and newly also in Ostrava and Kladno.

We also increased the number of our regional representatives providing individual service to municipalities.

# Basic Organization Chart of ČEZ Distribuce, a. s., as at April 1, 2018



**Supervisory Board**



# Glossary of Terms and Abbreviations



## Glossary of Terms and Abbreviations

Terms and Abbreviations	Commentary
Broadband over Powerline (BPL)	Communication over LV and MV power lines
Cash flow	Cash flow
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.
Client	An individual or a legal entity that utilizes or has expressed, in a specified manner, an interest in utilizing the services of the distribution system owned by ČEZ Distribuce, a. s.
Distribution system (DS)	An interconnected set of 110kV lines and equipment, except selected 110kV lines and equipment that are part of the transmission system, and 0.4/0.23kV, 3kV, 6kV, 10kV, 22kV, and 35kV lines and equipment that serve to distribute electricity in a defined area in Czechia, including metering, protective, control, safeguarding, information, and telecommunications systems.
DSR	Distribution segment redesign
DTS	Distribution transformer station
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 Czechia, 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
EnMS	Energy management system
ERO	Energy Regulatory Office
Framework contract	A contract entered into by a trader and a distributor when the trader has at least one customer with an integrated contract.
HV	High voltage—distribution infrastructure with phase-to-phase voltage over 52 kV
Large customers	Customers that use electricity from medium- and high-voltage grids.
LV	Low voltage—distribution infrastructure with phase-to-phase voltage of 1 kV or less
MV	Medium voltage—distribution infrastructure with phase-to-phase voltage from 1 kV to 52 kV
OSH	Occupational safety and health
PV	Photovoltaic
RC	Ripple control
Renewable energy sources (RES)	Sources of energy that are naturally replenished. This means the energy of water, geothermal heat, sunlight, and wind or energy obtained by biomass combustion.
Retail customers	The category of electricity consumption consisting of electricity customers connected to low-voltage grids (up to 1 kV). The category is subdivided into the residential and commercial retail segments.
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.
TCP	Technical consulting point
TR	Transformer station

Terms and Abbreviations	Commentary
Transmission system (TS)	An interconnected set of 400kV and 220kV lines and equipment and selected 110kV lines and equipment that serves for electricity transmission throughout Czechia and interconnection with the electricity systems of neighboring countries, including metering, protective, control, safeguarding, information, and telecommunications systems. The transmission system is built and operated in the public interest.

## List of Units and Abbreviations Used

Unit	Name
GWh	Gigawatt-hour; 1 GWh = 10 <sup>9</sup> Wh = 10 <sup>6</sup> kWh; Wh = unit of energy
Hz	Hertz; s <sup>-1</sup> = unit of frequency
kA	Kiloampere; 1 kA = 10 <sup>3</sup> A; A = unit of electric current
km	Kilometer
kV	Kilovolt; 1 kV = 10 <sup>3</sup> V; V = unit of electric potential (voltage)
kW	Kilowatt; 1 kW = 10 <sup>3</sup> W; W = unit of power
m	Million
MVA	Megavolt-ampere; 1 MVA = 10 <sup>6</sup> VA; VA = unit of apparent (total) power
MW	Megawatt; 1 MW = 10 <sup>6</sup> W = 10 <sup>3</sup> kW; W = unit of power
MWh	Megawatt-hour; 1 MWh = 10 <sup>6</sup> Wh = 10 <sup>3</sup> kWh; Wh = unit of energy

## Methods Used to Calculate Financial Indicators

Indicator	Description
Current Ratio	(Current Assets + Prepaid Expenses and Accrued Income) / (Current Liabilities + Short-Term Bank Loans and Notes + Accruals and Deferred Income)
Total Debt to Total Capital	(Long-Term Liabilities Including Current Portion + Short-Term Loans) / (Long-Term Debt Including Current Portion + Short-Term Loans + Equity)
Net Debt	Long-Term Liabilities Including Current Portion + Short-Term Loans – Cash and Cash Equivalents – Highly Liquid Financial Assets
Net Debt to EBITDA	(Long-Term Liabilities Including Current Portion + Bonds + Short-Term Loans – Cash and Cash Equivalents – Highly Liquid Financial Assets) / Earnings Before Taxes and Other Expenses and Revenues + Depreciation and Amortization
Net Income	Earnings After Taxes (profit or loss in an accounting period)
EBIT	Earnings Before Taxes and Other Expenses and Revenues
EBIT Margin	EBIT / Operating Revenue
EBITDA	Earnings Before Taxes and Other Expenses and Revenues + Depreciation and Amortization
Financial Debt to Equity	(Long-Term Liabilities Including Current Portion + Bonds + Short-Term Loans) / Average Equity
Fixed Asset Coverage	(Equity + Noncontrolling Interests + Long-Term Liabilities + Deferred Tax Liability) / Fixed Assets
Asset Turnover	Total Operating Revenue / Average Assets
Operating Cash Flow to Debt	Operating Cash Flow / Long-Term Liabilities
Return on Assets, Net (ROA Net)	Earnings After Taxes / Average Total Assets
Return on Equity, Net (ROE Net)	Earnings After Taxes / Average Equity
Depreciation-to-Fixed Assets Ratio	-1 * (Accumulated Depreciation and Allowances for Tangible Fixed Assets) / Depreciated Tangible Fixed Assets in Use, Gross

# List of Tables and Charts in the Annual Report

<b>Tables Used</b>	<b>Page</b>
Selected Financial Indicators	8
Selected Sector-Specific Indicators	9
Key Financial Indicators	24
Capital Expenditure (CZK Millions)	26
Distribution System Infrastructure	29
Annual Figures on Electricity Distribution (GWh)	30
Number of Service Points	31
New Connections, Increased Capacity	31
New Hires and Exits in 2017	37

<b>Charts Used</b>	<b>Page</b>
Income Structure (CZK Millions)	22
Structure of Assets (CZK Millions)	23
Structure of Equity and Liabilities (CZK Millions)	23
Cash Flow Summary (CZK Millions)	24
Capital Expenditure in 2017	26
System Average Interruption Duration Index (Minutes)	29
Weekly Peaks (MW)	31



# Related Parties Report for 2017



ČEZ Distribuce, a. s., having its registered office in Děčín—Děčín IV-Podmokly, Teplická 874/8, 405 02, company registration number: 247 29 035, registered in the Commercial Register kept by the Regional Court in Ústí nad Labem, file No. B 2145 (the “Preparer”), is, as a managed entity, part of the CEZ Concern, which is headed by ČEZ, a. s., as the managing entity and which additionally included the following managed entities in 2017:

Areál Třeboradice, a. s.; ČEZ Bohunice a. s.; ČEZ Distribuce, a. s.; ČEZ Distribuční služby, s. r. o.; ČEZ Energetické produkty, s. r. o.; ČEZ Energetické služby, s. r. o.; ČEZ ENERGOSEVIS spol. s r. o.; ČEZ ESCO, a. s.; ČEZ ICT Services, a. s.; ČEZ Inženýring, s. r. o.; ČEZ Korporátní služby, s. r. o.; ČEZ Obnovitelné zdroje, s. r. o.; ČEZ Prodej, a. s.; ČEZ Teplárenská, a. s.; ČEZ Zákaznické služby, s. r. o. (the company ceased to exist as a result of a merger by acquisition by ČEZ Prodej, a. s., with effect from July 1, 2017); Elektrárna Dětmarovice, a. s.; Elektrárna Dukovany II, a. s.; Elektrárna Mělník III, a. s.; Elektrárna Počeradky, a. s.; Elektrárna Temelín II, a. s.; Elektrárna Tisová, a. s. (the company was removed from the Concern with effect from January 2, 2017); Energetické centrum s. r. o.; Energocentrum Vítkovice, a. s.; Energotrans, a. s.; MARTIA a. s.; PRODECO, a. s.; Revitrans, a. s.; Severočeské doly a. s.; SD - Kolejová doprava, a. s.; and Telco Pro Services, a. s.

The CEZ Concern is part of a group of businesses controlled by the Czech Republic—Ministry of Finance. The Czech Republic—Ministry of Finance owns shares of stock corresponding to a 69.78% share in the stated capital of ČEZ, a. s.

This Related Parties Report (the “Report”) for 2017 (the “accounting period”) was prepared by the statutory governing body pursuant to Section 82 et seq. of Act No. 90/2012 Sb., on commercial companies and cooperatives (Business Corporations Act), as amended.

## Managing Entity and Preparer of the Related Parties Report

### Managing Entity

Company: ČEZ, a. s.  
Registered office: Praha 4, Duhová 2/1444, postcode 140 53  
Company reg. No.: 452 74 649  
Registered in the Commercial Register kept by the Municipal Court in Prague, file ref. B 1581

### Controlled Entity/Preparer

Company: ČEZ Distribuce, a. s.  
Registered office: Děčín—Děčín IV-Podmokly, Teplická 874/8, postcode 405 02  
Company reg. No.: 247 29 035  
Registered in the Commercial Register kept by the Regional Court in Ústí nad Labem, file ref. B 2145

## 1. Structure of Relations Between the Managing Entity and the Controlled Entity and Between the Controlled Entity and Entities Controlled by the Same Managing Entity

A chart showing the ownership structure of all related parties in the period from January 1, 2017, to December 31, 2017, prepared by the managing entity, is in Annex 1 to this Report and constitutes its integral part.

The following changes in the ownership structure occurred between January 1, 2018, and the preparation of this Report:

- ČEZ Distribuční služby, s. r. o. — this company ceased to exist as a result of a merger by acquisition by ČEZ Distribuce, a. s., on January 1, 2018
- ČEZ Inženýring, s. r. o. — this company ceased to exist as a result of a merger by acquisition by ČEZ, a. s., on January 1, 2018
- Nuclear Safety & Technology Centre s. r. o. — this company went into liquidation on January 1, 2018
- ENESA a. s. — a 25% share in this company was acquired by its majority holder, ČEZ ESCO, a. s., becoming the holder of a 100% share, with effect from January 2, 2018
- Metrolog sp. z o.o. — company reg. No. 0000071593, with its registered office at ul. Kościuszki 97, 64-700 Czarnków, Poland — a 100% share was acquired by CEZ ESCO Poland B.V. on January 31, 2018

## 2. Role of the Managing Entity in the Group of Businesses

ČEZ Distribuce, a. s. (controlled entity), as a wholly owned subsidiary of ČEZ, a. s., performs, in particular, the licensed activity of a distribution system operator and other activities and services relating to the performance of the above-mentioned 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 its bylaws and registered in the Commercial Register.

