



RE

ČEZ DISTRIBUCE, A. S.

ANNUAL REPORT 2009

42.2 TWh electricity distributed, including losses

3.5 million connection points

CZK 10.5 billion capital expenditure

RE RE

CZK 740/MWh cost to distribute 1 MWh, including losses

CZK 8.2 billion EBITDA

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

In 2009, ČEZ Distribuce, a. s. increased total spending on distribution grid renewal and development by CZK 1,170,000,000, creating work opportunities for electricians, engineers, and manufacturers of power engineering equipment and products. In so doing, we helped to stabilize the market in this field and became a partner to ČEZ, a. s. in the "ČEZ Against the Crisis" initiative.

SPONON

S P O N

SIBBLE

WE'RE WITH YOU

We understand how important it is to help the needy. That's why corporate social responsibility enters into everything our company does, every day. Our goal is to improve the quality of life of people around us, while at the same time being friendly to the environment of which we are a part. For this reason, we contribute to a number of projects, large and small. Because helping is the best investment in the future.

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Information on Persons Responsible for the Annual Report

■ Responsibility for the Annual Report

Statutory Declaration

The information presented in the 2009 Annual Report of ČEZ Distribuce, a. s. is factual and no material circumstances that could influence an accurate and correct assessment of ČEZ Distribuce, a. s. have been omitted or distorted.

Děčín, April 23, 2010

Editorial section:



Tomáš Truxa
Head of Corporate Office

Financial section:



Ivana Kolská
Head of Finance



Richard Vidička
Chairman of the Board of Directors
and General Manager

Letter from the Chairman

Ladies and gentlemen,

In summing up the past year from the perspective of ČEZ Distribuce, a. s., we can state that 2009 was an eventful year. From a macroeconomic perspective, the year can be characterized as a year of global economic crisis. The principal manifestation of this crisis in the financial performance of ČEZ Distribuce, a. s. was a 6.93% decline in electricity distribution volume. The Company distributed a total of 42.23 TWh of electricity and posted income before income taxes of CZK 3.6 billion. We invested CZK 10.5 billion in renewing the distribution grid, up CZK 2.3 billion from 2008. These results make us one of the most significant companies in the Czech Republic.

As an important partner, the Company got involved in an initiative of our sole shareholder, ČEZ, a. s., entitled "ČEZ Against the Crisis". Increased capital expenditures for distribution grid renewal created work opportunities for the country's electricians, engineers, and manufacturers of power engineering equipment and products. I am convinced that this initiative helped considerably to stabilize the market for electric power. By increasing capital expenditure in distribution grid renewal, ČEZ Distribuce, a. s. sent a clear signal to the general public and its partners that it intends to play an active role in mitigating the impacts of the crisis.

This, however, was not the only challenge the Company accepted in 2009. Another challenge, in my opinion no less important, was the Company's transition from a region-based organization to process-driven management of key operations throughout the service area. From October 1, 2009, all Company employees had to deal with a number of changes brought by the new management model. We will continue to seek out and utilize all opportunities for streamlining key processes in our Company.

A major accomplishment of 2009 from the Company's perspective was the obtaining of the SAFE ENTERPRISE certificate, which was preceded by vetting of the quality of our occupational safety and health system against recognized legislative standards in Europe. By obtaining SAFE ENTERPRISE certification, the Company demonstrated that it had implemented a sufficiently high-quality system for managing occupational safety and health, protecting the environment, and implementing fire protection, making us one of the most highly respected companies in this area in the Czech Republic. Another Company objective in the environmental area is to obtain ISO 14001 certification.

We are a strong and prosperous company that recognizes its social duty to help the needy and support other worthy causes. In 2009, ČEZ Distribuce, a. s. continued to do just that by donating CZK 65.4 million to projects in the areas of health care, education, social care, the arts, and sports. Without bombastic advertisements, the Company supported the purchase of a number of specialized devices for health care institutions, as well as learning aids and equipment for schools, special institutions, and therapy centers. Partnerships with us also enabled a number of interesting arts and social events to take place.

Today we can report that the goals set for 2009 were met. Therefore, I would like to thank all Company employees who played a part in the above accomplishments for their hard work and the dedication with which they tackled their assignments, as well as the loyalty with which they contributed to the promotion of the Company's good name.

Nonetheless, we must continue in our efforts to improve our performance, efficiency, and customer service quality.

Dear customers and partners, allow me on behalf of the Board of Directors of ČEZ Distribuce, a. s. to thank you for your long years of decent and proper cooperation, for the trust you place in the Company, and your support, without which we would not be able to further improve our mutual business relations at all levels of Company operation.



Richard Vidlička
Chairman of the Board of Directors
and General Manager

Selected Indicators

Selected Economic Indicators

	Units	2006	2007	2008	2009
Workforce headcount at December 31	persons	1,150	1,153	1,180	1,209
Revenues from sale of finished products and services	CZK millions	29,193	31,341	33,752	34,322
of which: sales of electricity	CZK millions	28,999	31,133	33,520	34,089
EBITDA	CZK millions	6,621	8,120	8,822	8,180
EBIT	CZK millions	410	2,684	4,541	3,640
Net income	CZK millions	362	3,704	3,789	2,927
Return on Invested Capital (ROIC)	%	0.63	3.27	5.42	3.54
Total assets	CZK millions	76,717	78,836	82,665	121,474
Equity	CZK millions	49,602	53,447	55,297	81,933
Financial debt	CZK millions	0	0	0	5,102
Financial debt/Equity	%	0	0	0	7.44
Capital expenditures (CAPEX)	CZK millions	5,668	6,578	8,193	10,506
Net cash provided by operating activities	CZK millions	8,237	7,068	7,547	8,301

Selected Sector-specific Indicators

	Units	2006	2007	2008	2009
Supply area	km ²	52,697	52,697	52,697	52,697
Number of connection points	number	3,475,044	3,495,103	3,517,304	3,534,132
of which: HV, MV – wholesale	number	13,385	13,442	13,707	13,873
LV – retail-commercial	number	481,934	483,059	464,043	457,161
LV – retail-residential	number	2,979,725	2,998,602	3,039,554	3,063,098
Peak load	MW	6,074	6,012	5,700	5,922
Grid extended length	km	152,733	153,778	154,013	154,016
of which: HV	km	9,523	9,540	9,570	9,570
MV	km	49,781	50,136	50,141	50,098
LV	km	93,429	94,102	94,302	94,348
Number of transformer stations	number	49,211	49,963	51,898	54,327
of which: owned by Company	number	39,117	39,452	40,659	41,754
owned by others	number	10,094	10,511	11,239	12,573

Important Events of 2009 and 2010 Up to Annual Report Closing Date

■ Important Events of 2009

January

- signing of Amendment No. 2 to the Collective Agreement, modifying the text of certain articles of the Collective Agreement, including Schedule No. 1 – Wage Tariffs and Schedule No. 2 – Additional payments and on-call pay.

February

- Company membership in the City of Děčín Economic and Social Council approved,
- draft order of the General Manager approved, regarding preparation of materials for decision of the sole shareholder acting with the powers of the General Meeting.

March

- discussion of increase in the Company's capital expenditure budget, brought about by activities of the sole shareholder to ensure stability in the market for line work and reduce the crisis's impacts by accelerating the implementation of work planned for 2009,
- members of the Board of Directors meet with the European Investment Bank to discuss possibilities for a loan.

April

- method approved, as part of "ČEZ Against the Crisis" initiative, for dealing with customer requests for changes in payment terms and option to delay payments,
- the Company's Board of Directors approves internal project TRINITY and associated reorganization plan,
- report on the state of occupational safety and health, fire protection, and the environment at ČEZ Distribuce, a. s. in 2008 approved,
- report on measures taken and fulfillment of the "Program of measures to eliminate discriminatory behavior, rules for making information accessible in a non-disadvantaging manner, and measures to ensure organizational and informational separation of distribution grid operator" approved.

May

- material entitled "Report on reorganization plan pursuant to Section 62 of the Labor Code effective from October 1, 2009 at ČEZ Distribuce, a. s." submitted to labor representatives,
- labor representatives informed of creation of 25 job positions as of July 1, 2009,
- Otto Karl's resignation from the Supervisory Board accepted, with the Chairman of the Supervisory Board to be acting Vice Chairman of the Supervisory Board pending election of his replacement.

June

- first meeting between CEZ Group distribution area managers and representatives of foreign acquisitions,
- decision taken by the sole shareholder acting with the powers of the General Meeting discussed and measures to execute the decision adopted,
- General Manager presents to employees a plan to implement a reorganization at ČEZ Distribuce, a. s. effective from October 1, 2009.

July

- Jaroslav Janda, a member of the Supervisory Board, elected Vice Chairman of the Supervisory Board of ČEZ Distribuce, a. s.,
- Milan Špatenka co-opted to be a member of the Supervisory Board of ČEZ Distribuce, a. s.,
- meeting with labor representatives regarding the planned reorganization.

August

- end of discussions on the TRINITY reorganization plan,
- Company Work Rules approved,
- order of the General Manager regarding reorganization (TRINITY) discussed,
- reorganization of the Company as of October 1, 2009 approved.

September

- Chairman of the Supervisory Board accepts resignation of Zdeněk Pasák from the Supervisory Board,
- Michaela Chaloupková co-opted to be a member of the Supervisory Board,
- Company officially begins operating with the new organization structure as of October 1, 2009,
- in a *per rollam* vote, the Board of Directors decides that ČEZ Distribuce, a. s. will withdraw from a contract with PSI AG für Produkte und Systeme der Informationstechnologie, signed in May 2006, including Amendment Nos. 1 – 4 thereto, due to breach of contract terms by the supplier.

October

- acting with the powers of the General Meeting, the Company's sole shareholder, ČEZ, a. s., decides to pay a total dividend of CZK 1,020.1 million out of retained earnings.

November

- at an extraordinary meeting, the Board of Directors of ČEZ Distribuce, a. s. decides to approve a plan to merge the companies ČEZ Distribuce, a. s. and ČEZ Distribuční zařízení, a.s., with their assets and liabilities to pass to a newly formed successor company – effective from October 1, 2010,
- at an extraordinary meeting, the Board of Directors of ČEZ Distribuce, a. s. approves the document “Announcement of Contract – Public Services” with the contract subject matter: “New, unified dispatch system for HV, MV, and LV (grid remote control system)”, including qualification documentation on the contract,
- Amendment No. 4 to the ČEZ Distribuce, a. s. Collective Agreement signed by representatives of Company management and representatives of labor organizations,
- Michaela Chaloupková and Milan Špatenka elected members of the ČEZ Distribuce, a. s. Supervisory Board by the sole shareholder acting with the powers of the General Meeting.

December

- Pavel Kraják resigns from position of member of the ČEZ Distribuce, a. s. Supervisory Board,
- resignation of Pavel Kraják discussed at meeting of the ČEZ Distribuce, a. s. Supervisory Board,
- meeting between members of the ČEZ Distribuce, a. s. Board of Directors and representatives of ČEPS, a.s., regarding transmission grid strategic development.

■ Important Events of 2010

Up to the Annual Report Closing Date

January

- Board of Directors of ČEZ Distribuce, a. s. announces election of one employee representative to the Supervisory Board,
- representatives of ČEZ Distribuce, a. s. management meet with representatives of Serbian power utilities.

February


- possibilities for connecting generating facilities in the years 2005–2010 discussed; issuance of positive opinions on connection of photovoltaic and wind power plants within the ČEZ Distribuce, a. s. licensed supply area suspended effective immediately,
- Josef Holub resigns from positions of Chairman of the Board of Directors and member of the Board of Directors of ČEZ Distribuce, a. s.,
- Martin Němeček resigns from positions of Vice Chairman of the Board of Directors and member of the Board of Directors of ČEZ Distribuce, a. s.,
- Supervisory Board elects Richard Vidlička a member of the Board of Directors of ČEZ Distribuce, a. s.,
- Richard Vidlička elected Chairman of the Board of Directors of ČEZ Distribuce, a. s.,
- Petra Holomková elected Vice Chairman of the Board of Directors of ČEZ Distribuce, a. s.,
- Josef Holub requests to be released from position of General Manager of ČEZ Distribuce, a. s.,
- Martin Němeček requests to be released from position of Director, Grid Provision Section of ČEZ Distribuce, a. s.

March

- Petra Holomková appointed acting General Manager of ČEZ Distribuce, a. s.,
- Richard Ceplecha appointed acting Director, Grid Provision Section,
- Board of Directors appoints Richard Vidlička General Manager of the Company,
- Supervisory Board elects Jiří Koptík a member of the Board of Directors,
- Board of Directors approves nomination of Jiří Koptík for the position of Director, Grid Provision Section,
- Company employees elect Karel Čech a member of the Supervisory Board.



care **from the very beginning**



The health of our children
must be cared for right
from the very beginning, and
that's why ČEZ Distribuce, a. s.
was a major contributor
to the OB/GYN department
of Ústí Hospital.

Directors and Officers

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

■ Supervisory Board

The Supervisory Board is the Company's oversight body, supervising how the Board of Directors runs the business and exercises its powers.