## 3. Method and Means of Control

ČEZ, a. s., is the sole shareholder of ČEZ Distribuce, a. s., and holds 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 governance body.

Means of control within the CEZ Concern include approval of strategic programs, business strategies, business plans, and annual budgets.

The concern management of ČEZ Distribuce, a. s., is applied in full compliance with all requirements of unbundling rules resulting from Act No. 458/2000 Sb., Energy Act, and Directive 2009/72/EC of the European Parliament and of the Council.

## 4. List of Acts Performed in the Last Accounting Period That Were Performed at the Instigation or in the Interest of the Managing Entity or Entities Controlled by the Managing Entity and Concerned Assets Exceeding 10% of the Equity of the Controlled Entity as Identified in Its Last Financial Statements

No such acts were performed in the period concerned.

## 5. List of Mutual Contracts Between the Controlled Entity and the Managing Entity or Between Controlled Entities

This list includes an overview of mutual contracts between the controlled entity and the managing entity or between controlled entities that were in force in the period from January 1 to December 31, 2017. The companies and contracts are arranged without regard to the value of performance.

### 1. ČEZ, a. s.

- Service Contract No. 33\_20100101\_01 of February 10, 2010, as amended on September 22, 2014
- Personal Information Processing Agreement made in relation to Service Contract 33\_20101122\_01 on November 29, 2010
- Trademark License Agreement No. 33\_2011\_008 of December 30, 2010
- Contract for the Provision of OSH, FP, and EP Services No. 33\_2012\_016 of February 27, 2012, as amended
- 4 lease contracts for nonresidential premises
- Land Lease Agreement
- Distribution Service Contract (Kudowa) of December 22, 2015, as amended on December 20, 2016
- Distribution Service Contract (Poříčí) of December 22, 2015, as amended on December 20, 2016
- Framework Contract on Location Swap and Regulation Provision in Electricity Supplies to the Poříčí Isolated Island of May 16, 2016, as amended on December 20, 2016
- Framework Contract on Emergency Assistance to the Poříčí Island of April 26, 2016
- Service Contract for Regulation in Electricity Supplies for the Střelná Isolated Island of April 26, 2016, as amended on December 20, 2016
- Ancillary Service Contract for Voltage and Reactive Power Regulation of December 15, 2014
- 2 agreements on credit facilities No. 2012/9 and 2015/1
- Mutual Credit Facility Agreement based on the Multi-Level Flexible Online Real Bilateral CZK Cash Pooling Agreement for the economically linked group of January 28, 2016
- Mutual Credit Facility Agreement based on the Flexible Online Real Bilateral EUR Cash Pooling Agreement for the economically linked group of January 28, 2016
- Contract for Facility Connection to the Distribution System
- 2 contracts for electricity and heat supplies, water rates, and sewage charges
- Purchase Agreement—Purchase of property at Vítkov
- Purchase Agreement—Horní Počaply
- Deed of Conveyance (concerning a transformer station)
- Agreements governed by the Cybersecurity Act
- Framework Contract for Services at Hydroelectric Power Plant Substations No. 5600008722 of October 30, 2017

## 2. ČEZ Distribuční služby, s.r.o.

- Contract for OSH, Fire Protection, and Environmental Protection Services, provider contract number 33\_2012\_010
- Nonresidential Lease Agreement, lessor agreement number 33\_2012\_025
- Contract for Services (selected tasks concerning distribution system operation), client contract number 1292-2014-002 (in effect until October 31, 2017)
- Framework Contract for Services in Resolving Nontechnical Losses and Unauthorized Consumption in the Distribution System No. 4400026551 (parties are ČEZ Distribuční služby, s.r.o.; ČEZ Distribuce, a. s.; SECURITAS ČR s.r.o.; NTL Forensics a.s.; and ČEZ Korporátní služby, s.r.o.)
- Contract for the Provision of Selected Services Relating to the Operation and Operational Maintenance of Transmission System Equipment, provider contract number 1620153
- Vehicle Usage and Sharing Agreement, lessee agreement number 31\_2015\_02
- Agreement on Contracting Entities' Concerted Action in the Award of a Public Contract (Contracting Entities' Agreement), "LV, MV, and HV Testers and Short-Circuiting Equipment" public contract, of September 29, 2015
- Agreement on Contracting Entities' Concerted Action in the Award of a Public Contract (Contracting Entities' Agreement), "Delivery of Utility Vehicles" public contract (parties are ČEZ Distribuční služby, s.r.o.; ČEZ, a. s.; ČEZ Distribuce, a. s.; and ČEZ Korporátní služby, s.r.o.), of May 13, 2015
- Contract for Delivery of Goods and Services of February 29, 2012, client contract number 33\_2012\_006 (in effect until October 31, 2017)
- Framework Agreement on the Assignment of Claims within CEZ Group for Set-Off Purposes (parties are ČEZ Distribuční služby, s.r.o.; ČEZ, a. s.; ČEZ Distribuce, a. s.; ČEZ Energetické služby, s.r.o.; ČEZ ICT Services, a. s.; ČEZ Korporátní služby, s.r.o.; ČEZ Obnovitelné zdroje, s.r.o.; ČEZ Prodej, a.s.; ČEZ Teplárenská, a.s.; ČEZ Zákaznické služby, s.r.o.; Elektrárna Počeradý, a.s.) of January 1, 2013
- Agreement on Confidential Information Protection and Personal Data Processing (parties are ČEZ Distribuční služby, s.r.o.; ČEZ, a. s.; ČEZ Distribuce, a. s.; and ČEZ Zákaznické služby, s.r.o.) of September 22, 2014
- Agreement on Collaboration in the Performance of a Public Contract, "Delivery of Utility Vehicles" public contract (parties are ČEZ Distribuční služby, s.r.o.; ČEZ, a. s.; ČEZ Distribuce, a. s.; and ČEZ Korporátní služby, s.r.o.) of November 8, 2016
- Agreement on Contracting Entities' Concerted Action in the Award of a Public Contract (Contracting Entities' Agreement), "Vehicle Insurance" public contract (parties are ČEZ Distribuční služby, s.r.o.; ČEZ, a. s.; ČEZ Distribuce, a. s.; and ČEZ Korporátní služby, s.r.o.), of September 29, 2016
- Service Contract of October 31, 2016, client contract number 1292\_2016\_002

- Agreement on Contracting Entities' Concerted Action in the Award and Performance of a Public Contract (Contracting Entities' Agreement), public contract for fuel deliveries for CEZ Group (parties are ČEZ, a. s.; ČEZ Distribuce, a. s.; ČEZ Korporátní služby, s.r.o.; ČEZ Distribuční služby, s.r.o.; ČEZ Teplárenská, a.s.; ČEZ ESCO, a.s.; ČEZ Prodej, a.s.) of June 20, 2017
- Internship Agreement of June 30, 2017
- Internship Agreement of July 17, 2017
- Agreement on Contracting Entities' Concerted Action in the Award of a Public Contract (Contracting Entities' Agreement), "Unified Field Crew Management System" of October 13, 2017
- Framework Agreement on the Assignment of Claims (parties are ČEZ Distribuční služby, s.r.o.; ČEZ, a. s.; ČEZ Distribuce, a. s.; ČEZ Energetické služby, s.r.o.; ČEZ ICT Services, a. s.; ČEZ Korporátní služby, s.r.o.; ČEZ Obnovitelné zdroje, s.r.o.; ČEZ Prodej, a. s.; ČEZ Teplárenská, a.s.; Elektrárna Počeradý, a.s.; Elektrárna Dětmarovice, a.s.; Telco Pro Services, a. s.; Energotrans, a.s.; ČEZ Inženýring, s.r.o.; Energocentrum Vítkovice, a. s.; Elektrárna Temelín II, a. s.; Elektrárna Dukovany II, a. s.; ČEZ ESCO, a.s.)

## 3. ČEZ Energetické služby, s.r.o.

- Contract for Local Distribution System Connection to the HV Distribution System—Horní Suchá, number 4101502065/16\_VN\_1008020698
- Contract for Distribution System Services at 22kV Voltage Level—Horní Suchá, number 16\_VN\_5\_08020701
- Contract for Local Distribution System Connection to the Medium-Voltage (MV)/High-Voltage (HV) Distribution System—Výstavní, number 16\_VN\_1007787412
- Contract for Distribution System Services at 110kV (HV) Voltage Level, number 4101427441/16\_VVN\_5\_07787416
- Framework Agreement on Lease of Distribution Transformers
- 4101533547/17\_VVN\_5\_08121498 Contract for Distribution System Services at 110kV (HV) Voltage Level
- Purchase Contract for 4 concrete supports No. 4101723626/KSP/6015/2017
- Výškovice Lease Contract, number 51\_20090301\_02/09520123, incl. Amendments 1–5
- 4 orders for installation, electricity meter replacement, assembly, and connection
- Service Contract No. 17410268

## 4. ČEZ Energo, s.r.o.

- 150 contracts for facility connection to the distribution system
- 60 contracts for distribution system services
- 18 precontracts on facility connection to the distribution grid
- Agreement to Enter into a Contract to Grant an Easement in Vrchlabí
- Agreement on Structure Siting and Operation
- Access Agreement
- Lease Contract No. NSV/2001/2014

#### 5. ČEZ ESCO, a. s.

- Contract for OSH, Fire Protection, and Environmental Protection Services
- Lease Contract, as amended (most recently in September 2016)

#### 6. ČEZ ICT Services, a. s.

- Framework Contract for ICT Services No. 34\_20160101\_R of December 31, 2015
- 4 service contracts (MSD, EIS/GIS)
- 2 lease contracts for nonresidential premises
- 13 agreements on concerted action in the award of a public contract
- Framework Contract for Work and Services No. 4400031265

#### 7. 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
- 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 fleet management made under the FC, as amended
- Contract for the Procurement of Work and Services for Electrical Inspections as amended by its annexes
- Contract for the Provision of OSH, Fire Protection, and Environmental Protection Services No. 33\_2012\_012 of December 21, 2011, as amended
- 159 contracts for facility connection to the distribution system
- 162 agreements to enter into a contract to grant an easement/servitude
- Framework Agreement on the Assignment of Claims within CEZ Group No. 33\_2013\_001 of January 1, 2013
- 4 purchase contracts for land and other assets
- Site Use and Operation Agreement
- 2 agreements on storm water discharge
- Contract No. 000026\_2007 for Lease of Nonresidential Premises, Parking Space, and Circulating Areas of November 6, 2006
- Premises Lease Contract No. 000566\_2007 of June 30, 2006
- Contract No. 000591\_2009 for Sewage Drainage to a Wastewater Treatment Plant of May 29, 2009

- Contract No. 001052\_2009 for Lease of Office Premises of July 30, 2009
- Contract No. 001316\_2009 for Vehicle Management and Lease PD1 of November 15, 2009
- Contract No. 001358\_2009 for Short-Term Car Lease (Car Rental) PD3 (Full-Service Leasing Contract) of November 23, 2009
- Contract No. 110769\_2010 for Property Management of December 31, 2010
- Contract No. 110641\_2011 for Garage Space Sublease of December 30, 2011
- Contract No. 110280\_2016 for Sublease of Office Premises of November 30, 2016
- Contract No. 000617\_2009 for Back Charge of Actual Costs of Consumed and Discharged Water of June 19, 2009
- Contract No. 000871\_2009 for Back Charge of Actual Costs of Consumed and Discharged Water of August 18, 2009
- Contracting Entities Association Contract No. 001021\_2009 of July 24, 2009
- Contract on District Heating Substation on Dvůr Králové nad Labem Site No. 001108\_2009 of September 30, 2009
- Water Service Agreement—Pardubice No. 000246\_2010 of March 22, 2010
- Water Service Agreement—Špindlerův Mlýn No. 000414\_2010 of June 30, 2010
- Water Service Agreement—Dobruška No. 000526\_2010 of June 25, 2010
- Water Service Agreement—Hořice No. 110004\_2011 of January 13, 2011
- Contract for Back Charge of Actual Costs of Discharged Rainwater No. 110613\_2011 of January 4, 2012
- Contract for Drinking Water Treatment and Wastewater Discharge No. 110123\_2012 of December 30, 2011
- Premises Lease Contract No. 110263\_2016 of October 21, 2016
- Framework Agreement on the Assignment of Claims within CEZ Group for Set-Off Purposes No. 110684\_2013 of January 1, 2013
- Agreement on Contracting Entities' Concerted Action in the Award of a Public Contract (Contracting Entities' Agreement), "Delivery of Utility Vehicles" public contract, No. 110265\_2015 of April 27, 2015
- Agreement on Contracting Entities' Concerted Action in the Award and Performance of Public Contracts (Association Agreement) No. 110452\_2016 of September 22, 2016
- Agreement on Collaboration in the Performance of a Public Contract, "Delivery of Utility Vehicles" public contract, No. 110672\_2016 of November 8, 2016
- Parking Space Sublease Contract No. 110569\_2017 of October 11, 2017
- Separate Contract for TOC Services No. 110703\_2017 of October 12, 2017

**8. ČEZ Obnovitelné zdroje, s.r.o.**

- Contracts for facility connection to the distribution system
- Electricity distribution contracts

**9. ČEZ OZ uzavřený investiční fond a.s.**

- Lease Contract—Nekoř, Pastviny SHP Operation
- Agreement to Enter into a Contract to Grant an Easement—Vydra, Čeříkova Pila
- Agreement on Structure Siting and Operation—Nekoř, Pastviny SHP
- Agreement on Equipment Siting and Operation at the Pastviny SOE Site
- Contract to Grant an Easement—Spálov SHP
- Agreement to Enter into a Contract to Grant an Easement—Kladno-Dříň MV
- Contract to Grant an Easement—Srní

**10. ČEZ Prodej, a.s.**

- Framework Electricity Distribution Contract of August 31, 2005
- Framework Contract for Distribution System Services of March 31, 2016
- Contract for OSH, Fire Protection, and Environmental Protection Services No. 33\_2012\_015 of December 21, 2011
- Framework Agreement on the Assignment of Claims within CEZ Group No. 33\_2013\_001 of January 1, 2013
- Lease Contract, as amended
- Supply Contract for Electricity for In-House Consumption of December 28, 2006, as amended by its Amendment of December 8, 2016, and Amendment 2 of December 21, 2017
- Supply Contract for Electricity to Cover Distribution System Losses of December 31, 2016
- Supply Contract for Electricity to Cover Distribution System Losses of December 31, 2017
- Online Data Processing Agreement

**11. ČEZ Teplárenská, a.s.**

- Framework Agreement on the Assignment of Claims within CEZ Group No. 33\_2013\_001 of January 1, 2013
- Contract for Facility Connection to the Distribution System
- Nonresidential Lease Contract of November 12, 1997
- Electricity service point connection contracts with ČEZ Teplárenská, a.s.

**12. ČEZ Zákaznické služby, s.r.o.**

- Service Contract No. 51\_20050831\_03 of August 29, 2005, as amended
- 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 (Hodolany and Česká Třebová)
- Framework Contract for Verification Services No. 4101080139 of May 15, 2008
- Contract for the Provision of Services in Distribution System Operations No. 1292\_2016\_002

**13. Elektrárna Dětmárovice, a.s.**

- Ancillary Service Contract for Voltage and Reactive Power Regulation
- Electricity Distribution Contract
- Contract for the Connection of Electricity Generation Facility Equipment to the Distribution System of March 5, 2010, as amended by Amendment No. 2
- Contract for the Connection of Electricity-Consuming Equipment to the MV/HV Distribution System of May 23, 2013
- Purchase Contract for Sale of Land of May 10, 2017 (910001\_2017; IE-12-8003244)

**14. Elektrárna Počerady, a.s.**

- Framework Agreement on the Assignment of Claims within CEZ Group No. 33\_2013\_001 of January 1, 2013

**15. Elektrárna Tisová, a.s.**

- Contract for Electricity Generation Facility Connection to the MV and HV Distribution System of September 24, 2015
- Distribution Service Contract for Medium-Voltage (MV) or High-Voltage (HV) level of March 25, 2009
- Contract for Electricity Generation Facility Connection to the Distribution System of October 24, 2010

**16. ČEZ Energetické produkty, s.r.o.**

- Contract for Connection to the Distribution System No. 8\_NN\_2\_01416347

**17. Energotrans, a.s.**

- Ancillary Service Contract for Voltage and Reactive Power Regulation
- MV/LV Electricity Distribution Service Contract (Horní Počaply)
- Contract for Generating Facility Connection to the MV/HV Distribution System
- Lease Contract for Residential and Nonresidential Premises at MPP
- Sublease Contract—Horní Počaply
- Contract for 110kV Substation Services

#### 18. EVČ s.r.o.

- Service Point Connection Contract—Rychnov office, of February 18, 2014
- Service Point Connection Contract—Zavadička, of March 21, 2016
- Connection Contract—Ropkova boiler house, Litomyšl, of January 17, 2017
- Connection Contract—Mnichovo Hradiště, of July 31, 2017

#### 19. PRODECO, a.s.

- Contract to Grant an Easement No. IV\_12\_4010781/VB/P003

#### 20. Severočeské doly a.s.

- Nonresidential Lease Contract of May 15, 2006
- Contract to Grant a Servitude of March 2, 2017
- Contract for Electricity Distribution and System Services No. DB-03306\_3\_3\_903008 of January 2, 2007
- Contract for Electricity Distribution No. DNT-03306\_3\_903008 of January 8, 2007

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

- Contract for the Provision of OSH, Fire Protection, and Environmental Protection Services No. 13\_2014\_001 of May 27, 2014
- Contract for the Procurement of Service Activities on selected ARCS equipment in the Moravia region, including preventive maintenance and repairs
- 21 building contracts
- Lease Contract
- 2 agreements on concerted action in the award of a public contract
- General Terms and Conditions of Designing Activities (VOP PD v08)
- General Terms and Conditions of Implementation Activities (VOP REAL v08)
- Contract for Fault Remedy Services and Collaboration in Inspection Activities, Repairs and Servicing, and RC Diagnostics in the Moravia and East Regions of March 7, 2017
- Framework Contract for Telco Services No. 34\_20170101\_R of March 7, 2017, as amended

- Separate Contract for Telco Services No. 34\_20170101\_D of March 31, 2017, as amended
- Separate Contract for Operation, Regular Maintenance, and Repair of Optical Parts of Optical Ground Wires on MV and HV Lines and Fiber-Optic Office Cables No. 34\_20170101\_D2 of May 15, 2017
- Optic Fiber Lease Contract No. 34\_20170101\_ROV of April 12, 2017
- Framework Support Lease Contract No. 34\_20170101\_RPB of April 12, 2017

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

- 2 lease contracts

#### 23. Teplo Klášterec s.r.o.

- Agreement on Sharing Provable Costs of Storm Water Discharge
- Contract for the Connection of Electricity-Consuming Equipment to the Low-Voltage Distribution System
- Contract to Grant an Easement/Servitude

#### 24. ÚJV Řež, a. s.

- Contract for Distribution System Services No. 16 VN 208066879
- Contract for Local Distribution System Connection No. 14 VN 1006485664

#### 25. Centrum výzkumu Řež s.r.o.

- Contract for Facility Connection to the Distribution System

## 6. Loss Incurred by the Controlled Entity and Its Settlement

In the accounting period concerned, ČEZ Distribuce, a. s., did not incur any loss arising out of contracts with related parties, other legal acts performed in the interest of related parties, or measures taken in the interest or at the instigation of related parties that were made or adopted prior to the last accounting period.

## 7. Other Information

### 7.1 Confidentiality of Information

Confidentiality applies to information and facts that are trade secrets of the managing entity and its related parties, 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 directly required by law.