The Supervisory Board has six members: four are elected and removed by the General Meeting and two are elected by the employees in accordance with the provisions of Section 200, Act No. 513/1991 Sb., the Commercial Code, as amended. Details concerning Supervisory Board meetings, deliberations and decision-making are treated by the Rules of Order of the Supervisory Board. The Supervisory Board held eleven regular meetings in 2009. In addition, in 2009 the Supervisory Board took one per rollam decision outside of regular meetings, in accordance with Article 29 of the Articles of Association.

■ Members of the Supervisory Board

Jiří Kudrnáč (* 1965)

Chairman since June 17, 2008

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

Jaroslav Janda (* 1945)

Vice Chairman since July 21, 2009

A graduate of the Institute of Mechanical and Electrical Engineering in Plzeň (today's University of West Bohemia in Plzeň). Currently he serves as Head of the Equity Holdings Administration Department of ČEZ, a. s. He is Chairman of the Supervisory Boards of PPC Úžín, a. s., ČEZ Měření, s.r.o., and ČEZ Zákaznické služby, s.r.o. He is also the Vice Chairman of the Supervisory Board of ČEZ Distribuční zařízení, a.s.

Michaela Chaloupková (* 1975)

Member since September 22, 2009

A graduate of the University of West Bohemia in Plzeň, Faculty of Law, and the University of Pittsburgh, Joseph M. Katz Graduate School of Business, Executive Master of Business Administration Program (MBA). Currently she serves as Director, Procurement Section at ČEZ, a. s. She is the Chairwoman of the Supervisory Board of ČEZ Logistika, s.r.o. and a member of the Supervisory Boards of ČEZ ICT Services, a. s. and ŠKODA PRAHA Invest s.r.o.

Milan Špatenka (* 1970)

Member since July 21, 2009

A graduate of the Czech Technical University, Prague. He currently holds the position of Director, Distribution Development Section of ČEZ, a. s.

Karel Čech (* 1958)

Member elected by the employees since March 5, 2010

A graduate of the secondary industrial school of electrical engineering. He works for ČEZ Distribuce, a. s. in the Grid Renewal Section, as a MV, LV construction technician.

Irena Klůsová (* 1953)

Member elected by the employees since May 9, 2006

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

■ List of ČEZ Distribuce, a. s. Supervisory Board members whose Supervisory Board membership terminated in 2009 or up to the Annual Report closing date 23 April, 2010

Otto Karl (* 1943)

Member from March 31, 2005 to May 19, 2009

Zdeněk Pasák (* 1966)

Member from August 9, 2007 to September 22, 2009

Pavel Kraják (* 1953)

Member elected by the employees from May 9, 2006 to December 17, 2009



■ Board of Directors

As the statutory body, the Board of Directors directs the Company's activities and acts in its name. Members of the Board of Directors are elected and removed by the Supervisory Board. The powers and responsibilities of the Board of Directors are set forth in the Articles of Association, which is approved by the General Meeting. The Board of Directors decides in all Company matters that are not reserved for a different Company body by law or the Articles of Association. Details concerning Board of Directors meetings, deliberations and decision-making are dealt with in the Rules of Order of the ČEZ Distribuce, a. s. Board of Directors.

The Board of Directors has five members who elect a Chairman and a Vice Chairman from among their number. The Board of Directors met for 12 regular and two extraordinary meetings in 2009. In addition, the Board of Directors took seven decisions outside of meetings, in accordance with Article 7 of the Rules of Order of the ČEZ Distribuce, a. s. Board of Directors.

The Supervisory Board is kept informed of selected matters in accordance with the law and the Articles of Association.

■ Members of the Board of Directors

[Richard Vidlička \(*1966\)](#)

Chairman since February 24, 2010

A graduate of the University of Economics, Prague, Mr. Vidlička also holds an MBA from the University of Pittsburgh, Joseph M. Katz Graduate School of Business.



Petra Holomková (* 1968)

Vice Chairman since February 24, 2010

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

Pavel Filipi (* 1953)

Member since January 1, 2006

A graduate of the Czech Technical University, Prague, Mr. Filipi completed post-graduate studies in System Control in the Electric Power Industry and a certified course of study in Corporate Governance. He is a member of the Board of Directors of the CZECH FEDERATION OF POWER INDUSTRY EMPLOYERS and a member of the administrative board of Smetanova Litomyšl, o.p.s.

■ **Senior Management**

Richard Vidlička (* 1966)

General Manager

For personal data, see entry in the Board of Directors, above.

Jiří Koptík (* 1975)

Director, Grid Provision Section

For personal data, see entry in the Board of Directors, above.

Petra Holomková (* 1968)

Director, Finance and Administration Section

For personal data, see entry in the Board of Directors, above.

■ **List of members of ČEZ Distribuce, a. s. senior management whose positions were terminated in 2009 or up to the Annual Report closing date April 23, 2010**

Pavel Filipi (* 1953)

Director, Grid Control Section

For personal data, see entry in the Board of Directors, above.

Josef Holub (* 1951)

General Manager

Resigned from the position of General Manager as of February 28, 2010.

Filip Secký (* 1970)

Director, Grid Renewal Section

For personal data, see entry in the Board of Directors, above.

Martin Němeček (* 1966)

Director, Grid Provision Section

Resigned from the position of Director, Grid Provision Section as of February 28, 2010.



Filip Secký (* 1970)

Member since March 31, 2005

A graduate of the Czech Technical University, Prague, Mr. Secký is also Vice Chairman of the Supervisory Board of ČEZ Měření, s.r.o. and a member of the Supervisory Board of MARTIA a.s.



Jiří Koptík (* 1975)

Member since March 30, 2010

A graduate of the University of Economics, Prague, and management courses in Boston.

■ List of members of the ČEZ Distribuce, a. s. Board of Directors whose membership terminated in 2009 or up to the Annual Report closing date April 23, 2010

Josef Holub (*1951)

Member from December 14, 2007 to February 24, 2010

Martin Němeček (* 1966)

Member from March 31, 2005 to February 24, 2010

■ Remuneration Principles – Board of Directors and Supervisory Board

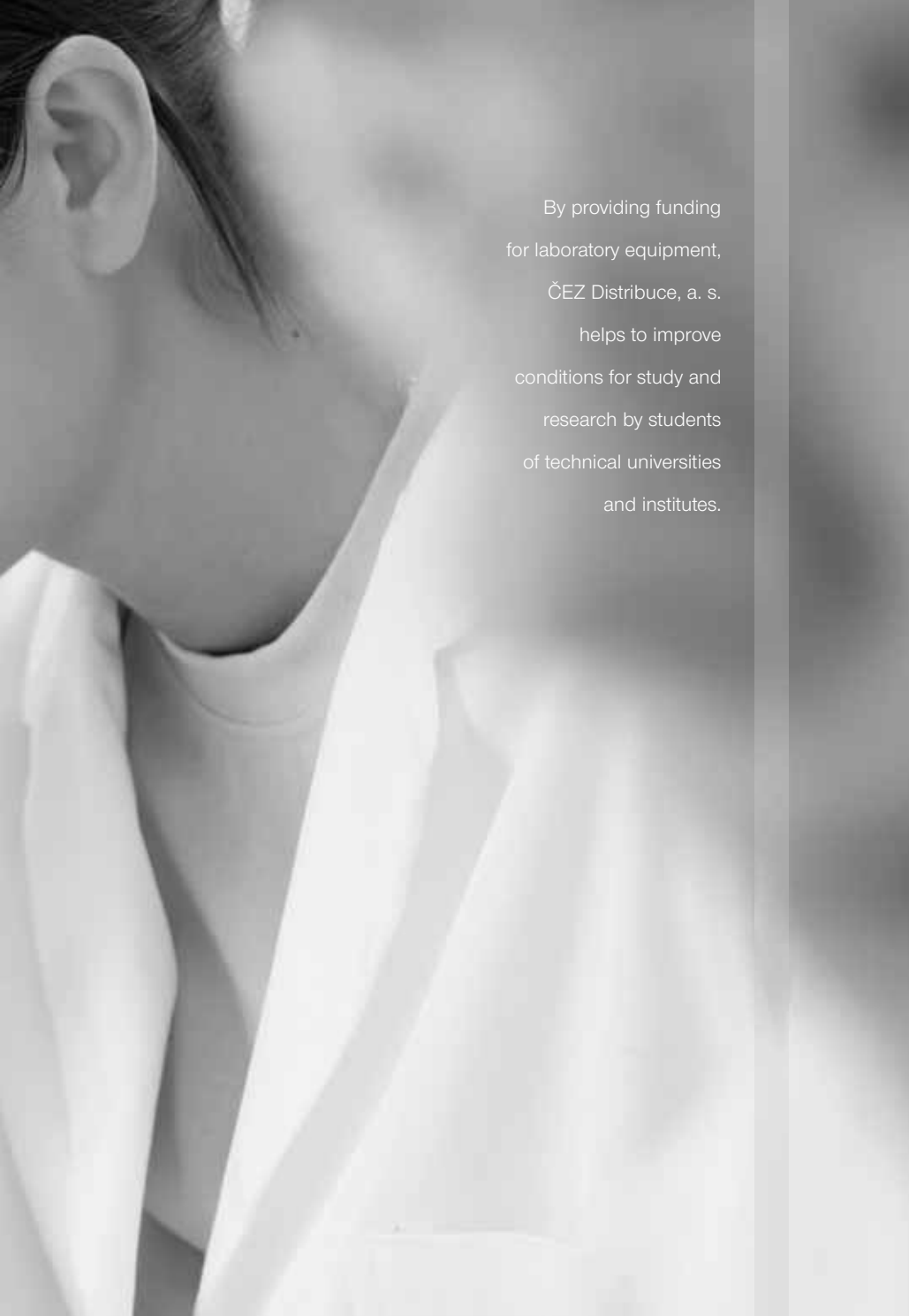
The remuneration principles for members of the Board of Directors and Supervisory Board are governed by rules approved by the General Meeting.

In 2009, the Company did not provide members of the statutory and supervisory boards any loans, nor did it provide any guarantees, collateral, or consideration on their behalf.

■ Remuneration Principles – Senior Management

The General Manager's contract was approved by the Company's Board of Directors. The Company's Personnel Committee approved the General Manager's targets for purposes of the system of incentives which, in accordance with the unbundling rules, is dependent exclusively on the Company's performance results. The remuneration principles and task assignments of the other members of executive management are defined in terms of the General Manager's task assignments. Each executive's task assignments are evaluated once per year.





By providing funding
for laboratory equipment,
ČEZ Distribuce, a. s.
helps to improve
conditions for study and
research by students
of technical universities
and institutes.

find the path **to success**

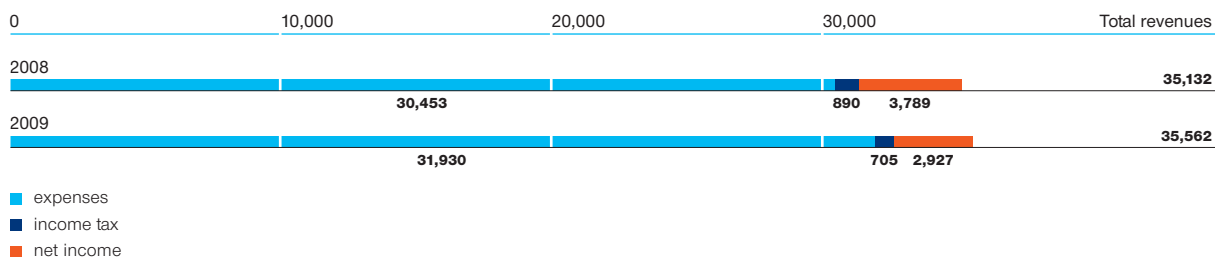
Report on Operations

Financial Performance

The year 2009 was the last year of the second regulation period. Prices for distribution of electricity are set by the Energy Regulatory Office. For 2009, the Energy Regulatory Office set the prices for purchase and sale of services related to the distribution of electricity in a structure similar to the one used for 2008.

Revenues, Expenses, Income

Income Breakdown (CZK millions)



In 2009, the Company's income before income tax totaled CZK 3,632 million. The net income figure, CZK 2,927 million, is down CZK 862 million from 2008.

The operating result was CZK 3,640 million, down CZK 900 million from 2008, particularly on a CZK 265 million increase in provisions and allowances, a CZK 259 million increase in depreciation and amortization, and a CZK 121 million decrease in the gross margin on electricity distribution.

The financial result fell CZK 145 million, compared to 2008, on a CZK 5,102 million loan taken to finance capital expenditures. Expenses, net of income tax, totaled CZK 31,930 million in 2009 and compared to the previous year they were up CZK 1,477 million. The biggest expense component, at CZK 16,847 million, was purchasing of electric power to cover losses and purchasing of system and distribution services. The next largest components were other production-related consumption (CZK 8,850 million), depreciation and amortization (CZK 4,540 million), personnel expenses (CZK 938 million), and other operating expenses (CZK 716 million).

Revenues totaled CZK 35,562 million in 2009 and consisted predominantly of revenues from sales of system and distribution services (CZK 34,089 million), other sales and service revenues (CZK 1,043 million), and other operating revenues (CZK 399 million). Compared to 2008, overall revenues were up CZK 430 million, of which CZK 569 million was attributable to increased electricity revenues.

■ Structure of Assets

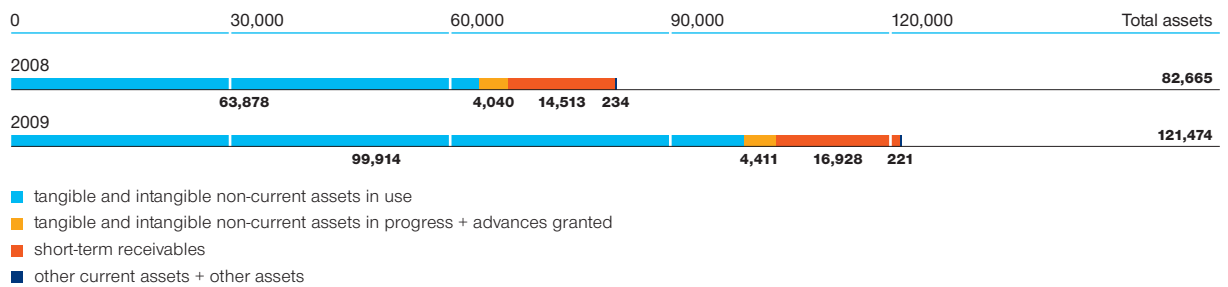
■ Assets

Total assets, at CZK 121,474 million, were up CZK 38,809 million from 2008. Growth in assets was driven mostly by a revaluation of non-current assets. The revaluation was carried out in connection with the ongoing project to merge the company with ČEZ Distribuční zařízení, a.s.

Non-current assets reached CZK 104,325 million, an increase of CZK 36,407 million over 2008's figure. The largest components in non-current assets were constructions (CZK 76,410 million), separate movable items (CZK 22,886 million), tangible assets in progress (CZK 4,386 million), and intangible assets (CZK 112 million).

Current assets were up CZK 2,397 million in 2009, compared to the previous year, and their total was CZK 17,137 million. The items with the highest values comprised unbilled revenue mainly from services related to electricity distribution (CZK 9,504 million), amounts owed by the controlling entity relating to Group cash pooling (CZK 4,638 million), short-term advances granted (CZK 947 million), short-term trade receivables (CZK 568 million), and work in progress (CZK 204 million).

Structure of Assets (CZK millions)

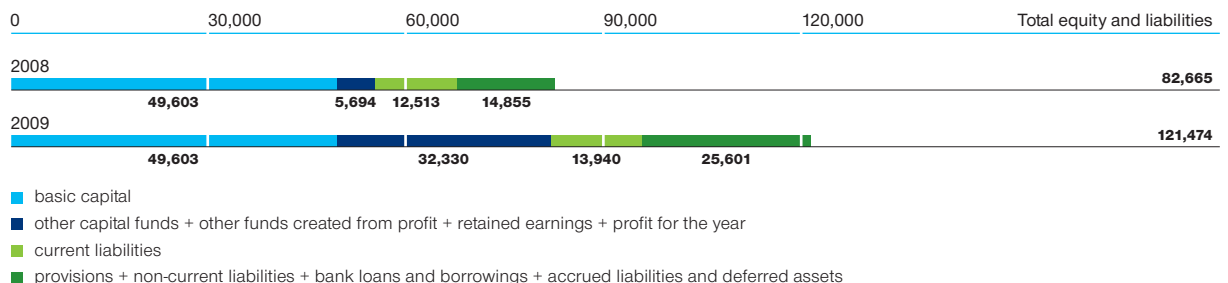


■ Equity and Liabilities

Equity totaled CZK 81,933 million, having grown CZK 26,636 million from 2008. Most of the increase was attributable to gains or losses on revaluation of company transformations and retained earnings. The biggest components of equity were the basic capital recorded in the Commercial Register (CZK 49,603 million), capital funds (CZK 24,731 million), retained earnings (CZK 4,291), and the profit for the year (CZK 2,927 million).

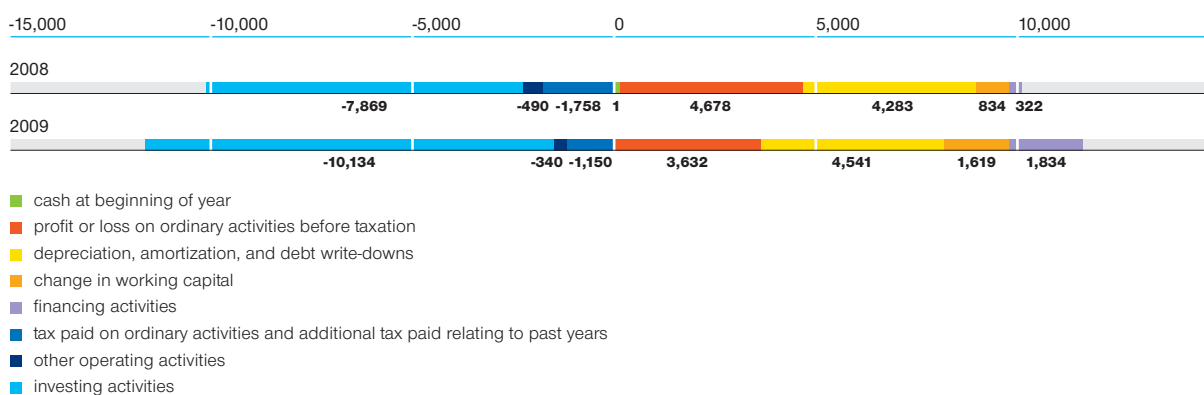
Liabilities reached CZK 31,645 million, up CZK 11,657 million from the previous year, mostly on higher deferred tax liability linked to the revaluation of non-current assets and on a loan taken to finance capital expenditures. The largest items were deferred tax liability (CZK 12,134 million), short-term advances received (CZK 9,336 million), non-current liabilities toward the controlling entity (CZK 4,592 million), short-term trade payables (CZK 2,497 million), and unbilled deliveries (CZK 1,513 million). Other liabilities, consisting primarily of deferred income from connection fees, reached CZK 7,897 million, up CZK 517 million from the previous year.

Structure of Equity and Liabilities (CZK millions)



Company Financing

Cash Flows (CZK millions)



Short-term financial assets as at December 31, 2009 totaled CZK 1.6 million, up CZK 1.4 million from 2008.

Cash provided by operating activities (CZK 8,301 million) consisted of the following items:

- profit or loss on ordinary activities before taxation CZK 3,632 million
- corporate income tax paid CZK -1,150 million
- depreciation, amortization and debt write-downs CZK 4,541 million
- change in working capital CZK 1,619 million
- other operating activities CZK -340 million

The most significant component in cash used in investing activities (CZK 10,134 million) was expenditures for acquisition of non-current assets, at CZK 10,183 million.

Total cash provided by financing activities was CZK 1,834 million. CZK 5,102 million was provided by a loan, while on the other hand an increase in our Group cash-pooling receivable and payment of dividends decreased cash by CZK 2,248 million and CZK 1,020 million, respectively.

Bank and Other Borrowings and Their Maturity

At December 31, 2009 the Company had an outstanding loan of CZK 5,102 million. Of this figure, the loan's non-current portion accounted for CZK 4,592 million and the current portion CZK 510 million.

Key Performance Indicators

	Units	2006	2007	2008	2009
Return on Invested Capital (ROIC)	%	0.63	3.27	5.42	3.54
Return on Equity (ROE), net	%	0.83	7.19	6.97	4.27
Return on Assets (ROA), net	%	0.54	4.76	4.69	2.87
EBIT margin	%	1.4	8.56	13.45	10.61
Financial debt/Equity	%	0	0	0	7.44
Financial debt/EBITDA	%	0	0	0	62.37
Current ratio	%	78	83.3	74.13	78.53
Operating cash flow-to-liabilities ratio	%	89.6	92.99	100.97	46.89
Assets turnover	1	0.43	0.41	0.42	0.34
Fixed assets coverage	%	93.71	95.57	92.42	95.51
Extent of depreciation	%	10.75	16.91	66.39	52.06

Commercial and Financial Outlook

2010 is the first year of the third regulation period. For 2010, the Energy Regulatory Office set the prices for purchase and sale of services related to the distribution of electricity in a structure similar to the one used for 2009.

The electricity distribution purchasing and sales plan is in line with anticipated electricity consumption in the ČEZ Distribuce, a. s. supply area for 2010 and the Energy Regulatory Office's price decree for 2010, which reflects principles of regulated prices on both sides: purchasing and sales. The purpose of these principles is to ensure coverage of distribution companies' justified expenses, generate funds for renewing and developing the distribution grid, and ensure returns for shareholders. The Company's plan for 2010 envisions revenues of CZK 39,569 million, income before income tax of CZK 5,345 million, and capital expenditures of CZK 9,963 million.

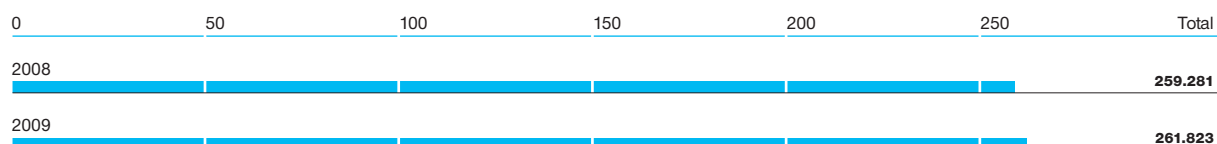
Information on the Company's Core Business

The operation and maintenance of the distribution grid in 2009 took place in compliance with quality standards and the Rules of Preventive Maintenance. Smooth operation of the distribution grid during the year was negatively impacted primarily by six natural disasters caused by unfavorable weather conditions, the most serious of which occurred on July 23, 2009 and October 14, 2009 with 1,222 and 1,118 extraordinary electricity distribution outages longer than three minutes, respectively, affecting customers. When natural disasters are excluded, grid control recorded 47 supply interruptions in the high-voltage system, 6,505 in the medium-voltage system, and 33,018 in the low-voltage system. These numbers are for outages lasting longer than three minutes and affecting at least one customer. In addition, 6,625 damaged fuses were replaced in customers' mains fuse boxes.

Since its inception, the Company has been monitoring and evaluating indicators relating to the quality and reliability of electricity supply and distribution, as well as other service quality indicators.

One of these indicators is SAIDI (System Average Interruption Duration Index), which expresses the total average duration of electricity supply interruption per customer for the entire year. This figure includes all failures and planned interruptions that occurred during the year directly in the Company's distribution grid or were caused in the transmission grid, except for those caused by unfavorable weather conditions.

Total Duration of Electricity Supply Interruptions Per Customer (minutes)



In terms of obligations under applicable laws and regulations, in particular monitoring of compliance with guaranteed standards in accordance with Energy Regulatory Office Decree No. 540/2005 Sb. on the quality of supplies of electricity and related services in the power industry, the standard for electricity distribution renewal following an outage was not met in 107 cases and the standard for meeting a planned restriction or interruption in electricity distribution was not met in 78 cases. ČEZ Distribuce, a. s. owns and operates the following distribution grid plant and equipment:

Distribution Grid Plant and Equipment

	Units	2007	2008	2009
Grid extended length	km	153,778	154,013	154,016
of which: HV	km	9,540	9,570	9,570
MV	km	50,136	50,141	50,098
LV	km	94,102	94,302	94,348
Substations	number	203	209	214
Transformer stations	number	49,963	51,898	54,327
of which: owned by the Company	number	39,452	40,659	41,754
owned by other entities	number	10,511	11,239	12,573

The Company's distribution grid was used to distribute a total of 42,229 GWh of electricity in 2009.