### 7.2 Glossary of Abbreviations Used in the Report

Abbreviations	Commentary
ARCS	Automatic remote control systems
EE	Electrical energy
EIS/GIS	Engineering information system/geographic information system
EP	Environmental protection
FC	Framework contract
FP	Fire protection
HV	High voltage
ICT	Information and communication technologies
LV	Low voltage
MPP	Mělník Power Plant
MSD	Map service development
MV	Medium voltage
OSH	Occupational safety and health
PC	Purchase contract
RC	Ripple control
SHP	Small hydropower plant
SOE	State-owned enterprise
TP	Tendering procedure

## 8. Conclusion

The Board of Directors of ČEZ Distribuce, a. s., did not encounter disadvantages resulting from relations between the managing entity and the controlled entity or related parties.

ČEZ Distribuce, a. s., leverages synergies within CEZ Group and CEZ Group's expertise to efficiently perform its licensed activity and the related ancillary services. It also takes advantage of participation in CEZ Group's risk management system and system of internal controls, insurance program, and safety and quality management system.


The Board of Directors of ČEZ Distribuce, a. s., did not encounter adversities arising out of relations between the controlled entity and related parties.

This Related Parties Report was prepared with due care, with commitment to providing objective information gathered for the specified purpose of this Report. The Report was submitted to the Supervisory Board of ČEZ Distribuce, a. s., for review pursuant to Article 12(8)(d) of the Company's bylaws as well as in compliance with Section 83 of the Business Corporations Act.

The Board of Directors of ČEZ Distribuce, a. s., approved this Related Parties Report on March 6, 2018.

The Report has been audited. The auditor's opinion on the Report is included in the auditor's report on the ČEZ Distribuce, a. s., 2017 Annual Report.

Děčín, March 6, 2018



**Richard Vidlička, MBA**  
Chairman of the Board  
of Directors



**Tomáš Murtinger**  
Member of the Board  
of Directors

# Table of Contents of the Financial Part

Independent Auditor's Report	57
Financial Statements of ČEZ Distribuce, a. s., for the Year Ended December 31, 2017	60
Balance Sheet	60
Statement of Income	63
Cash Flow Statement	64
Statement of Changes in Equity	65
<b>Notes to the Financial Statements</b>	<b>66</b>
1. Description of the Company	66
2. Basis of Presentation of the Financial Statements	67
3. Summary of Significant Accounting Policies	67
4. Fixed Assets	70
5. Inventory	71
6. Receivables	71
7. Allowances	72
8. Prepaid Expenses and Accrued Income	72
9. Equity	73
10. Provisions	73
11. Long-Term Liabilities	73
12. Current Liabilities	74
13. Accruals and Deferred Income	74
14. Income Taxes	75
15. Commitments and Contingencies	76
16. Revenues	76
17. Personnel and Related Expenses	77
18. Related Party Information	77
19. Miscellaneous Operating Income	79
20. Subsequent Events	79
21. Cash Flow Statement	79

# Independent Auditor's Report

(Translation of a report originally issued in Czech – see Note 2 to the financial statements.)



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

### Opinion

We have audited the accompanying financial statements of ČEZ Distribuce, a. s. (the Company) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2017, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.



### Responsibilities of the Company's Board of Directors for the Financial Statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

A handwritten signature in black ink, appearing to read 'Skácelík', is written over a light gray grid background.

Martin Skácelík, Auditor  
License No. 2119

11 April 2018  
Prague, Czech Republic

ČEZ Distribuce, a. s.  
Balance Sheet as at December 31, 2017

(in thousands of CZK)

Ident.	ASSETS	Current year			Prior year
		Gross	Adjustments	Net	Net
	<b>TOTAL ASSETS</b>	<b>286,235,463</b>	<b>(146,012,305)</b>	<b>140,223,158</b>	<b>141,280,205</b>
A.	Stock subscription receivable	-	-	-	-
B.	<b>Fixed assets</b>	<b>267,200,225</b>	<b>(145,251,070)</b>	<b>121,949,155</b>	<b>119,368,642</b>
B. I.	<b>Intangible fixed assets</b>	<b>1,038,251</b>	<b>(736,083)</b>	<b>302,168</b>	<b>326,907</b>
B. I. 1.	Research and development	1,907	(1,907)	-	-
B. I. 2.	<b>Valuable rights</b>	<b>830,515</b>	<b>(628,327)</b>	<b>202,188</b>	<b>239,907</b>
B. I. 2. 1.	Software	789,105	(588,866)	200,239	236,243
B. I. 2. 2.	Other valuable rights	41,410	(39,461)	1,949	3,664
B. I. 3.	Goodwill	-	-	-	-
B. I. 4.	Other intangible fixed assets	183,194	(105,849)	77,345	77,475
B. I. 5.	<b>Advances granted for intangible fixed assets and intangible fixed assets in progress</b>	<b>22,635</b>	<b>-</b>	<b>22,635</b>	<b>9,525</b>
B. I. 5. 1.	Advances granted for intangible fixed assets	-	-	-	-
B. I. 5. 2.	Intangible fixed assets in progress	22,635	-	22,635	9,525
B. II.	<b>Tangible fixed assets</b>	<b>266,161,974</b>	<b>(144,514,987)</b>	<b>121,646,987</b>	<b>119,041,735</b>
B. II. 1.	<b>Land and structures</b>	<b>198,666,405</b>	<b>(105,782,111)</b>	<b>92,884,294</b>	<b>91,367,500</b>
B. II. 1. 1.	Land	904,636	-	904,636	876,552
B. II. 1. 2.	Structures	197,761,769	(105,782,111)	91,979,658	90,490,948
B. II. 2.	Movable assets and sets of movable assets	65,089,619	(38,723,682)	26,365,937	25,721,145
B. II. 3.	Gain or loss on revaluation of acquired property	-	-	-	-
B. II. 4.	<b>Other tangible fixed assets</b>	<b>22,557</b>	<b>(9,194)</b>	<b>13,363</b>	<b>12,569</b>
B. II. 4. 1.	Perennial crops	-	-	-	-
B. II. 4. 2.	Livestock	-	-	-	-
B. II. 4. 3.	Miscellaneous tangible fixed assets	22,557	(9,194)	13,363	12,569
B. II. 5.	<b>Advances granted for tangible fixed assets and tangible fixed assets in progress</b>	<b>2,383,393</b>	<b>-</b>	<b>2,383,393</b>	<b>1,940,521</b>
B. II. 5. 1.	Advances granted for tangible fixed assets	135,766	-	135,766	155,936
B. II. 5. 2.	Tangible fixed assets in progress	2,247,627	-	2,247,627	1,784,585
B. III.	<b>Long-term investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B. III. 1.	Interests – controlled or controlling entity	-	-	-	-
B. III. 2.	Loans and borrowings – controlled or controlling entity	-	-	-	-
B. III. 3.	Interests – associates	-	-	-	-
B. III. 4.	Loans and borrowings to associates	-	-	-	-
B. III. 5.	Other long-term securities and interests	-	-	-	-
B. III. 6.	Loans and borrowings – other	-	-	-	-
B. III. 7.	<b>Other long-term investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B. III. 7. 1.	Miscellaneous long-term investments	-	-	-	-
B. III. 7. 2.	Advances granted for long-term investments	-	-	-	-

Ident.	ASSETS				Current year			Prior year
					Gross	Adjustments	Net	Net
C.								
C.	I.							
C.	I.	1.						
C.	I.	2.						
C.	I.	3.						
C.	I.	3.	1.					
C.	I.	3.	2.					
C.	I.	4.						
C.	I.	5.						
C.	II.							
C.	II.	1.						
C.	II.	1.	1.					
C.	II.	1.	2.					
C.	II.	1.	3.					
C.	II.	1.	4.					
C.	II.	1.	5.					
C.	II.	1.	5.	1.				
C.	II.	1.	5.	2.				
C.	II.	1.	5.	3.				
C.	II.	1.	5.	4.				
C.	II.	2.						
C.	II.	2.	1.					
C.	II.	2.	2.					
C.	II.	2.	3.					
C.	II.	2.	4.					
C.	II.	2.	4.	1.				
C.	II.	2.	4.	2.				
C.	II.	2.	4.	3.				
C.	II.	2.	4.	4.				
C.	II.	2.	4.	5.				
C.	II.	2.	4.	6.				
C.	III.							
C.	III.	1.						
C.	III.	2.						
C.	IV.							
C.	IV.	1.						
C.	IV.	2.						
D.								
D.	1.							
D.	2.							
D.	3.							

(in thousands of CZK)