Analysis of Electricity Distribution (GWh)

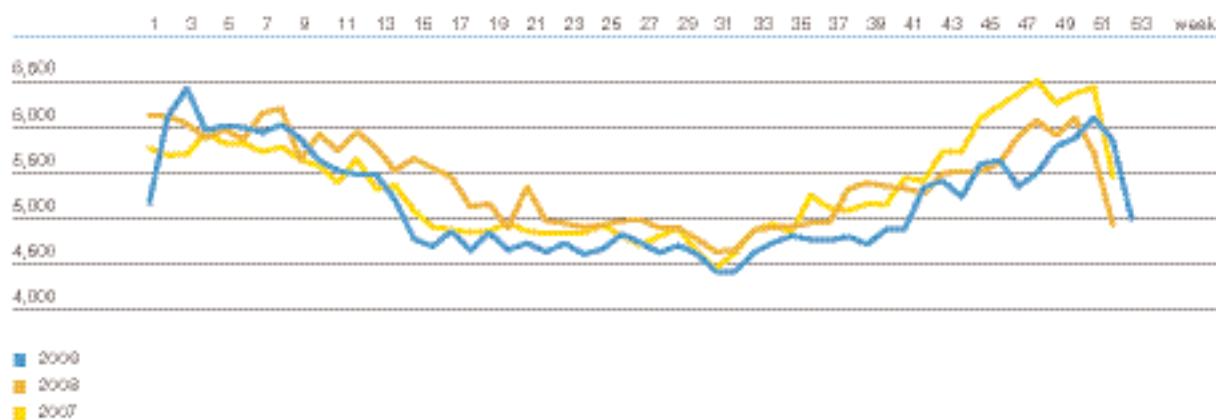
	2006	2007	2008	2009
Input to the distribution grid				
From transmission grid operators	23,089	23,171	24,206	22,674
From ČEZ, a. s. power plants	8,730	9,838	8,177	7,408
From neighboring distribution service providers	936	861	1,083	1,135
From other producers, including private power plants	9,172	8,665	9,196	8,526
From other installations	1,310	831	647	176
Import (from other countries) at the distribution services level	674	693	404	504
Distribution license holders (local distribution grid)	816	1,772	1,661	1,806
Input to the distribution grid, total	44,728	45,830	45,374	42,229
Output from the distribution grid				
End customers at HV, MV levels	15,325	15,478	15,444	13,721
End customers at LV level	14,334	13,908	14,333	14,298
Used by producers from grids operated by distribution service providers	1,630	1,538	2,106	1,628
Used by other generating facilities	1,310	831	647	176
Supplied to neighboring distribution service providers	5,330	5,393	5,618	5,347
Supplied to grids operated by transmission service providers	1,118	2,286	1,274	1,223
Export (to other countries) at distribution services level	370	479	497	295
Distribution license holders (local distribution grid)	2,557	3,243	2,883	3,020
Other consumption by distribution service providers	49	45	52	52
Losses	2,705	2,630	2,519	2,468
Output from the distribution grid, total	44,728	45,830	45,374	42,229

The total volume of electricity that flowed into the grid in 2009 was 42,229 GWh. Compared to 2008 this represents a decrease of 6.93%, or 3,145 GWh. The biggest component in total volume, at 53.69%, was electricity from the ČEPS a.s. grid, which was down 1,531 GWh year-on-year. Procurement from ČEZ, a. s. power plants and from other generating facilities, including producers, was also down for the year, by 769 GWh and 1,141 GWh, respectively. On the other hand, 2009 saw moderate growth in procurement from local distribution grids (up 144 GWh), from abroad (by 100 GWh), and from neighboring distribution service providers (up 52 GWh).

The volume of electricity distributed to end customers at the HV and MV levels fell by 1,723 GWh in year-on-year terms, and supplies at these voltage levels accounted for 32.49% of overall supply volume. The amount of electricity distributed to customers at the LV level also declined – by CZK 35 GWh for a 33.86% share in overall supplies. Power used by other generating facilities, including producers, was down 949 GWh from the previous year. A year-on-year decrease of 271 GWh was recorded in supplies to neighboring distribution service providers and their share in overall electricity distribution volume was 12.66%. Also down were supplies back to the ČEPS, a.s. grid (by 51 GWh), and export fell by 202 GWh. Supplies to local distribution service providers were up 137 GWh year-on-year. The volume of losses declined by 51 GWh.

The highest one-hour peak load, 5,922 MW, was recorded on January 14, 2009 at 1:00 p.m.

Weekly Peak Loads (MW)



ČEZ Distribuce, a. s. distributes electricity to end customers through electricity traders or by direct sale of distribution services. In 2009 the number of active traders with framework agreements with ČEZ Distribuce, a. s. increased to 29. In total, 166 connection points at the HV and MV levels and 16,662 connection points at the LV level were added to the grid in 2009.

Number of Connection Points

		2007	2008	2009
HV – wholesale	number	93	85	89
MV – wholesale	number	13,349	13,622	13,784
LV – retail-commercial	number	483,059	464,043	457,161
LV – retail-residential	number	2,998,602	3,039,554	3,063,098
Total		3,495,103	3,517,304	3,534,132

In 2009, over 16,000 new connection points were added to the grid and reserved capacity was increased for another 33,000 connection points. CZK 0.9 billion in connection fees were collected from customers in 2009 pursuant to Decree No. 51/2006 Sb. on Conditions for Connection to the Power System, and CZK 3.5 billion was expended to meet the new demand.

New Connections and Connection Capacity Increases

Voltage level	Distribution grid expenditures (CZK millions)	Connection fees collected (CZK millions)	New connections and capacity increases (MWh)
HV	338	17	62
MV	550	231	608
LV	2,626	654	791
Total	3,514	902	1,461

Strategic Objectives

■ Business Policy

The Company's principal task is to act responsibly as the administrator of distribution grid assets in the ČEZ Distribuce, a. s. supply area, generating returns for shareholders from the regulated activity of electricity distribution while complying with the terms of Act No. 458/2000 Sb. (the Energy Act) and rules promulgated by the Energy Regulatory Office.

Business objectives:

- sustained improvements in quality of services offered to customers in the area of electricity distribution and connection to the distribution grid,
- reliable operation of the distribution grid pursuant to standards set by the Energy Regulatory Office,
- growth in shareholder value.

Principles for attaining these objectives:

- grid development utilizing detailed analyses of investment recoverability and reliability principles,
- optimum distribution grid management with the objective of steadily reducing power outage durations and, at the same time, minimizing losses while maintaining maximum reliability of operation,
- outsourcing of services to minimize maintenance and fault correction costs.

The core business of ČEZ Distribuce, a. s. is the management of assets entrusted to our care, including related exercise of ownership rights, provision of distribution services to customers at all voltage levels, and real-time grid control. The Company's operations are based on balanced processes and utilize best practices in the area of asset management. At the same time, we use and introduce new cost management principles in conjunction with distribution system operation in order to standardize technologies used and manage grid development expenditures.

■ ČEZ Distribuce Strategic Development Objectives

Our most important plans for 2010 are the following:

- effectively manage distribution grid renewal and expansion costs,
- ensure sufficient distribution grid capacity to meet the needs of industry, regions, and the populace, from the perspective of producers and customers alike,
- roll out new technologies.



we're always **on your side**

Our physically and mentally
handicapped fellow citizens
have a right to a good life, too.
ČEZ Distribuce, a. s. helps to
improve their leisure-time
activities and contributes to the
integration of these citizens into
day-to-day life in society.

Capital Expenditure

Capital Projects

In 2009, the Company invested CZK 10,506 million in renewing and upgrading the distribution system. Compared to 2008, capital expenditure increased by 28.23%.

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

Principal Capital Expenditure Policy Objectives

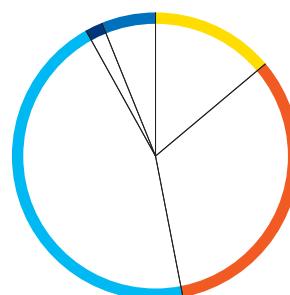
Capital projects focused primarily on distribution grid plant and equipment, with the objective of developing the Company's assets in the most effective possible manner, and improving the quality, reliability, and safety of distribution grid operation. Development projects were prepared and implemented in accordance with applicable laws and regulations, in particular Decree of the Energy Regulatory Office No. 540/2005 Sb. on the Quality of Electricity Supplies and Related Services in the Electrical Power Industry and the Rules for Operating Distribution Grids.

Overview of Capital Expenditure in 2007–2009, Plan for 2010 (CZK millions)

Capital expenditures	2007	2008	2009	2010 (Plan)
HV plant and equipment	747	835	1,478	1,474
MV plant and equipment	1,884	2,498	3,463	2,650
LV plant and equipment	3,054	4,008	4,712	4,793
Ancillary projects	296	335	266	320
Electric meters	597	517	587	726
Total	6,578	8,193	10,506	9,963

Capital Expenditure in 2009

	CZK millions	%
HV plant and equipment	1,478	14
MV plant and equipment	3,463	33
LV plant and equipment	4,712	45
Ancillary projects	266	2
Electric meters	587	6
Total	10,506	100



Distribution Grid Upgrades

Capital projects in 2009 focused primarily on MV and LV projects. A total of CZK 8,175 million was invested in MV and LV plant and equipment in 2009. The projects included, in particular, the grid unification program, rebuilds and upgrades of medium- and low-voltage underground and overhead power lines, construction of new and rebuilding of existing HV/MV transformer stations, and construction of new MV/LV distribution transformer stations. To a large extent, the grid plant and equipment projects (both new and rebuilds) were necessary to meet current and future customer demands.

Capital expenditures on HV projects totaled CZK 1,478 million. These consisted mostly of overhead HV lines, projects made necessary by customer connection requests, and transmission grid/HV substations.

Capital expenditures on customer-initiated projects totaled CZK 3,914 million, up 4.54% from the previous year.

■ Most Significant Projects

Internal projects:

- Třebovice – Lískovec, renovation of 110 kV overhead line,
- Mírovka – Hlinsko 110 kV line,
- Řeporyje transformer station, renovation of 110 kV substation,
- Česká Třebová – Ústí nad Orlicí, renovation of 110 kV line,
- Valašské Meziříčí – Vsetín, doubling of 110 kV line,
- interconnection of Nová Hospoda – Plzeň-South 110 kV line,
- Horní Maršov – Pec nad Sněžkou, construction of medium-voltage underground cable,
- Žamberk, 110 kV line, dismantling of existing line and construction of new replacement,
- upgrade of Mělník 110/22 kV Transformer Station,
- upgrade of Dobšice – Nymburk 110 kV line,
- Zvole – Jilové 110 and 22 kV lines, renovation with capacity increase,
- Příbor 110 kV substation – completion of renovation,
- Lískovec substation – line connection moved to new area of substation,
- Nový Bydžov, voltage change from 10 kV to 35 kV.

Projects to meet customer requirements:

- Doubrava – relocation of 110 kV substation,
- Příbor – Mošnov, 2 x 110 kV line – connection of new substation,
- Renovation of Prosenice – Dluhonice overhead high-voltage power line,
- Ostrava Rudná – construction of new 110/22 kV substation.

■ Other Capital Projects

Other investment in capital projects, totaling CZK 853 million, went on activities that are ancillary to the core business of electricity distribution: namely, upgrades of operational and control systems, purchases of electric meters and devices for measuring electricity quality.

■ Research and Development Expenditures

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

These studies and analyses included:

- gathering basic underlying data for evaluating the reliability of individual elements,
- optimizing the use of remote control on selected 22 kV outputs and analyzing the operational utilization of switching components.

During the year, work began on Phase Two of a research analysis of power supply to the 110 kV area of Northwest Bohemia – Phase II.

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

**Investment in distribution grid renewal
and development (CZK millions)**

10,506

**Investments in medium- and low-voltage plant
and equipment (CZK millions)**

8,175

Safety, Quality and Environmental Management

■ Safety and OHS Management System

The ČEZ Distribuce Safety and OHS Management System is based on strategic plans and safety policies. The system includes training, auditing, and inspection plans. One of the important principles in the Occupational Health and Safety (OHS) area is the application of feedback from audits and inspections.

In accordance with Act No. 309/2006 Sb., which treats additional occupational health and safety requirements in employer-employee relations and ensuring safety and protection of health in activities and provision of services outside of those relations, 2009 saw the introduction of a system for coordinating work on ČEZ Distribuce, a. s. construction sites, including a mechanism for conducting customer inspections.

In late 2009, OHS management-related activities were focused on implementation of a regular internal "Safe Enterprise" certification audit. The audit is one of the basic conditions that must be met each year in conjunction with this certificate.

■ Quality Management System

In the quality management area, we can state that, despite ever-increasing demands being placed on employees as the Company's capital expenditures grow and distribution plant and equipment is renewed, there was no decline in the overall quality of services for end customers. The speed with which fault states following natural disasters were corrected last year, as well as the commissioning and operational management of distribution grid plant and equipment, all attest to higher quality in these services. In late 2009, an agreement was reached on increased quality-analysis activity on distribution grid plant and equipment operated in the Rožnovsko microregion, with a focus on the quality of inspections and maintenance activity carried out by our suppliers.

■ Protection of the Environment

As usual, authorized Company environmental specialists dealt with all aspects of the environment – in particular, waste and water management, handling of chemicals and, last but not least, protection of birds.

A total of 78 sites with legacy environmental burdens have been identified within the ČEZ Distribuce, a. s. service area. Some of these sites have already been cleaned up in years past. At the other sites, preparations for clean-up are underway. In 2009, clean-up work was completed at three sites, and clean-up work and/or monitoring is ongoing at another 13 sites. Nearly CZK 1.1 million (net of VAT) was drawn in 2009 from the State fund designated for remedying legacy environmental burdens for the purposes of ČEZ Distribuce, a. s.

Protecting birds from electric shock is a standard topic in the nature protection area. The Company's 2007 pledge to invest in bird protection beyond mere compliance with legal requirements was fulfilled once again in 2009, in accordance with a plan worked out in cooperation with ornithologists. Power lines identified in accordance with the ornithologist's priorities were equipped with devices designed to protect birds from injury. The total amount invested in these measures in 2009 was CZK 20.5 million. This money helped secure over 640 miles (400 km) of medium-voltage power lines in places with the highest risk as given by bird populations.

Although a legislative amendment passed in mid-2009 placed us under an obligation to fit all MV lines with bird protectors within 15 years, we will continue to cooperate with ornithologists to make sure that critical areas are given priority over others where the risk is lower, for example due to lower frequency of bird sightings.

Early 2009 saw an update of the Waste Management Plan for the Company's operations throughout its service area. Subsequently, the updated plan was approved by the relevant administrative authorities.

Expenses for disposal of waste produced by the Company in 2009 totaled CZK 4.9 million.

Also updated during the year were accident response plans in the case of leaks of hazardous substances at transformer stations.

■ Fire Safety

The objective of the Company's fire protection efforts is continual creation of conditions for safe operation and protection of employees and property. The fire protection function was managed centrally for the entire Company and regular evaluations were conducted to determine its current status. Fire protection activities focused particularly on prevention, and emphasis was placed on minimizing risk to human life and of damage to property. Furthermore, fire protection documentation was updated in accordance with the requirements laid down by applicable laws and regulations. An area that receives continuous attention in terms of fire safety is regular checks of fire extinguishers in Company work areas.

Shares, Shareholders and the General Meeting

■ Shareholders and Securities Issued

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

The Company's sole shareholder is ČEZ, a. s. with its seat at Duhová 2/1444, Prague 4, postcode 140 53, Czech Republic, Company ID number 452 74 649, which owns a 100% stake in the basic capital of ČEZ Distribuce, a. s.

Shareholder Structure

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

■ Types and Volumes of Securities Issued

The Company has issued five multiple-share certificates numbered HL 3 000001 to HL 3 000005. The multiple-share certificates replace individual registered, CZK 778 par value shares.

One registered share in documentary form with a nominal value of CZK 139,421,490 is numbered C 000001.

All the Company's shares have limited transferability in that they can only be transferred with the consent of the Board of Directors, which can only be given only after the Supervisory Board considers the matter and issues a statement. ČEZ Distribuce, a. s. paid a dividend out of the retained earnings from 2008 in an amount of CZK 16 per share with nominal value CZK 778 and CZK 2,867,280 for the share with nominal value CZK 139,421,490.

■ Shareholder Relations

In 2009, the Board of Directors of ČEZ Distribuce, a. s. received a total of three decisions taken by the sole shareholder acting with the powers of the General Meeting in accordance with the provisions of Section 190, Act No. 513/1991 Sb., the Commercial Code, as amended:

On June 2, 2009, the following decision was adopted by the sole shareholder acting with the powers of the General Meeting of ČEZ Distribuce, a. s.:

- discussion of the report on the Company's operations and the state of its assets in 2008,
- discussion of the report of the Supervisory Board on its oversight activities in 2008,
- discussion of the Annual Report for 2008, including the Related Parties Report,
- discussion of the Report on the Year-end Financial Statements for 2008,
- approval of the year-end financial statements of 2008, approval of the proposal to settle losses brought forward from past years out of the capital reserve,
- approval of the 2008 profit allocation proposal,
- discussion of the report on the Company's financial plan for 2009,
- approval of the financial plan for 2009,
- approval of the total volume of sponsorship donations,
- election of Zdeněk Pasák to be a member of the Company's Personnel Committee.

On October 26, 2009, the sole shareholder acting with the powers of the General Meeting of ČEZ Distribuce, a. s. adopted a decision in the matter of pay-out of a shareholder dividend in the amount of CZK 16 per share with nominal value CZK 778 and CZK 2,867,280 for the share with nominal value CZK 139,421,490, out of retained earnings.

On November 2, 2009, the sole shareholder acting with the powers of the General Meeting of ČEZ Distribuce, a. s.

- adopted a decision in the matter of election of Supervisory Board members and a member of the Personnel Committee:
- election of Milan Špatenka to be a member of the Supervisory Board, term of office to begin as of the date of this decision,
 - election of Michaela Chaloupková to be a member of the Supervisory Board, term of office to begin as of the date of this decision,
 - election of Michaela Chaloupková to be a member of the Personnel Committee of ČEZ Distribuce, a. s., term of office to begin as of the date of this decision.

Human Resources

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

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

■ Labor Relations

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

Hires and Terminations in 2009 (number of employees)

Newly hired	90
Left the Company	61

The workforce headcount at December 31, 2009 was 1,209 persons.

■ Social Policy

The Company's social policy includes providing employees monetary and non-monetary compensation. Non-monetary compensation is provided in the form of reduced work hours and one extra week of paid vacation above the statutory amount. Monetary compensation provided by the Company in 2009 totaled CZK 71.9 million. The employer contributed primarily to employees' pension and life insurance plans, meals, and health care. All full-time employees received a personal account that can be used to pay for items such as holiday trips.

■ Training

Training and development of ČEZ Distribuce, a. s. employees can be divided into several basic areas. One form of employee development, legislative training, consists of periodic "second profession" training, as required by law. Employees undergo training and/or repeat testing in those second professions that they actively pursue in their work, as part of their job description. At ČEZ Distribuce, a. s., employee qualifications were increased and otherwise developed primarily through studies at universities and secondary schools. The study fields and programs in which Company employees are enrolled are chosen on the basis of their job descriptions or the employee's planned direction of future career growth. In the 2008/2009 academic year, a total of 46 Company employees were involved in work-study programs: 16 at secondary schools and 30 at universities.

Development of language skills at the Company focused primarily on English. In 2009, approximately 200 employees participated in foreign language courses.

In 2009, the Company organized management skills training for employees at the middle-management level. The objective of these programs was to develop basic management skills, primarily in the areas of effective communication, encouraging a pro-active approach, developing a drive to succeed, and non-verbal communication.

The total expense incurred by the Company for all employee development and training activities in 2009 was CZK 7.7 million.

■ Relations with Labor Unions

A total of 34 basic labor organizations operate at the Company. Some of these are organized into five regional labor unions.

The collective bargaining process in 2009 was characterized mainly by the priority of ensuring future stability in view of the rapidly changing external environment and in the context of fulfillment of the CEZ Group earnings plan. An important change is an extension of the existing Collective Agreement. Originally set to expire in 2010, after the extension the Collective Agreement will be valid until 2014. Basic tariff and contractual wages will remain at their current levels throughout 2010. An amendment to the Collective Agreement for the year 2010 was signed on November 3, 2009.

Labor unions play several important roles. In addition to representing employees, they engage in collective bargaining with the employer and monitor the employer to ensure it meets its obligations. The employer's aim is, through this communication, to support the development of employee motivation while maintaining labor peace. To ensure mutual information exchange, meetings were held regularly, every 14 days, throughout 2009.

In addition, the employer holds regular multi-day meetings with labor representatives.

During the course of the year, the Company's personnel and social policies were managed in the context of the Labor Code, including related legislation, and the valid Collective Agreement. Also, changes to the Company's organization and selected management documents were consulted with the labor organizations. When employees were laid off, the extensive social program was fully utilized. Although both social partners have differing interests and certain disagreements arose, in most cases a path to agreement was found and labor peace was upheld.

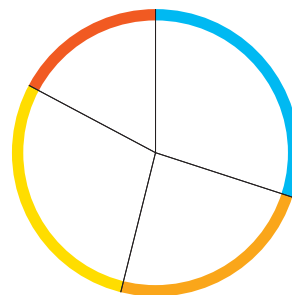
Donorship and Sponsorship Program

Sponsorship donations made through ČEZ Foundation totaled CZK 65.4 million in 2009. ČEZ Foundation supported leisure-time activities for children and youth, quality-of-life improvements for disadvantaged persons, and infrastructure upgrades in cities and villages in regions throughout the entire ČEZ Distribuce, a. s. service area. In addition, sponsorship donations totaling nearly CZK 19 million were made by ČEZ Distribuce directly in 2009. This sum was distributed amongst approximately 89 various projects.

The donorship field is very broad. Through its donations, the Company helped several towns to implement projects including the construction and rebuilding of playgrounds and sports fields, as well as to care for park upkeep and improvements. In the healthcare area, attention was focused on projects to upgrade equipment in pediatric wards. Projects to improve healthcare for the general public received our support as well. ČEZ Distribuce, a. s. helped to improve education through a contribution toward purchases of multimedia classrooms and teaching aids for primary and secondary schools. Also supported were projects for renewing school furniture and remodeling gym halls and adjoining athletic fields. The Company contributed toward the purchase of specialized laboratory equipment for universities and other institutions of higher education, with the aim of supporting research work by students in technical fields. Recipients of our financial assistance also included orphanages, which are home to many children who, as they have no family of their own, are in need of high-quality facilities and sufficient living space. Last, but not least, we helped our handicapped and otherwise disadvantaged fellow citizens by supporting specialized social facilities and protected workshops. The Company contributed over CZK 1 million to the CEZ Group Seniors Foundation Fund. ČEZ Distribuce, a. s. invested a total of CZK 2 million in direct promotions in 2009. The Company's advertisements appeared mainly at cultural, social, and sports events, including those of amateur teams.

Distribution of ČEZ Distribuce Direct Donations in 2009

	CZK millions	%
■ Municipalities	5.789	30
■ Social, health care	4.492	24
■ Sports, culture & the arts	5.392	29
■ Education	3.235	17
Total	18.908	100



Sponsorship projects implemented through ČEZ Foundation (CZK millions)

65.4


Sponsorship donations by ČEZ Distribuce, a. s. (CZK millions)

18.9

Litigation

In the year 2009, ČEZ Distribuce, a. s. was involved in routine litigation arising out of the ordinary course of business. In addition, it has continued to be involved in numerous legal measures responding to attacks, in the media and elsewhere, that are undertaken, in some cases in organized fashion, by unauthorized electricity users against ČEZ Měření, s.r.o. and its employees in conjunction with activity conducted by that company on behalf of ČEZ Distribuce, a. s. to discover, prevent, and eliminate the causes of unauthorized electricity use.

joy at every moment



Orphanages are full of children whose happiness depends on the atmosphere in which they live. Through its financial contributions, ČEZ Distribuce, a. s. endeavors to make that atmosphere one of joy.





Independent Auditor's Report

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

- I. We have audited the financial statements of ČEZ Distribuce, a. s. ("the Company") as at 31 December 2009 presented in the annual report of the Company on pages 42–56 and our audit report dated 17 March 2010 is presented on page 41.
- II. We have also audited the consistency of the annual report with the financial statements described above. The management of ČEZ Distribuce, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1–39 is consistent with that contained in the audited financial statements as at 31 December 2009. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

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

- III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of ČEZ Distribuce, a. s. for the year ended 31 December 2009 presented in the annual report of the Company on pages 62–64. The management of ČEZ Distribuce, a. s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of ČEZ Distribuce, a. s. for the year ended 31 December 2009 is materially misstated.

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

Josef Pivoňka
Auditor, License No. 1963

31 March 2010
Prague, Czech Republic



Independent Auditor's Report on the Financial Statements of ČEZ Distribuce, a. s.

To the Board of Directors of ČEZ Distribuce, a. s.:

We have audited the accompanying financial statements of ČEZ Distribuce, a. s. which comprise the balance sheet as at 31 December 2009, the income statement, the cash flow statement and the statement of movements in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of ČEZ Distribuce, a. s. see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s. as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Without qualifying our opinion we draw attention to the fact that the financial statements for the year ended 31 December 2009 were prepared with regard to the upcoming merger by consolidation with ČEZ Distribuční zařízení, a.s. with the effective merger date being 1 January 2010 (see Note 21) in accordance with the provisions of the Act on Accounting and the relevant accounting procedures and pursuant to the requirements of the Commercial Code. Therefore, the valuation of assets and liabilities as at 31 December 2009, determined by a court appointed appraiser is reflected in the accompanying financial statements.