Ident.	EQUITY & LIABILITIES		Current year	Prior year
	<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>140,223,158</b>	<b>141,280,205</b>
<b>A.</b>	<b>Equity</b>		<b>97,600,599</b>	<b>95,473,417</b>
<b>A. I.</b>	<b>Stated capital</b>		<b>60,000,000</b>	<b>60,000,000</b>
A. I. 1.	Stated capital		60,000,000	60,000,000
A. I. 2.	Own ownership interests (-)		-	-
A. I. 3.	Changes in stated capital		-	-
<b>A. II.</b>	<b>Share premium and capital reserves</b>		<b>1,313</b>	<b>1,313</b>
A. II. 1.	Share premium		-	-
<b>A. II. 2.</b>	<b>Capital reserves</b>		<b>1,313</b>	<b>1,313</b>
A. II. 2. 1.	Other capital reserves		1,313	1,313
A. II. 2. 2.	Gains or losses on revaluation of assets and liabilities (+/-)		-	-
A. II. 2. 3.	Gains or losses on revaluation upon corporate transformation (+/-)		-	-
A. II. 2. 4.	Differences arising on corporate transformation (+/-)		-	-
A. II. 2. 5.	Differences arising between balance sheet date and transformation date (+/-)		-	-
<b>A. III.</b>	<b>Reserves from profit</b>		<b>12,000,000</b>	<b>12,000,000</b>
A. III. 1.	Other reserves		12,000,000	12,000,000
A. III. 2.	Statutory and other reserves		-	-
<b>A. IV.</b>	<b>Profit (loss) for previous years (+/-)</b>		<b>19,203,104</b>	<b>16,212,831</b>
A. IV. 1.	Retained earnings		19,203,104	16,212,831
A. IV. 2.	Accumulated loss (-)		-	-
A. IV. 3.	Other profit (loss) for previous years (+/-)		-	-
<b>A. V.</b>	<b>Profit (loss) for the year (+/-)</b>		<b>6,396,182</b>	<b>7,259,273</b>
<b>A. VI.</b>	<b>Approved decision on advances for profit distribution (-)</b>		<b>-</b>	<b>-</b>
<b>B. + C.</b>	<b>Provisions and liabilities</b>		<b>34,873,647</b>	<b>38,059,676</b>
<b>B.</b>	<b>Provisions</b>		<b>734,213</b>	<b>628,607</b>
B. 1.	Provision for pensions and similar obligations		-	-
B. 2.	Provision for corporate income tax		-	118,341
B. 3.	Provisions recognized under special legislation		-	-
B. 4.	Other provisions		734,213	510,266
<b>C.</b>	<b>Liabilities</b>		<b>34,139,434</b>	<b>37,431,069</b>
<b>C. I.</b>	<b>Long-term liabilities</b>		<b>16,964,574</b>	<b>18,283,441</b>
C. I. 1.	Bonds payable		-	-
C. I. 1. 1.	Convertible bonds		-	-
C. I. 1. 2.	Other bonds		-	-
C. I. 2.	Liabilities to credit institutions		-	-
C. I. 3.	Long-term advances received		-	-
C. I. 4.	Trade payables		-	-
C. I. 5.	Long-term notes payable		-	-
C. I. 6.	Liabilities – controlled or controlling entity		5,581,450	6,913,500
C. I. 7.	Liabilities – associates		-	-
C. I. 8.	Deferred tax liability		11,383,124	11,369,941
<b>C. I. 9.</b>	<b>Other liabilities</b>		<b>-</b>	<b>-</b>
C. I. 9. 1.	Liabilities to partners		-	-
C. I. 9. 2.	Unbilled deliveries		-	-
C. I. 9. 3.	Miscellaneous liabilities		-	-
<b>C. II.</b>	<b>Short-term liabilities</b>		<b>17,174,860</b>	<b>19,147,628</b>
<b>C. II. 1.</b>	<b>Bonds payable</b>		<b>-</b>	<b>-</b>
C. II. 1. 1.	Convertible bonds		-	-
C. II. 1. 2.	Other bonds		-	-
C. II. 2.	Liabilities to credit institutions		-	-
C. II. 3.	Short-term advances received		10,674,450	11,235,984
C. II. 4.	Trade payables		1,899,336	3,414,539
C. II. 5.	Short-term notes payable		-	-
C. II. 6.	Liabilities – controlled or controlling entity		1,332,055	1,074,716
C. II. 7.	Liabilities – associates		-	-
<b>C. II. 8.</b>	<b>Other liabilities</b>		<b>3,269,019</b>	<b>3,422,389</b>
C. II. 8. 1.	Liabilities to partners		-	-
C. II. 8. 2.	Short-term borrowings		-	-
C. II. 8. 3.	Liabilities to employees		95,628	84,703
C. II. 8. 4.	Liabilities arising from social security and health insurance		53,289	44,555
C. II. 8. 5.	Due to government – taxes and subsidies		459,661	402,510
C. II. 8. 6.	Unbilled deliveries		2,652,343	2,879,079
C. II. 8. 7.	Miscellaneous liabilities		8,098	11,542
<b>D.</b>	<b>Accruals and deferred income</b>		<b>7,748,912</b>	<b>7,747,112</b>
<b>D. 1.</b>	<b>Accruals</b>		<b>87,282</b>	<b>101,869</b>
D. 2.	Deferred income		7,661,630	7,645,243

ČEZ Distribuce, a. s.

Statement of Income for the Year Ended December 31, 2017

(in thousands of CZK)

Ident.	Text	Accounting period	
		current	prior
I.	Revenues from sale of finished products and services	45,816,777	48,225,555
II.	Revenues from sale of goods	–	–
A.	Production-related consumption	29,509,233	31,549,052
A. 1.	Costs of goods sold	–	–
A. 2.	Consumption of material and energy	2,085,769	2,487,790
A. 3.	Services	27,423,464	29,061,262
B.	Change in inventory produced internally (+/-)	15,697	(4,731)
C.	Own work capitalized (-)	(594,176)	(399,102)
D.	Personnel expenses	2,289,978	1,608,511
D. 1.	Wages and salaries	1,571,557	1,107,332
D. 2.	Social security and health insurance costs and other costs	718,421	501,179
D. 2. 1.	Social security and health insurance costs	537,822	378,320
D. 2. 2.	Other costs	180,599	122,859
E.	Value adjustments in respect of operating activities	7,098,750	6,995,023
E. 1.	Value adjustments in respect of intangible and tangible fixed assets	7,004,466	6,846,725
E. 1. 1.	Value adjustments in respect of intangible and tangible fixed assets – permanent	7,004,466	6,846,725
E. 1. 2.	Value adjustments in respect of intangible and tangible fixed assets – temporary	–	–
E. 2.	Value adjustments in respect of inventories	(240)	899
E. 3.	Value adjustments in respect of receivables	94,524	147,399
III.	Other operating income	1,251,566	1,170,967
III. 1.	Income from sale of fixed assets	8,034	10,145
III. 2.	Income from sale of materials	108,654	96,656
III. 3.	Miscellaneous operating income	1,134,878	1,064,166
F.	Other operating expenses	648,755	483,562
F. 1.	Net book value of fixed assets sold	7,001	8,567
F. 2.	Net book value of materials sold	64,553	59,692
F. 3.	Taxes and charges relating to operations	21,235	22,835
F. 4.	Provisions relating to operations and prepaid expenses (specific-purpose expenses)	223,947	62,327
F. 5.	Miscellaneous operating expenses	332,019	330,141
*	Profit or loss on operating activities (+/-)	8,100,106	9,164,207
IV.	Income from long-term investments – interests	–	–
IV. 1.	Income from interests – controlled or controlling entity	–	–
IV. 2.	Other income from interests	–	–
G.	Costs of interests sold	–	–
V.	Income from other long-term investments	–	–
V. 1.	Income from other long-term investments – controlled or controlling entity	–	–
V. 2.	Other income from other long-term investments	–	–
H.	Expenses relating to other long-term investments	–	–
VI.	Interest receivable and similar income	272	2,605
VI. 1.	Interest receivable and similar income – controlled or controlling entity	272	2,605
VI. 2.	Other interest receivable and similar income	–	–
I.	Value adjustments and provisions relating to financial activities	–	–
J.	Interest payable and similar expenses	218,356	253,083
J. 1.	Interest payable and similar expenses – controlled or controlling entity	218,356	253,083
J. 2.	Other interest payable and similar expenses	–	–
VII.	Other financial income	60,968	67,923
K.	Other financial expenses	65,483	72,733
*	Profit or loss on financial activities (+/-)	(222,599)	(255,288)
**	Profit or loss before income tax (+/-)	7,877,507	8,908,919
L.	Income tax	1,481,325	1,649,646
L. 1.	Income tax due	1,468,142	1,708,079
L. 2.	Income tax deferred (+/-)	13,183	(58,433)
**	Profit or loss after income tax (+/-)	6,396,182	7,259,273
M.	Transfer of share of profit or loss to partners (+/-)	–	–
***	Profit or loss for the year (+/-)	6,396,182	7,259,273
*	Net turnover = I. + II. + III. + IV. + V. + VI. + VII.	47,129,583	49,467,050

# ČEZ Distribuce, a. s.

## Cash Flow Statement for the year Ended December 31, 2017

(in thousands of CZK)

Ident.	Text	Accounting period	
		current	prior
P.	Cash and cash equivalents at beginning of year	–	51
	<b>Cash flows from operating activities</b>		
Z.	Profit or loss before income tax (+/-)	7,877,507	8,908,919
A.1.	Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	6,638,350	6,643,009
A.1.1.	Depreciation and amortization of fixed assets and write-off of receivables	7,004,466	6,862,369
A.1.2.	Change in allowances, provisions and accruals and deferrals	(583,167)	(468,260)
A.1.2.1.	Change in allowances	94,094	175,633
A.1.2.2.	Change in provisions	105,606	144,479
A.1.2.3.	Change in accruals and deferrals	(782,867)	(788,372)
A.1.3.	Gain/loss on disposal of fixed assets, own ownership interests	(1,033)	(1,578)
A.1.4.	Interest expense and interest income	218,084	250,478
A.1.5.	Other non-cash movements	–	–
A.1.6.	Income from profit shares	–	–
A.2.	Change in non-cash components of working capital	(541,212)	438,946
A.2.1.	Change in operating receivables	940,462	(917,150)
A.2.2.	Change in short-term operating liabilities	(1,425,457)	1,396,737
A.2.3.	Change in inventories	(56,217)	(40,641)
A.3.	Interest paid, net of capitalized interest	(232,516)	(309,789)
A.4.	Interest received	272	2,605
A.5.	Income tax paid, incl. tax assessments for previous years	(1,742,409)	(1,743,693)
A.6.	Profit shares received	–	–
A.	<b>Net cash provided by (used in) operating activities</b>	<b>11,999,992</b>	<b>13,939,997</b>
	<b>Cash flows from financing activities</b>		
B.1.	Purchase of fixed assets	(9,479,462)	(7,867,585)
B.2.	Proceeds from sale of fixed assets	9,972	9,485
B.	<b>Net cash provided by (used in) investing activities</b>	<b>(9,469,490)</b>	<b>(7,858,100)</b>
	<b>Cash flows from financing activities</b>		
C.1.	Change in long-term liabilities and short-term loans	(1,074,712)	(817,348)
C.2.	Change in receivables/payables from group cash pooling	2,813,211	(635,500)
C.3.	Effect of changes in equity on cash	(4,269,000)	(4,629,100)
C.	<b>Net cash provided by (used in) financing activities</b>	<b>(2,530,501)</b>	<b>(6,081,948)</b>
F.	<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1</b>	<b>(51)</b>
R.	Cash and cash equivalents at end of year	1	–

ČEZ Distribuce, a. s.  
Statement of Changes in Equity  
for the Year Ended December 31, 2017

(in thousands of CZK)

	Stated capital	Other capital reserves	Reserves from profit	Accumulated profit or loss	Total
Opening balance at January 1, 2016	60,000,000	1,313	12,000,000	20,841,931	92,843,244
Profit or loss for the year 2016	-	-	-	7,259,273	7,259,273
Profit share	-	-	-	(4,629,100)	(4,629,100)
Closing balance at December 31, 2016	60,000,000	1,313	12,000,000	23,472,104	95,473,417
Profit or loss for the year 2017	-	-	-	6,396,182	6,396,182
Profit share	-	-	-	(4,269,000)	(4,269,000)
Closing balance at December 31, 2017	60,000,000	1,313	12,000,000	25,599,286	97,600,599

# ČEZ Distribuce, a. s.

## Notes to the Financial Statements

### for the Year Ended 31 December 2017

#### 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 (IČO) 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 (IČO): 45274649.