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

Josef Pivoňka
Auditor, License No. 1963

ČEZ Distribuce, a. s. Balance Sheet as of December 31, 2009

(in CZK thousands)

ASSETS	2009			2008
	Gross	Provisiosn	Net	Net
TOTAL ASSETS	230,041,629	(108,567,214)	121,474,415	82,664,563
Stock subscription receivable	0	0	0	0
Fixed assets	212,760,880	(108,435,467)	104,325,413	67,918,417
Intangible assets	226,423	(114,767)	111,656	106,567
Foundation and organization expenses	0	0	0	0
Research and development	6,817	(3,767)	3,050	2,242
Software	137,267	(84,835)	52,432	59,971
Patents, royalties and similar rights	46,839	(19,906)	26,933	7,884
Goodwill	0	0	0	0
Other intangible assets	31,418	(6,259)	25,159	6,733
Intangible assets in progress	4,082	0	4,082	29,737
Advances granted for intangible assets	0	0	0	0
Tangible assets	212,534,457	(108,320,700)	104,213,757	67,811,850
Land	503,202	0	503,202	429,460
Constructions	155,705,057	(79,295,177)	76,409,880	50,303,390
Separate movable items and groups of movable items	51,856,263	(28,969,851)	22,886,412	13,062,720
Perennial crops	0	0	0	0
Livestock	0	0	0	0
Other tangible assets	9,547	(2,198)	7,349	5,637
Tangible assets in progress	4,439,965	(53,474)	4,386,491	3,992,715
Advances granted for tangible assets	20,423	0	20,423	17,928
Gain or loss on revaluation of acquired property	0	0	0	0
Financial investments	0	0	0	0
Subsidiaries	0	0	0	0
Associates	0	0	0	0
Other long-term securities and interests	0	0	0	0
Loans to subsidiaries and associates	0	0	0	0
Other long-term investments	0	0	0	0
Long-term investments in progress	0	0	0	0
Advances granted for long-term investments	0	0	0	0
Current assets	17,268,315	(131,747)	17,136,568	14,739,748
Inventory	206,698	0	206,698	226,209
Materials	11	0	11	0
Work in progress and semi-finished production	204,084	0	204,084	223,606
Finished products	0	0	0	0
Livestock	0	0	0	0
Goods	0	0	0	0
Advances granted for inventory	2,603	0	2,603	2,603
Long-term receivables	256	0	256	254
Trade receivables	0	0	0	0
Receivables from group companies with majority control	0	0	0	0
Receivables from group companies with control of 20%–50%	0	0	0	0
Receivables from partners, co-operative members and participants in association	0	0	0	0
Long-term advances granted	0	0	0	0
Unbilled revenue	0	0	0	0
Other receivables	256	0	256	254
Deferred tax asset	0	0	0	0
Short-term receivables	17,059,771	(131,747)	16,928,024	14,513,052
Trade receivables	699,609	(131,434)	568,175	803,562
Receivables from group companies with majority control	4,638,248	0	4,638,248	2,389,712
Receivables from group companies with control of 20%–50%	0	0	0	0
Receivables from partners, co-operative members and participants in association	0	0	0	0
Social security and health insurance	0	0	0	0
Due from government – tax receivables	1,269,164	0	1,269,164	1,140,079
Short-term advances granted	947,419	0	947,419	711,235
Unbilled revenue	9,504,019	0	9,504,019	9,467,442
Other receivables	1,312	(313)	999	1,022
Short-term financial assets	1,590	0	1,590	233
Cash	1,590	0	1,590	233
Bank accounts	0	0	0	0
Short-term securities and interests	0	0	0	0
Short-term financial assets in progress	0	0	0	0
Accrued assets and deferred liabilities	12,434	0	12,434	6,398
Prepaid expenses	9,832	0	9,832	1,900
Prepaid expenses (specific-purpose expenses)	0	0	0	0
Unbilled revenue	2,602	0	2,602	4,498

(in CZK thousands)

EQUITY AND LIABILITIES	2009	2008
TOTAL EQUITY & LIABILITIES	121,474,415	82,664,563
Equity	81,933,100	55,297,187
Basic capital	49,603,414	49,603,414
Registered capital	49,603,414	49,603,414
Own shares and own ownership interests (-)	0	0
Changes in basic capital	0	0
Capital funds	24,730,975	1,717
Share premium (agio)	1,489	1,489
Other capital funds	1,141	228
Gain or loss on revaluation of assets and liabilities	0	0
Gain or loss on revaluation of company transformations	24,728,345	0
Reserve funds and other funds created from profit	381,384	203,284
Legal reserve fund	381,384	203,284
Statutory and other funds	0	0
Profit (loss) for the previous years	4,290,550	1,700,246
Retained earnings for the previous years	4,290,550	1,711,572
Accumulated loss of previous years	0	(11,326)
Profit (loss) for the year (+/-)	2,926,777	3,788,526
Liabilities	31,644,564	19,987,167
Reserves	978,948	1,098,216
Reserves created under special legislation	0	0
Reserve for pensions and similar obligations	0	0
Reserve for corporate income tax	751,488	1,007,266
Other reserves	227,460	90,950
Long-term liabilities	16,725,336	6,376,263
Trade payables	0	0
Liabilities to group companies with majority control	4,591,800	0
Liabilities to group companies with control of 20%–50%	0	0
Liabilities to partners, co-operative members and participants in association	0	0
Advances received	0	0
Bonds payable	0	0
Notes payable	0	0
Unbilled deliveries	0	0
Other liabilities	0	0
Deferred tax liability	12,133,536	6,376,263
Current liabilities	13,940,280	12,512,688
Trade payables	2,496,717	2,424,338
Liabilities to group companies with majority control	510,200	0
Liabilities to group companies with control of 20%–50%	0	0
Liabilities to partners, co-operative members and participants in association	0	0
Liabilities to employees	41,570	31,980
Liabilities arising from social security and health insurance	20,915	18,433
Due to government – taxes and subsidies	7,375	5,375
Advances received	9,335,712	8,855,337
Bonds payable	0	0
Unbilled deliveries	1,512,831	1,173,654
Other liabilities	14,960	3,571
Bank loans and borrowings	0	0
Long-term bank loans	0	0
Short-term bank loans	0	0
Borrowings	0	0
Accrued liabilities and deferred assets	7,896,751	7,380,209
Accruals	38,269	0
Deferred income	7,858,482	7,380,209

ČEZ Distribuce, a. s. Statement of Income as of December 31, 2008

(in CZK thousands)

	Accounting period	
	2009	2008
Revenue from sale of goods	0	0
Cost of goods sold	0	0
Gross margin	0	0
Production	34,487,945	33,937,413
Revenue from sale of finished products and services	34,321,983	33,751,528
Change in inventory produced internally	(19,523)	37,386
Own work capitalized	185,485	148,499
Production related consumption	25,696,664	24,849,040
Consumption of material and energy	8,603,918	7,691,528
Services	17,092,746	17,157,512
Value added	8,791,281	9,088,373
Personnel expenses	937,551	837,568
Wages and salaries	633,375	567,440
Bonuses to members of company or cooperation bodies	2,107	2,133
Social security and health insurance	214,140	194,352
Other social costs	87,929	73,643
Taxes and charges	7,241	4,313
Amortization and depreciation of intangible and tangible fixed assets	4,539,590	4,280,883
Revenue from sale of intangible and tangible fixed assets and materials	71,934	38,144
Revenues from sale of intangible and tangible fixed assets	58,015	23,556
Revenue from sale of materials	13,919	14,588
Net book value of intangible and tangible fixed assets and materials sold	25,328	12,115
Net book value of intangible and tangible fixed assets sold	25,328	12,115
Materials sold	0	0
Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	295,386	30,001
Other operating revenues	970,829	1,018,137
Other operating expenses	388,646	439,043
Transfer of operating revenues	0	0
Transfer of operating expenses	0	0
Profit or loss on operating activities	3,640,302	4,540,731
Revenue from sale of securities and interests	0	0
Securities and interests sold	0	0
Income from financial investments	0	0
Income from subsidiaries and associates	0	0
Income from other long-term securities and interests	0	0
Income from other financial investments	0	0
Income from short-term financial assets	0	0
Expenses related to financial assets	0	0
Gain on revaluation of securities and derivatives	0	0
Loss on revaluation of securities and derivatives	0	0
Change in reserves and provisions relating to financial activities	0	0
Interest income	31,098	138,022
Interest expense	38,268	0
Other finance income	76	112
Other finance cost	932	786
Transfer of finance income	0	0
Transfer of finance cost	0	0
Profit or loss on financial activities	(8,026)	137,348
Tax on profit or loss on ordinary activities	705,499	889,553
– due	748,702	1,005,472
– deferred	(43,203)	(115,919)
Profit or loss on ordinary activities after taxation	2,926,777	3,788,526
Extraordinary gains	0	0
Extraordinary losses	0	0
Tax on extraordinary profit or loss	0	0
– due	0	0
– deferred	0	0
Extraordinary profit or loss	0	0
Transfer of share of profit or loss to partners (+/-)	0	0
Profit or loss for the year (+/-)	2,926,777	3,788,526
Profit or loss before taxation (+/-)	3,632,276	4,678,079

ČEZ Distribuce, a. s.
Statement of Cash Flows
as of December 31, 2009

(in CZK thousands)

	Accounting period	
	2009	2008
Cash and cash equivalents at beginning of year	233	612
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss on ordinary activities before taxation (+/-)	3,632,276	4,678,079
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	4,205,011	3,648,009
Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	4,541,216	4,283,161
Depreciation and amortization of fixed assets	4,539,590	4,280,883
Write-off of receivables	1,626	2,278
Change in provisions and reserves	(310,768)	(485,700)
Change in provisions	158,876	3,685
Change in reserves	136,510	26,316
Change in accrued and deferred assets and liabilities	(606,154)	(515,701)
(Gain)/Loss on disposal of fixed assets	(32,687)	(11,441)
Interest expense and interest income	7,170	(138,022)
Interest expense	38,268	0
Interest income	(31,098)	(138,022)
Other non-cash movements	80	11
Income from dividends and profit sharing	0	0
Net cash from operating activities before taxation, changes in working capital and extraordinary items	7,837,287	8,326,088
Change in non-cash components of working capital	1,619,332	834,285
Change in trade receivables	(120,937)	(1,454,422)
Change in trade payables	1,720,758	2,325,558
Change in inventory	19,511	(36,851)
Net cash from operating activities before taxation, interest paid and extraordinary items	9,456,619	9,160,373
Interest paid	(38,268)	0
Interest received	32,995	144,669
Tax paid	(1,149,974)	(1,758,228)
Gains and losses on extraordinary items	0	0
Dividends received	0	0
Net cash provided by (used in) operating activities	8,301,372	7,546,814
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(10,183,277)	(7,893,286)
Purchase of tangible assets	(10,473,047)	(8,125,902)
Purchase of intangible assets	(55,192)	(67,201)
Change in financial investments	0	0
Change in liabilities from investing activities	344,962	299,817
Proceeds from sale of fixed assets	49,003	23,898
Proceeds from sale of tangible assets	39,991	23,556
Proceeds from sale of intangible assets	0	0
Proceeds from sale of financial investments	0	0
Change in receivables from sale of fixed assets	9,012	342
Net cash provided by (used in) investing activities	(10,134,274)	(7,869,388)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in long-term liabilities and long-term, resp. short-term, loans	5,102,000	0
Change in long-term loans	4,591,800	0
Change in short-term loans and borrowings	510,200	0
Change in other long-term liabilities	0	0
Change in receivables/payables related to group cash pooling	(2,248,536)	2,249,195
Effect of changes in equity on cash	(1,019,205)	(1,927,000)
Effect of changes in basic capital on cash	0	0
Cash donations recorded in equity	0	0
Cash payments from equity funds	917	0
Dividends or profit sharing paid	(1,020,122)	(1,927,000)
Acquisition/sale of own shares	0	0
Net cash provided by (used in) financing activities	1,834,259	322,195
Net increase (decrease) in cash and cash equivalents	1,357	(379)
Cash and cash equivalents at end of year	1,590	233

ČEZ Distribuce, a. s. Notes to the Financial Statements as of December 31, 2009

■ 1. Description of the Company

ČEZ Distribuce, a. s. ("the Company") is a joint stock company incorporated on 31 March 2005 in the Czech Republic. The Company's registered office is located in Děčín 4, Teplická 874/8, post code: 405 02, Czech Republic, and the business registration number (IČ) is 272 32 425. The Company is involved in the operation, renewal and development of the power grid on the territory limited by its license and the distribution of electricity.

The sole shareholder and sole owner is ČEZ, a. s., Duhová 2/1444, post code: 140 53, Prague 4, business registration number (IČ): 452 74 649.

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

The Company has no foreign branch.

Members of the statutory bodies as at 31 December 2009 were as follows:

Board of Directors		Supervisory Board	
Chair	Ing. Josef Holub	Chair	Ing. Jiří Kudrnáč
Vice-chair	Ing. Martin Němeček	Vice-chair	Ing. Jaroslav Janda
Member	Ing. Pavel Filipi	Member	Ing. Milan Špatenka
Member	Ing. Filip Secký	Member	Irena Klůsová
Member	Ing. Petra Holomková	Member	JUDr. Michaela Chaloupková

On 2 November 2009, Ing. Milan Špatenka and JUDr. Michaela Chaloupková were appointed members of the Supervisory Board by the decision of the sole shareholder of ČEZ Distribuce, a. s., executing the powers of the general meeting. This fact was entered in the Commercial Register on 3 February 2010. The Supervisory Board co-opted JUDr. Michaela Chaloupková as member of the Supervisory Board on 22 September 2009.

Mgr. Zdeněk Pasák's membership in the Supervisory Board terminated on 22 September 2009. Ing. Pavel Kraják's membership in the Supervisory Board terminated on 17 December 2009. These facts were entered in the Commercial Register on 3 February 2010.

The Company's organizational structure is as follows:

- CEO Office
- Network Management Division
- Finance & Administration Division
- Network Renewal Division
- Network Providing Division

■ 2. Basis of presentation of the financial statements

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2009 and 2008.

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 2009 and 2008 financial statements are as follows:

a) Intangible Fixed Assets

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

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

b) Tangible Fixed Assets

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

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

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

Depreciation

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

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

Tangible and intangible fixed assets acquired via the contributions of part of enterprise in 2005 and 2006 were contributed to the Company at net book values revalued according to the expert appraisal by HZ Praha, spol. s r.o. which had been made in connection with “unbundling” of distribution companies of the CEZ Group. These net book values were used to set up the basis for depreciation / amortization for accounting purposes and, until 31 December 2007, the assets were depreciated / amortized over the remaining useful economic lives determined according to the expert appraisal. Since 2008, fixed assets acquired via the contributions of part of enterprise have been depreciated based on the revalued acquisition cost over the useful economic life according to the depreciation schedule, instead of based on the revalued net book value over the remaining useful economic life.

In addition, in 2008 the useful economic lives of energy assets were reassessed due to the unification with useful economic lives set out in Decree of Energy Regulatory Authority. The Company changed the depreciation plan for energy assets. The useful economic lives were extended for most of energy assets (power lines: from 30 years to 40 years, and technology of transformer stations and switching stations: from 16 years to 30 years).

c) Financial Assets

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

d) Inventory

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

Finished goods and work-in-progress (services) are recorded at actual cost. The cost of inventory produced internally includes direct material and labour costs and production overhead. Production overhead costs include externally-purchased relaying transferred in the full amount to work-in-progress and are allocated on the basis of planned overheads for centres (the basis for allocation are wages).

e) Receivables

Both long- and short-term receivables are carried at their realizable value after allowance for doubtful accounts. Additions to the allowance account are charged to income.

f) Equity

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Registry Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting which was not entered in the Commercial Register as at the financial statements date is recorded through changes in basic capital. 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.

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

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

g) Provisions and Liabilities

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

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

Liabilities or contingent liabilities which are not recorded in the balance sheet because significant uncertainties exist with respect to the amount, title or timing of the expected outflow of benefits are described in Note 16.

h) Finance Leases

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

i) Foreign Currency Transactions

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

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

j) Recognition of Revenues and Expenses

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

The Company recognizes as an expense any additions to provisions for or allowances against risks, losses or physical damage that are known as at the financial statements' date.

Revenues from distribution services are recorded at the time of the distributed electricity delivery. Total revenues from provided services comprise the billing and changes in unbilled distribution services. The Company records these revenues as revenues from sales of own products and services. Costs of electricity distribution and the power grid operation are recorded as service consumption (mainly system and transmission services) and consumption of material and energy.

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

k) Income Tax

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible provisions and allowances, entertainment expenses, differences between book and tax depreciation, etc.).

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes, taking into consideration the period of realization.

Differences arising from the contributions of a part of enterprise in the basic capital were recorded directly in equity at the contribution date.

■ 4. Fixed Assets**a) Intangible Fixed Assets (in CZK thousands)****Cost**

	At beginning of year	Additions	Disposals	Transfers	At end of year
Research and development	6,302	-	-	515	6,817
Software	131,618	-	(29,989)	35,638	137,267
Patents, royalties and similar rights	23,535	-	-	23,304	46,839
Other intangibles	10,028	-	-	21,390	31,418
Intangibles in progress	29,737	55,192	-	(80,847)	4,082
2009 Total	201,220	55,192	(29,989)	-	226,423
2008 Total	136,136	67,201	(2,117)	-	201,220

Accumulated Amortization

	At beginning of year	Revaluation	Amortization during year	Disposals	At end of year	Net book value
Research and development	(4,060)	1,895	(1,602)	-	(3,767)	3,050
Software	(71,647)	(269)	(12,919)	-	(84,835)	52,432
Patents, royalties and similar rights	(15,651)	-	(4,255)	-	(19,906)	26,933
Other intangibles	(3,295)	-	(2,964)	-	(6,259)	25,159
Intangibles in progress	-	-	-	-	-	4,082
2009 Total	(94,653)	1,626	(21,740)	-	(114,767)	111,656
2008 Total	(68,527)	-	(28,243)	2,117	(94,653)	106,567

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

b) Tangible Fixed Assets (in CZK thousands)**Cost**

	At beginning of year	Revaluation	Additions-contribution	Additions	Disposals	Transfers	At end of year
Land	429,460	-	-	913	(483)	73,312	503,202
Constructions	142,279,523	7,840,383	-	16,911	(1,191,030)	6,759,270	155,705,057
Individual movable items	47,127,451	2,475,940	-	25,808	(909,057)	3,136,121	51,856,263
Art works and collections	347	-	-	-	-	-	347
Other tangibles	6,732	785	-	1,683	-	-	9,200
Tangibles in progress	3,992,715	-	-	10,286,252	(9,284)	(9,829,718)	4,439,965
Advances for tangibles	17,928	-	-	141,480	-	(138,985)	20,423
2009 Total	193,854,156	10,317,108	-	10,473,047	(2,109,854)	-	212,534,457
2008 Total	76,121,026	109,789,109	467,222	8,125,901	8,125,901	-	193,854,156

Accumulated Depreciation

	At beginning of year	Revaluation	Depreciation during year	Additions-contribution	Net book value of sold assets	Disposals	At end of year	Allowances	Net book value
Land	-	-	-	-	-	-	-	-	503,202
Constructions	(91,976,133)	14,398,364	(2,903,879)	-	(4,559)	1,191,030	(79,295,177)	-	76,409,880
Individual movable items	(34,064,731)	5,810,518	(1,613,693)	-	(11,002)	909,057	(28,969,851)	-	22,886,412
Art works and collections	-	-	-	-	-	-	-	-	347
Other tangibles	(1,442)	(478)	(278)	-	-	-	(2,198)	-	7,002
Tangibles in progress	-	-	-	-	-	-	-	(53,474)	4,386,491
Advances for tangibles	-	-	-	-	-	-	-	-	20,423
2009 Total	(126,042,306)	20,208,404	(4,517,850)	-	(15,561)	2,100,087	(108,267,226)	(53,474)	104,213,757
2008 Total	(12,312,232)	(109,789,109)	(4,252,640)	(325,312)	(8,535)	645,522	(126,042,306)	-	67,811,850

Acquisition costs and net book values of depreciated intangible and tangible fixed assets were revalued in an expert opinion prepared by the valuation institute ZNALEX, s. r. o. as at 31 December 2009. The revaluation of acquisition costs and net book value of assets was made in connection with the ongoing merger project between ČEZ Distribuce, a. s. and ČEZ Distribuční zařízení, a.s. (see Note 21).

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 15,972 thousand and CZK 11,879 thousand at acquisition cost as at 31 December 2009 and 2008, respectively.

The Company has adjusted the carrying value of certain tangible assets for a diminution in value through a allowance charged against income (see Note 6).

■ 5. Receivables

Allowances against outstanding receivables that are considered doubtful were charged to income based on their collectibility and ageing analysis in 2009 and 2008 (see Note 6).

As at 31 December 2009 and 2008, receivables overdue for more than 30 days totaled CZK 177,728 thousand and CZK 34,791 thousand, respectively.

Receivables from related parties (see Note 19).

Unbilled revenue represents, in particular, unbilled distribution services.

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

Unbilled energy (UE)	Total	Retail business customers	Retail household customers
Opening balance at 1/1/2008	8,760,949	2,565,234	6,195,715
Changes in 2008	616,308	435,077	181,231
Closing balance as at 31/12/2008	9,377,257	3,000,311	6,376,946
Changes in 2009	11,596	16,737	(5,141)
Closing balance as at 31/12/2009	9,388,853	3,017,048	6,371,805

■ 6. Allowances

Allowances reflect a temporary diminution in the value of assets (see Notes 4 and 5).

Changes in the allowance accounts (in CZK thousands)

	Balance as at 31/12/2007	Additions	Deductions	Balance as at 31/12/2008	Additions	Deductions	Balance as at 31/12/2009
Allowances against fixed assets in progress	-	-	-	-	53,474	-	53,474
Allowances against receivables	22,661	17,612	(13,927)	26,346	122,798	(17,397)	131,747
of which: legal	10,925	7,981	(3,476)	15,430	95,852	(4,621)	106,661
other	11,736	9,631	(10,451)	10,916	26,946	(12,776)	25,086

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

■ 7. Short-term Financial Assets

Since 1 August 2006, the Company has been a part of cash pooling system for the companies in the CEZ Group managed by Komerční banka, a.s.

Cash in CZK provided to the parent company ČEZ, a. s. within the cash pooling bears interest rate of PRIBID -0.15% p.a. (receivables), cash in CZK provided by the parent company within the cash pooling bears interest rate of PRIBOR +0.59% (payables). The balance of cash transferred to the parent company ČEZ, a. s. within the cash pooling system was CZK 4,638,248 thousand and CZK 2,389,712 thousand as at 31 December 2009 and 2008, respectively. The balance is reported as short-term receivable in the balance sheet caption "Receivables to group companies with majority control" as at 31 December 2009 and 2008.

■ 8. Other Assets

Prepaid expenses include in particular damage liability insurance and payment of lease for land in Hladké Životice at an amount of CZK 7,814 thousand and are charged to income for the year in which they were incurred.

Unbilled revenues include in particular interest from cash pooling maintained with Komerční banka, a.s., for the month of December, which are recognized into income for the year in which they were earned.

■ 9. Equity

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

The movements in the capital accounts during 2009 and 2008 were as follows (in CZK thousands):

	Balance as at 31/12/2007	Increase	Decrease	Balance as at 31/12/2008	Increase	Decrease	Balance as at 31/12/2009
Number of shares	63,578,396	1	-	63,578,397	-	-	63,578,397
Basic capital	49,463,992	139,421	-	49,603,414	-	-	49,603,414
Movements in basic capital	139,421	-	(139,421)	-	-	-	-
Share premium	1,489	-	-	1,489	-	-	1,489
Other capital funds	200	28	-	228	913	-	1,141
Gain/loss on revaluation upon transformations	-	-	-	-	24,728,345	-	24,728,345
Legal reserve fund	18,105	185,179	-	203,284	189,426	(11,326)	381,384
Non-compensated losses B/F	-	(11,326)	-	(11,326)	-	11,326	-
Retained earnings	120,164	1,591,408	-	1,711,572	3,599,100	(1,020,122)	4,290,550

Gain/loss on revaluation upon transformations relate to the difference on revaluation of intangible and tangible assets totalling CZK 30,528,821 thousand (see Notes 4a and 4b) reduced by a deferred tax liability on revaluation totalling CZK 5,800,476 thousand (see Note 14) recorded as at 31 December 2009 in connection with the merger (see Note 21).

On 16 October 2007 the parent company ČEZ, a. s., as the sole shareholder of ČEZ Distribuce, a. s., executing the powers of the general meeting approved by notarial registration an increase in the Company's basic capital in the form of non-monetary contribution from Energetika Vítkovice, a.s. The non-monetary contribution was valued at CZK 140,910 thousand as at 30 June 2007 based on appraisal made by court appraiser, Ing. Lukáš Křístek, MBA, appraiser in economy, Spr. No. 405/2004, located at Jungmannova 1738, Rožtoky u Prahy, post code 252 63, recorded under No. 44/5/2007 dated 10 August 2007. Consecutively, on 1 November 2007 a contract for the subscription of one ordinary share at a nominal value of CZK 139,421 thousand was signed between ČEZ Distribuce, a. s. and Energetika Vítkovice, a.s. The contribution entered into effect as of 1 January 2008. An issue price of the subscribed share was set at the value of non-monetary contribution determined by the court appraiser and the difference between the value of non-monetary contribution and the share nominal value amounting to CZK 1,489 thousand is recognized as share premium. The basic capital increase was entered in the Commercial Register on 22 January 2008.

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

	Energetika Vítkovice, a.s. (2008)
Total assets	141,910
Total equity and liabilities	-
Total contributed net assets	141,910
Financial settlement	(1,000)
Share premium	(1,489)
Amount of basic capital increase	139,421

The accumulated losses brought forward in the amount of CZK 11,326 thousand arose as a result of the recognition of deferred tax liability as at the date of contribution of distribution assets of Energetika Vítkovice, a.s. in 2008 and was settled out of the reserve fund in 2009.

On 26 October 2009, ČEZ a. s., as the sole shareholder of ČEZ Distribuce, a. s., executing the powers of the general meeting approved by notarial registration a dividend distribution of CZK 1,020,122 thousand. The dividend was paid on 11 November 2009.

The Annual General Meetings held on 2 June 2009 and 22 May 2008, respectively, approved the following profit distribution for 2008 and 2007 (in CZK thousands):

	2008	2007
Profit for 2008	3,788,526	3,703,587
Allocation to legal reserve fund	(189,426)	(185,179)
Dividends	(1,020,122)	(1,927,000)
Undistributed profits added to retained earnings	2,578,978	1,591,408
Retained earnings as at 31/12/2009	4,290,550	1,711,572

■ 10. Provisions

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

Provisions	Balance as at 31/12/2007	Additions	Deductions	Balance as at 31/12/2008	Additions	Deductions	Balance as at 31/12/2009
Provision for income tax	1,055,058	1,007,266	(1,055,058)	1,007,266	751,488	(1,007,266)	751,488
Other provisions	64,634	32,949	(6,633)	90,950	153,296	(16,786)	227,460

In 2009, other provisions in the amount of CZK 227,460 thousand were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement. In 2009 the estimation of these provisions changed as a result of the change in the collective agreement and of more precise specification of computation parameters.