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

#### Members of the statutory bodies as at 31 December 2017 were as follows:

Board of Directors		Supervisory Board	
Chair:	Richard Vidlička	Chair:	Tomáš Pleskač
Vice-Chair:	Vladimír Budinský	Vice-chair:	Michaela Chaloupková
Member:	Tomáš Murtinger	Member:	Vladimír Říha
Member:	Pavel Šolc	Member:	Karel Čech
Member:	Radim Černý	Member:	Václav Rašner
Member:	Jiří Kudrnáč	Member:	Martin Zmelik
Member:	Karel Kohout		

On 22 December 2016, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., the Board of Directors of ČEZ, a. s., appointed Tomáš Pleskač, MBA member of the Supervisory Board of ČEZ Distribuce, a. s., with effect from 2 January 2017.

The Supervisory Board of ČEZ Distribuce, a. s., elected Tomáš Pleskač, MBA, its Deputy-Chair at its meeting on 18 January 2017, effective as of the appointment date.

On 19 January 2017, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., the Board of Directors of ČEZ, a. s., appointed Václav Rašner and Karel Čech members of the Supervisory Board of ČEZ Distribuce, a. s., with effect from 1 February 2017.

On 20 February 2017, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., the Board of Directors of ČEZ, a. s., appointed Karel Kohout member of the Board of Directors of ČEZ Distribuce, a. s., with effect from 1 March 2017.

On 30 March 2017, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., the Board of Directors of ČEZ, a. s., appointed Michaela Chaloupková, MBA member of the Supervisory Board of ČEZ Distribuce, a. s., with effect from 1 April 2017.

The Supervisory Board of ČEZ Distribuce, a. s., elected Tomáš Pleskač, MBA, its Chairman at its meeting on 10 May 2017, effective as of the appointment date. Michaela Chaloupková, MBA, replaced Tomáš Pleskač, MBA at his position of the Supervisory Board's Vice-Chair effective as of the appointment date.

On 31 May 2017, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., the Board of Directors of ČEZ, a. s., re-elected Radim Černý member of the Board of Directors of ČEZ Distribuce, a. s., with effect from 2 June 2017.

These facts correspond to the entry in the Commercial Register as at 31 December 2017.

The Company's organizational structure is as follows:

- CEO Office,
- Network Management Division,
- Finance & Administration Division,
- DS Renewal Division,
- Distribution Assets Management Division,
- Network Services Division,
- Operations Division.

On 16 May 2017 the Board of Directors of ČEZ, a. s., as the sole shareholder of ČEZ Distribuce, a. s., approved a plan for transformation in the form of merger by consolidation between the companies involved – ČEZ Distribuční služby, s.r.o. having its registered address at Riegrovo náměstí 1493/3, Pražské Předměstí, 500 02 Hradec Králové, business reg. no.: 268 71 823, as a dissolving company (the “Dissolving Company”) and the Company as a successor company in compliance with the provisions of Act No. 125/2008 Sb., on transformations of corporations and cooperatives, by which the Dissolving Company's assets and liabilities transfer to the Company and the Company becomes a legal successor of the Dissolving Company whilst the Company's basic capital will not be increased as at the merger effective date 1 January 2018.

On 28 June 2017 the Board of Directors of ČEZ, a. s., as the sole shareholder of ČEZ Distribuce, a. s., approved a plan for transformation in the form of demerger by spin-off on grounds of the Demerger Project between the companies involved – the Company as a successor company and ČEZ Korporátní služby, s.r.o., with its registered address 28. října 3123/152, Moravská Ostrava, 702 00 Ostrava, business reg. no.: 262 06 803 (the “Demerging Company”) on grounds of which a part of assets comprising the Demerging Company's car fleet will be spun-off and transferred to the Company whilst the Company's basic capital will not be increased as at the merger effective date 1 January 2018.

## 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 2017 and 2016.

### 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 2017 and 2016 financial statements are as follows:

### a) Intangible Fixed Assets

Intangible fixed assets are recorded at their acquisition cost and related expenses. Interest on loans and borrowings are not considered to be part of these costs.

Intangible fixed assets with a cost exceeding CZK 60 thousand in 2017 and 2016 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
Research and development	6
Software	4–6
Other valuable rights	6
Other intangible fixed assets	6

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

## 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. Interest on loans and borrowings are not considered to be part of these costs.

Tangible fixed assets belonging to the category of tangible assets and sets of tangible assets—machinery, appliances, equipment, vehicles and fixtures and fittings related to the licensed activities of a company distributing electricity with a cost exceeding CZK 5 thousand 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.

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
Structures	10–50
Machinery and equipment	4–30
Vehicles	5–10
Furniture and fixtures	5–30
Miscellaneous 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) Cash

Cash includes liquid valuables, cash in hand and at bank.

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

Receivables are initially measured at their nominal amount. Purchased receivables are measured at cost. 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 balance sheet 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.

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

Long-term liabilities and current liabilities to credit institutions 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 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 balance sheet date 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.

Long-term contracts are accounted for according to the completed contract method as specified in the contract.

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 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 the load simulation at each point of delivery on the basis of temperature-adjusted load profiles. 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
Research and development	1,907	–	–	–	1,907
Software	693,439	–	(40)	95,706	789,105
Other valuable rights	43,236	–	(1,826)	–	41,410
Other intangible fixed assets	182,362	–	(22,418)	23,250	183,194
Intangible fixed assets in progress	9,525	132,066	–	(118,956)	22,635
<b>2017 Total</b>	<b>930,469</b>	<b>132,066</b>	<b>(24,284)</b>	<b>–</b>	<b>1,038,251</b>
<b>2016 Total</b>	<b>841,125</b>	<b>97,763</b>	<b>(8,419)</b>	<b>–</b>	<b>930,469</b>

#### Accumulated Amortization

	At beginning of year	Amortization during year	Disposals	Transfers	At end of year	Net book value
Research and development	(1,907)	–	–	–	(1,907)	–
Software	(457,196)	(131,710)	40	–	(588,866)	200,239
Other valuable rights	(39,572)	(1,715)	1,826	–	(39,461)	1,949
Other intangible fixed assets	(104,887)	(23,380)	22,418	–	(105,849)	77,345
Intangible fixed assets in progress	–	–	–	–	–	22,635
<b>2017 Total</b>	<b>(603,562)</b>	<b>(156,805)</b>	<b>24,284</b>	<b>–</b>	<b>(736,083)</b>	<b>302,168</b>
<b>2016 Total</b>	<b>(450,010)</b>	<b>(161,341)</b>	<b>7,789</b>	<b>–</b>	<b>(603,562)</b>	<b>326,907</b>

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

The total value of small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 4,317 thousand and CZK 4,441 thousand at acquisition cost as at 31 December 2017 and 2016, respectively.

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

### Cost

	At beginning of year	Additions	Disposals	Transfers	Other movements	At end of year
Land	876,552	–	(69)	28,153	–	904,636
Structures	192,830,296	–	(1,004,015)	5,859,147	76,341	197,761,769
Movable items	63,450,288	–	(1,408,681)	3,122,419	(74,407)	65,089,619
Other tangible fixed assets	19,656	–	–	2,901	–	22,557
Tangible fixed assets in progress	1,784,585	9,377,488	(5,426)	(8,909,020)	–	2,247,627
Advances granted for tangible fixed assets	155,936	83,430	–	(103,600)	–	135,766
<b>2017 Total</b>	<b>259,117,313</b>	<b>9,460,918</b>	<b>(2,418,191)</b>	<b>–</b>	<b>1,934</b>	<b>266,161,974</b>
<b>2016 Total</b>	<b>253,948,815</b>	<b>7,897,850</b>	<b>(2,729,369)</b>	<b>–</b>	<b>17</b>	<b>259,117,313</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	–	–	–	–	–	–	904,636
Structures	(102,339,348)	(4,393,984)	(713)	1,004,015	(52,081)	(105,782,111)	91,979,658
Movable items	(37,729,143)	(2,357,560)	(1,770)	1,408,681	(43,890)	(38,723,682)	26,365,937
Other tangible fixed assets	(7,087)	(2,107)	–	–	–	(9,194)	13,363
Tangible fixed assets in progress	–	–	–	–	–	–	2,247,627
Advances granted for tangible fixed assets	–	–	–	–	–	–	135,766
<b>2017 Total</b>	<b>(140,075,578)</b>	<b>(6,753,651)</b>	<b>(2,483)</b>	<b>2,412,696</b>	<b>(95,971)</b>	<b>(144,514,987)</b>	<b>121,646,987</b>
<b>2016 Total</b>	<b>(135,717,295)</b>	<b>(6,685,384)</b>	<b>(982)</b>	<b>2,338,525</b>	<b>(10,442)</b>	<b>(140,075,578)</b>	<b>119,041,735</b>

The total value of tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 39,773 thousand and CZK 41,697 thousand at acquisition cost as at 31 December 2017 and 2016, respectively.

As at 31 December 2017 and 2016, the Company recorded assets of CZK 122,718 thousand and CZK 92,613 thousand, respectively acquired conditionally.

## 5. Inventory

Excess, obsolete and slow-moving inventory has been written down to its estimated net realizable value by an allowance account (see Note 7).

## 6. Receivables

Allowances against outstanding receivables that are considered doubtful were charged to income based on collectability and ageing analysis of receivables (see Note 7).

As at 31 December 2017 and 2016, receivables overdue for more than 30 days totaled CZK 1,259,177 thousand and CZK 996,050 thousand, respectively. As at 31 December 2017 and 2016, the receivables of CZK 208,411 thousand and CZK 213,640 thousand, respectively are subject to the claim process concerning the POZE legal dispute (see Note 15) and receivables of CZK 246,352 thousand and CZK 98,872 thousand, respectively are subject to claim procedures for system services.

As at 31 December 2017 and 2016, receivables overdue for more than 5 years totaled CZK 190,447 thousand and CZK 124,810 thousand, respectively.

The Company wrote off receivables of CZK 23,856 thousand and CZK 17,776 thousand in 2017 and 2016, respectively as they were irrecoverable or due to unsatisfying the claims in bankruptcy proceedings. The receivables remain off-balance sheet.

The Company is part of the cash pool system administered by Komerční banka, a.s. on behalf of the ČEZ Group. Cash in CZK transferred to the parent company ČEZ, a. s., within the cash pooling bore an interest rate of PRIBOR O/N – (0.05 + x), where parameter x = 0.16, i.e. PRIBOR O/N -0.21, 0.03% p.a. at minimum. Since 16 February 2017 the cash balance in CZK transferred to the parent company ČEZ, a. s. within the cash pooling system bears interest rate as per the respective KB Notification on interest rates in CZK, particularly 0.00% p.a. (receivables), cash in CZK provided by the parent company within the cash pool system bears interest rate PRIBOR +0.30% p.a. (liabilities).

The cash balance in EUR transferred to the parent company ČEZ, a. s. within the cash pooling system bore interest rate EUR LIBOR O/N -0.19% p.a., 0.03% p.a. at minimum. Since 16 February 2017 the cash balance in EUR transferred to the parent company ČEZ, a. s. within the cash pooling system bears interest rate as per the respective KB Notification on interest rates in a foreign currency, particularly 0.00% p.a. (receivables).

Cash in EUR provided by the parent company ČEZ, a. s., 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 5,295,212 thousand and CZK 8,108,423 thousand as at 31 December 2017 and 2016, respectively.

As at 31 December 2017 and 2016, the Company had CZK 3,832 thousand and CZK 165 thousand, respectively of long-term receivables.

Receivables from related parties (see Note 18).

Unbilled revenue represents, in particular, unbilled distribution services.

**Changes in unbilled distribution services were as follows in 2017 and 2016 (in CZK thousands):**

Unbilled distribution services	Total	Retail business customers	Retail household customers
Closing balance as at 31/12/2015	9,871,763	2,251,137	7,620,626
Changes in 2016	1,146,208	612,955	533,253
Closing balance as at 31/12/2016	11,017,971	2,864,092	8,153,879
Changes in 2017	(847,177)	(376,035)	(471,142)
Closing balance as at 31/12/2017	10,170,794	2,488,057	7,682,737

## 7. Allowances

Allowances reflect a temporary diminution in the value of assets.

**Changes in the allowance accounts (in CZK thousands):**

Allowances against:	Balance as at 31/12/2015	Additions	Deductions	Balance as at 31/12/2016	Additions	Deductions	Balance as at 31/12/2017
Inventory	–	899	–	899	–	(240)	659
Receivables	518,653	623,694	(476,295)	666,052	366,899	(272,375)	760,576
of which:							
– Legal	362,672	224,825	(185,855)	401,642	225,971	(82,675)	544,938
– Accounting	155,981	398,869	(290,440)	264,410	140,928	(189,700)	215,638

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

## 8. Prepaid Expenses and Accrued Income

As at 31 December 2017 and 2016, prepaid expenses include in particular a fee of CZK 20,292 thousand and CZK 24,735 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.

Subject to the decision of the sole shareholder executing the powers of the general meetings of the Company held on 16 June 2017 and 28 June 2016, the following profit distribution for 2016 and 2015 was approved (in CZK thousands):

Profit for 2015	6,613,048	Profit for 2016	7,259,273
Dividend distribution	(4,629,100)	Dividend distribution	(4,269,000)
Undistributed profits added to retained earnings	1,983,948	Undistributed profits added to retained earnings	2,990,273
Retained earnings as at 01/01/2016	14,228,883	Retained earnings as at 01/01/2017	16,212,831
Retained earnings as at 31/12/2016	16,212,831	Retained earnings as at 31/12/2017	19,203,104

## 10. Provisions

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

Provisions	Balance as at 31/12/2015	Additions	Deductions	Balance as at 31/12/2016	Additions	Deductions	Balance as at 31/12/2017
Provision for income tax	153,954	118,341	(153,954)	118,341	–	(118,341)	–
Other provisions	330,174	200,631	(20,539)	510,266	273,633	(49,686)	734,213

As at 31 December 2017 and 2016, the provision for corporate income tax was offset against paid prepayments totaling CZK 1,466,110 thousand and CZK 1,588,282 thousand, respectively and the resulting liability of CZK 118,341 thousand was recorded in the caption “Provision for income tax” as at 31 December 2016. As at 31 December 2017 the Company recognizes a receivable after offsetting with the advance payments.

Other provisions were created, in particular, for retirement benefits and 50 years jubilee bonuses paid under collective agreement. A provision for restructuring of CZK 13,784 thousand established for planned reorganization as at 31 December 2016, was reversed in 2017.

## 11. Long-Term Liabilities

As at 31 December 2017 and 2016, the Company had the following long-term liabilities (in CZK thousands):

	Due date	31/12/2017	31/12/2016
3rd credit line	7. 6. 2022	2,573,500	3,088,200
4th credit line	31. 12. 2025	4,340,000	4,900,000
<b>Total</b>		<b>6,913,500</b>	<b>7,988,200</b>
Current portion		1,332,050	1,074,700
Long-term portion		5,581,450	6,913,500

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.

A contract for 4th credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 2 March 2015. The first half of the loan was withdrawn on 11 March 2015, the other one on 21 August 2015. The loan is repayable by 31 December 2025. The interest rate has been set at 2.4% p.a.

The loans under 3rd and 4th credit lines 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 the loans for 2017 and 2016 was CZK 218,353 thousand and CZK 253,083 thousand, respectively.

The aggregate maturities of loans as at 31 December 2017 are as follows (in CZK thousands):

	Borrowings
2018	1,332,050
2019	1,074,700
2020	1,074,700
2021	1,074,700
2022	817,350
2023 and thereafter	1,540,000
<b>Total</b>	<b>6,913,500</b>

The loan agreements for the 1st and 4th credit lines with ČEZ, a. s., include the following 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. 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 2017 and 2016.

## 12. Current Liabilities

As at 31 December 2017 and 2016, the Company had current payables overdue for more than 30 days totaling CZK 104,855 thousand and CZK 17,197 thousand, respectively. As at 31 December 2017 a liability of CZK 87,850 thousand related to a portion of outstanding overdue receivables subject to claim procedures for system services (see Note 6). In accordance with the decision of the Energy Regulator's Council the liability was settled in full in 2018.

As at 31 December 2017 and 2016, liabilities overdue for more than 5 years totaled CZK 16,227 thousand and CZK 9,840 thousand, respectively.

As at 31 December 2017 and 2016, the Company had liabilities of CZK 53,289 thousand and CZK 44,555 thousand owing to social security and health insurance premiums.

As at 31 December 2017 and 2016, short-term advance payments received of CZK 10,674,450 thousand and CZK 11,235,984 thousand, respectively cover, in particular, 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 2017 and 2016.

Payables to related parties (see Note 18).

## 13. Accruals and Deferred Income

Deferred income includes, in particular, contributions for reasonable costs incurred for connection and assuring the required power input and in case of switching installations diversion to separate constructions related to them. It 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 2017 and 2016 (in CZK thousands):**

Balance as at 31/12/2015	7,727,020
Additions in 2016	700,032
Released to revenues in 2016	(788,371)
Balance as at 31/12/2016	7,638,681
Additions in 2017	804,905
Released to revenues in 2017	(782,867)
Balance as at 31/12/2017	7,660,719

**14. Income Taxes**

On the basis of preliminary calculation the Company calculated tax expense as follows (in CZK thousands):

	2017	2016
Profit before taxes	7,877,507	8,908,919
Difference between book and tax depreciation	(474,934)	(221,027)
Difference between net book value of fixed assets for accounting and tax purposes	67,742	44,909
Non-deductible expenses		
Creation of provisions	223,947	62,327
Creation/release of allowances	(49,012)	109,328
Other	74,606	79,800
Taxable income	7,719,856	8,984,256
Current income tax rate	19%	19%
Tax	1,466,773	1,707,009
Tax allowance	(663)	(386)
Provision for income tax	1,466,110	1,706,623
Adjustment of the tax paid in previous years	2,032	1,456
Current tax expense	1,468,142	1,708,079

The Company submits regular tax return prior to 30 June 2018.

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

Deferred tax items	31/12/2017		31/12/2016	
	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	–	(11,590,610)	–	(11,544,142)
Other temporary differences:				
Allowance against receivables	40,970	–	50,238	–
Provisions	139,501	–	96,951	–
Other	28,398	(1,383)	28,680	(1,668)
<b>Total</b>	<b>208,869</b>	<b>(11,591,993)</b>	<b>175,869</b>	<b>(11,545,810)</b>
<b>Net</b>		<b>(11,383,124)</b>		<b>(11,369,941)</b>

## 15. Commitments and Contingencies

The Company has effected 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 2017 and 2016, the Company entered into contracts for future supplies of fixed assets in the amount of approx. CZK 4,454,629 thousand and CZK 4,193,947 thousand, respectively. As at 31 December 2017 and 2016, an amount of contractual liabilities for the following years comprises a contractual fee totaling CZK 4,177,106 thousand and CZK 3,745,217 thousand, respectively for investments, CZK 236,778 thousand and CZK 328,762 thousand, respectively for repairs and CZK 40,745 thousand and CZK 119,968 thousand, respectively for relaying.

The Company is a party to a number of legal disputes relating to collection of a price component pertaining to costs incurred in supporting the electricity generation from renewable energy sources and combined heat and power generation (fees for “OZE” and “KVET”, respectively) in 2013. The Company's management believes that if an adverse judgment against ČEZ Distribuce, a. s. is delivered in these cases and any potential similar disputes, the Company will be entitled to claim back the fees from OTE, a.s. Therefore, the Company takes all measures necessary to prevent the Company from an unfavorable impact in the case of failure, if any. Furthermore, the Company's management believes that the court should not, in any case, award the electricity producers the portion of their claim representing VAT.

In addition, the Company is a party to several disputes related to connection of photovoltaic 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 is as follows (in CZK thousands):

	2017	2016
Use of grids, incl. reserved capacity at low voltage level	18,574,736	18,744,430
Support of electricity from renewable sources	13,584,899	14,622,327
Provided reserved capacity at very high voltage and very low voltage levels	9,219,748	9,102,283
Provision of system services	3,690,703	3,766,974
OTE charges	214,793	286,708
Other energy services	341,844	1,499,494
Other non-energy services	190,054	203,339
<b>Total revenues</b>	<b>45,816,777</b>	<b>48,225,555</b>

A vast majority of the Company's revenues comprises 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.

Revenues also include subsidies for operating needs of CZK 9,158 thousand and CZK 956 thousand in 2017 and 2016, respectively received from the government budget.

Of the total some 99.8% of revenues were achieved in the Czech Republic. Foreign revenues included CZK 113 million from Axpo Trading AG, having its registered office in Switzerland (business reg. no.: 24683515, VAT ID CHE105779348MWST, Parkstrasse 23, Baden 5401), which has a license for electricity trading. The revenues were generated from services related to provision of distribution network.

## 17. Personnel and Related Expenses

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

	2017		2016	
	Total	Members of management, supervisory and administrative bodies	Total	Members of management, supervisory and administrative bodies
Average number of employees*	2,746	13	1,967	12
Wages and salaries	1,571,557	23,215	1,107,332	24,499
Social security and health insurance	537,822	3,897	378,320	4,913
Social cost	180,599	1,214	122,859	1,253
<b>Total personnel expenses</b>	<b>2,289,978</b>	<b>28,326</b>	<b>1,608,511</b>	<b>30,665</b>

\* Average recorded number of employees recalculated in physical persons as per the length of their working time to full working time set by the employer.

## 18. Related Party Information

The members of management, supervisory and administrative bodies were granted no advances, earnest money, loans, borrowings, guarantees, advances or other benefits in 2017 and 2016 and they do not hold any shares/interests of the Company.

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

As at 31 December 2017 and 2016, advances granted to related parties were CZK 1,490 thousand and CZK 7,838 thousand, respectively.

As at 31 December 2017 and 2016, receivables from group companies with majority control in the amount of CZK 5,295,212 thousand and CZK 8,108,423 thousand, respectively represent the balance of cash in the cash pooling system (see Note 6).

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 2017 and 2016, sales were as follows (in CZK thousands):

Related party	2017	2016
ČEZ Prodej, a.s.	21,028,234	23,309,692
Severočeské doly a.s.	220,301	308,639
ČEZ Energetické služby, s.r.o.	188,188	108,809
Telco Pro Services, a. s.	97,898	534
ČEZ, a. s.	59,794	58,443
ČEZ Distribuční služby, s.r.o.	23,003	28,267
ÚJV Řež, a. s.	8,825	7,962
Elektrárna Dětmarovice, a.s.	3,249	1,172
ČEZ LDS s.r.o.	2,697	–
ČEZ ICT Services, a. s.	2,078	102,982
ČEZ Energo, s.r.o.	2,115	1,752
MARTIA a.s.	1,196	1,813
EASY POWER s.r.o.	938	–
ČEZ ESCO, a.s.	709	281
ELTODO OSVĚTLENÍ, s.r.o.	645	626
ČEZ OZ uzavřený investiční fond a.s.	233	342
Energotrans, a.s.	7	15
ČEZ Zákaznické služby, s.r.o.	–	2,018
Energocentrum Vítkovice, a. s.	–	1,446
Elektrárna Tisová, a.s.	–	1,269
ČEZ Korporátní služby, s.r.o.	–	227
ČEZ Teplárenská, a.s.	–	20
Energie2 Prodej, s.r.o.	–	6
CITELUM, a.s.	–	1
<b>Total</b>	<b>21,640,110</b>	<b>23,936,316</b>

Short-term receivables from related parties as at 31 December, including unbilled revenue, except for advance payments made were as follows (in CZK thousands):

Related party	2017	2016
ČEZ Prodej, a.s.	6,952,316	8,028,556
ČEZ ICT Services, a. s.	32,275	15,059
ČEZ Energetické služby, s.r.o.	16,149	33,666
Telco Pro Services, a. s.	9,946	68
ČEZ Korporátní služby, s.r.o.	3,756	69
Severočeské doly a.s.	3,494	20,517
ČEZ, a. s.	1,395	5,681
EASY POWER s.r.o.	1,063	-
MARTIA a.s.	225	-
ČEZ LDS s.r.o.	199	-
ÚJV Řež, a. s.	96	609
ČEZ ESCO, a.s.	72	72
Elektrárna Dětmarovice, a.s.	52	10
ČEZ Distribuční služby, s.r.o.	41	152,311
ČEZ Zákaznické služby, s.r.o.	-	57,214
ČEZ Energo, s.r.o.	23	15
Elektrárna Tisová, a.s.	-	8
ELTODO OSVĚTLENÍ, s.r.o.	-	6
ČEZ Obnovitelné zdroje, s.r.o.	-	5
Energie2 Prodej, s.r.o.	-	5
<b>Total</b>	<b>7,021,102</b>	<b>8,313,871</b>

Short-term payables to related parties as at 31 December, including unbilled deliveries, except for advance payments received were as follows (in CZK thousands):

Related party	2017	2016
ČEZ Prodej, a.s.	356,485	967,206
ČEZ Distribuční služby, s.r.o.	273,254	832,606
ČEZ ICT Services, a. s.	77,760	142,616
ČEZ, a. s.	50,586	43,019
Telco Pro Services, a. s.	43,670	647
ČEZ Korporátní služby, s.r.o.	42,366	42,661
MARTIA a.s.	5,690	5,195
Tepelné hospodářství města Ústí nad Labem s.r.o.	1,425	-
Energotrans, a.s.	243	156
ČEZ OZ uzavřený investiční fond a.s.	164	163
ČEZ Energetické služby, s.r.o.	150	54
Elektrárna Dětmarovice, a.s.	132	280
Severočeské doly a.s.	2	2
ČEZ Teplárenská, a.s.	2	-
ČEZ Zákaznické služby, s.r.o.	-	8,980
<b>Total</b>	<b>851,929</b>	<b>2,043,585</b>

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2017 and 2016 were as follows (in CZK thousands):

Related party	2017	2016
ČEZ Distribuční služby, s.r.o.	5,507,559	5,789,849
ČEZ Prodej, a.s.	1,844,925	2,239,571
ČEZ ICT Services, a. s.	597,510	752,118
ČEZ Korporátní služby, s.r.o.	387,338	366,509
ČEZ, a. s.	274,990	214,066
Telco Pro Services, a. s.	215,532	7,468
MARTIA a.s.	42,805	46,404
Osvětlení a energetické systémy a.s.	1,985	-
Elektrárna Dětmorovice, a.s.	1,966	3,004
ČEZ OZ uzavřený investiční fond a.s.	1,966	1,952
Tepelné hospodářství města Ústí nad Labem s.r.o.	1,425	1,414
Energotrans, a.s.	1,343	1,374
ČEZ Energetické služby, s.r.o.	178	1,018
ČEZ Teplárenská, a.s.	20	20
Severočeské doly a.s.	16	15
Teplo Klášterec s.r.o.	3	3
ČEZ Zákaznické služby, s.r.o.	-	316,951
CITELUM, a.s.	-	431
PRODECO, a.s.	-	16
ČEZ Energo, s.r.o.	-	2
<b>Total</b>	<b>8,879,561</b>	<b>9,742,185</b>

As at 31 December 2017 and 2016, advances received from related parties were CZK 6,919,455 thousand and CZK 7,664,108 thousand, respectively. The advances mostly comprised of advances for distribution services received from ČEZ Prodej, a.s.

## 19. Miscellaneous Operating Income

Miscellaneous operating income includes in particular the released part of connection fees (see Note 13) and re-invoiced costs of relaying.

## 20. Subsequent Events

As of 1 January 2018 in accordance with the project of merger by acquisition between ČEZ Distribuční služby, s.r.o. having its registered address at Riegrovo náměstí 1493/3, Pražské Předměstí, 500 02 Hradec Králové, business reg. no.: 268 71 823, as the Dissolving Company and the ČEZ Distribuce, a. s. as the Successor Company, ČEZ Distribuční služby, s.r.o. ceased to exist without liquidation and its assets and liabilities transferred to the Successor Company ČEZ Distribuce, a. s. which has become the Dissolving Company's legal successor.

In addition, as of 1 January 2018 in accordance with the project of demerger by spin-off between the companies involved, namely ČEZ Korporátní služby, s.r.o., with its registered address at 28. října 3123/152, Moravská Ostrava, 702 00 Ostrava, business registration no.: 262 06 803 as one party as the Demerging Company and ČEZ Distribuce, a. s., as the other party as the Successor Company a part of assets of ČEZ Korporátní služby, s.r.o. determined in the Project was transferred to ČEZ Distribuce, a. s. whilst the Demerging Company did not cease to exist.

## 21. Cash Flow Statement

The cash flow statement was prepared under the indirect method.

Prepared on: 11 April 2018



Signature of entity's statutory body:

Richard Vidlička, MBA



Tomáš Murtinger

# Identification of ČEZ Distribuce, a. s.



## ČEZ Distribuce, a. s.

Teplická 874/8  
405 02 Děčín IV-Podmokly  
Czechia

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
Banking details:	Komerční banka, a.s., account No. 35-4544580267/0100
Phone:	+420 411 121 111
Fax:	+420 411 122 997
Internet:	<a href="http://www.cezdistribuce.cz">www.cezdistribuce.cz</a>
E-mail:	<a href="mailto:info@cezdistribuce.cz">info@cezdistribuce.cz</a>

License number: 121015583  
OTE registration number: 715

Closing date of the 2017 Annual Report: April 11, 2018

**Annex 1 Relation Structure Diagram for the Period  
of January 1, 2017, to December 31, 2017**

# B

We believe  
that we are  
already on  
a pathway  
that will  
lead us to more  
frugal and  
more efficient  
use of energy  
in the future.

# L

# E