■ 11. Long-term Liabilities

As at 31 December 2009, the Company had the following long-term liabilities (in CZK thousands):

	Terms/conditions	2009	2008
Long-term liabilities	16/11/2009–27/12/2019	5,102,000	–
Current portion	Instalment in 2010	(510,200)	–
Total		4,591,800	–

A contract for credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 13 November 2009. The loan was withdrawn on 16 November 2009 and is repayable by 27 December 2019. The interest rate has been set at 5.87% p.a. The loan was provided to finance the implementation of the Project of reconstruction and development of the power grid in the Czech Republic.

The interest expense related to the loan was CZK 38,268 thousand in 2009.

Summary of loan maturities (in CZK thousands):

	Bank loan
2010	510,200
2011	510,200
2012	510,200
2013 and thereafter	3,571,400

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

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

The Company was in compliance with these terms and conditions as at 31 December 2009.

■ 12. Current Liabilities

As at 31 December 2009 and 2008, the Company had overdue current payables for more than 30 days totaling CZK 28,912 thousand and CZK 46,181 thousand, respectively.

As at 31 December 2009, the Company had liabilities of CZK 20,915 thousand owing to social security and health insurance premiums.

Unbilled deliveries represent, in particular, unbilled services related to electricity distribution, unbilled deliveries of electricity purchased to cover power grid losses and unpaid vacation claims for 2009.

Payables to related parties (see Note19).

■ 13. Other liabilities

Accruals include particularly interest on the loan provided by ČEZ, a. s., which are charged into income in the period in which they were incurred.

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

Movements in deferred income accounts in 2009 and 2008 (in CZK thousands)

Balance at 1 January 2008	6,560,840
Additions in 2008	1,341,013
Released to revenues in 2008	(521,646)
Balance at 31 December 2008	7,380,207
Additions in 2009	1,078,393
Released to revenues in 2009	(600,118)
Balance at 31 December 2009	7,858,482

Deferred income includes in particular connection fees within the meaning of Act No. 458/2000 Coll. (the Energy Act) and Decree No. 51/2006 Coll. of Energy Regulatory Authority (Energetický regulační úřad). These fees are credited to income by the Company in compliance with its internal regulations in the amount of 1/20 of collected fees per annum.

■ 14. Income Taxes

	2009 (in CZK thousands)	2008 (in CZK thousands)
Profit before taxes	3,632,276	4,678,079
Difference between book and tax depreciation	(186,694)	38,395
Difference between net book value of fixed assets for accounting and tax purposes	-	2,549
Non-deductible expenses		
Creation of provisions	136,510	26,316
Creation (release) of allowances	67,645	(820)
Other (e.g. entertainment expenses, shortages and losses)	109,077	53,476
Taxable income	3,758,814	4,797,995
Current income tax rate	20%	21%
Tax	751,763	1,007,579
Tax allowance	(275)	(313)
Provision for income tax	751,488	1,007,266
Adjustment of the tax paid in previous years	(2,786)	(1,794)
Current tax expense	748,702	1,005,472

The calculation of the 2009 corporate income tax liability is preliminary. The Company will submit its regular tax return by 30 June 2010.

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

Deferred tax items	2009		2008	
	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	-	12,184,845	-	6,399,539
Other temporary differences:				
Allowance against receivables	4,769	-	2,186	-
Provisions	43,217	-	17,352	-
Other	3,323	-	3,738	-
Total	51,309	12,184,845	23,276	6,399,539
Net		12,133,536		6,376,263

As at 31 December 2009, the Company recorded a deferred tax liability of CZK 12,133,536 thousand. The change of deferred tax in 2009 in the amount of CZK 43,203 thousand is recorded in the income statement. The change of deferred tax totalling CZK 5,800,476 resulting from revaluation of assets and liabilities in 2009 reduced gain/loss on revaluation of assets and liabilities in equity (see Note 9).

■ 15. Leases

The Company leases fixed assets, which are not recorded on the balance sheet (see Note 2h).

Assets which are being used by the Company under finance leases (i.e. the assets are transferred to the Company when the lease term expires) as at 31 December 2009 and 2008 consist of the following (in CZK thousands)

Description	Terms/ Conditions	Total lease	Payments made as at 31/12/2009 and 2008	Remaining payments as at 31/12/2009 and 2008	
				Due within one year	Due over one year
Transformers	72 months	30,450	30,450	-	-

■ 16. Commitments and Contingencies

The Company has affected the following types of insurance:

- Insurance of buildings and constructions, selected movable items and inventory (transformer stations, administrative buildings, warehouses)
- Insurance of civil engineering structures (very high voltage and high voltage power grids)

Other types of insurance include general liability insurance, insurance for damage caused by defective products and liability insurance of management and board members.

As at 31 December 2009 and 2008, the Company had concluded contracts for future supplies of fixed assets (capital expenditures and repairs) in the amount of approx. CZK 3,515,206 thousand and CZK 2,191,350 thousand, respectively.

The 2010 amount comprises a contractual fee for project documentation for constructions that should be handed over in 2010 (CZK 735,476 thousand), and for commenced constructions (that should be completed in 2010) it is a realization contractual amount reduced by the sums already paid in 2009 (CZK 2,779,730 thousand).

■ 17. Revenues

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

	2009	2008
Provided reserved capacity	7,302,157	6,820,531
Provision of system services	4,684,503	5,254,351
Use of grids	21,920,598	20,407,536
Other energy services	181,409	1,037,699
Other non-energy services	233,316	231,411
Total	34,321,983	33,751,528

In 2009, the revenues of the Company comprised primarily sales from the provision of network distribution services to electricity producers and traders. The prices for services related to providing of distribution network are subject to price regulations of Energy Regulatory Authority and were determined by the Energy Regulatory Authority's price decision for 2009.

■ 18. Personnel and Related Expenses

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

	2009		2008	
	Total personnel	Member of managerial bodies	Total personnel	Member of managerial bodies
Average number of employees	1,187	25	1,164	27
Wages and salaries	633,375	47,905	567,440	53,165
Bonuses to statutory body members	2,107	1,344	2,133	832
Social security and health insurance	214,140	16,232	194,352	18,608
Social cost	87,929	1,825	73,643	1,541
Total personnel expenses	937,551	67,306	837,568	74,146

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 2,107 thousand and CZK 2,133 thousand in 2009 and 2008, respectively.

■ 19. Related Party Information

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

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other benefits in 2009 and they do not hold any shares of the Company.

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

As at 31 December 2009 and 2008, advances granted to related parties amounted to a total of CZK 441,976 thousand and CZK 399,412 thousand, respectively.

As at 31 December 2009, receivables from group companies with majority control in the amount of CZK 4,638,248 thousand represent the balance of cash in the cash pooling system (see Note 7).

The Company provides services to related parties in the ordinary course of business. In 2009 and 2008, volumes of those sales were as follows (in CZK thousands):

Related party	2009	2008
ČEZ Prodej, s.r.o.	25,496,026	25,610,393
ČEZ, a. s.	91,240	88,500
ČEZ Obnovitelné zdroje, s.r.o.	473	376
ČEZ Zákaznické služby, s.r.o.	2,032	2,499
ČEZ Správa majetku, s.r.o.	4,890	12,128
ČEZ Měření, s.r.o.	1,861	3,175
ČEZ Distribuční služby, s.r.o.	40,688	40,012
Severočeské doly a.s.	175,346	160,944
ČEZ Energetické služby, s.r.o.	356	140
ČEZ ICT Services, a. s.	75,827	68,608
ČEZ Logistika, s.r.o.	99	-
MARTIA a.s.	60	-
Ústav jaderného výzkumu Řež a.s.	104	70
Total	25,889,002	25,986,845

Short-term receivables from related parties as at 31 December 2009 and 2008 were as follows (in CZK thousands)

Related party	2009	2008
ČEZ Prodej, s.r.o.	9,553,279	9,246,444
ČEZ Zákaznické služby, s.r.o.	190	229
ČEZ Správa majetku, s.r.o.	3,990	197
ČEZ, a. s.	8,113	7,430
ČEZ Měření, s.r.o.	164	219
ČEZ Distribuční služby, s.r.o.	5,026	4,949
ČEZ ICT Services, a. s.	8,629	13,751
ČEZ Obnovitelné zdroje, s.r.o.	131	27
Severočeské doly a.s.	6,911	8,898
ČEZ Energetické služby, s.r.o.	42	-
MARTIA a.s.	50	-
Ústav jaderného výzkumu Řež, a.s.	15	-
Total	9,586,540	9,282,144

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2009 and 2008 were as follows (in CZK thousands):

Related party	2009	2008
ČEZ, a. s.	444,108	496,698
ČEZ Obnovitelné zdroje, s.r.o.	105,654	134,433
ČEZ Měření, s.r.o.	1,749,522	1,683,616
ČEZ Prodej, s.r.o.	4,346,262	4,282,545
ČEZ Zákaznické služby, s.r.o.	876,360	909,836
ČEZ Správa majetku, s.r.o.	179,805	154,706
Severočeské doly a.s.	3	71
Ústav jaderného výzkumu Řež	1,483	1,257
ČEZ Energetické služby s.r.o.	68,224	512
ČEZ ICT Services, a. s.	1,213,996	1,175,739
ALLEWIA leasing s.r.o.	-	18
ČEZ Teplárenská, a.s.	209	-
ČEZ Logistika, s.r.o.	4,134,783	3,622,856
ČEZ Distribuční zařízení, a.s.	7,523	-
MARTIA a.s.	8,276	-
ČEZ Distribuční služby, s.r.o.	4,247,804	4,018,522
Total	17,384,012	16,480,809

As at 31 December 2009 and 2008, advances received from related parties amounted to a total of CZK 8,751,503 thousand and CZK 8,318,694 thousand, respectively. The advances mostly comprised of advances for distribution services received from ČEZ Prodej, s.r.o.

Short-term payables, except for received advances, to related parties as at 31 December 2009 and 2008 were as follows (in CZK thousands):

Related party	2009	2008
ČEZ, a. s.	71,923	91,465
ČEZ ICT Services, a. s.	139,094	176,409
ČEZ Logistika, s.r.o.	277,584	266,063
ČEZ Distribuční služby, s.r.o.	581,250	476,757
ČEZ Obnovitelné zdroje, s.r.o.	11,374	12,682
ČEZ Měření, s.r.o.	147,909	159,823
ČEZ Prodej, s.r.o.	452,884	384,727
ČEZ Zákaznické služby, s.r.o.	92,006	96,867
Ústav jaderného výzkumu Řež, a.s.	439	399
ČEZ Distribuční zařízení, a.s.	8,952	-
MARTIA a.s.	3,047	-
ČEZ Energetické služby, s.r.o.	26,451	-
ČEZ Teplárenská, a.s.	2	-
ČEZ Správa majetku, s.r.o.	27,826	17,360
Total	1,768,818	1,682,552

■ 20. Significant Items of Income Statement

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

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

■ 21. Significant Subsequent Events

On 2 November 2009, ČEZ Distribuce, a. s.'s Board of Directors approved the intention to carry out merger by consolidation between the Company and ČEZ Distribuční zařízení, a.s. with the transfer of assets and liabilities to the newly formed successor company in accordance with Section 62 and related provisions of Act No. 125/2008 Coll., on transformation of companies and cooperatives, as amended (hereinafter referred to as the "merger"). The merger by consolidation will be effected without the liquidation of the dissolving company ČEZ Distribuce, a. s., business registration number 27232425, with its registered address in Děčín 4, Teplická 874/8, postal code 40502, formerly recorded in the Commercial Register maintained by the Regional Court in Ústí nad Labem, section B, file No. 1704 and assets and liabilities (including all rights and obligations resulting from employment relationship) and without the liquidation of the dissolving company ČEZ Distribuční zařízení, a.s., business registration number 28922727, with its registered address in Prague 4, Michle, Duhová 2/1444, postal code 14053, formerly recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, file No. 15391.

The Board of Directors of ČEZ Distribuce, a. s., decided to set the merger effective date at 1 January 2010. The Board of Directors of ČEZ Distribuce, a. s., also approved at the same meeting to file a motion to the respective court to appoint the expert institute ZNALEX, s. r. o., business registration number: 26099306 with its registered address in Prague 1, V Jámě 5/699, postal code 11000, registered with the Municipal Court in Prague, file No. C 116310, to prepare an expert opinion regarding the valuation of the Company's assets and liabilities for the purpose of the merger. Consequently, assets and liabilities were revalued and deferred tax recorded (see Notes 4 and 14) with the corresponding entry to Gain/loss on revaluation upon transformations (see Note 9).

On 23 November 2010, Ing. Josef Holub resigned on his post of chairman of the Board of Directors of ČEZ Distribuce, a. s., and on his membership in the statutory body. Ing. Martin Němeček resigned on his post of vice-chairman of the Board of Directors of ČEZ Distribuce, a. s., and on his membership in the statutory body.

On 24 February 2010, the Supervisory Board elected Ing. Richard Vidlička member of the Board of Directors of ČEZ Distribuce, a. s. The Company's Board of Directors elected Ing. Richard Vidlička chairman of the Board of Directors of ČEZ Distribuce, a. s. In addition, the Board of Directors elected Ing. Petra Holomková its vice-chairperson.

Ing. Josef Holub terminated his office of Chief Executive Officer as at 28 February 2010. Ing. Martin Němeček terminated his office of director of the Provision of Network Section as at the same date.

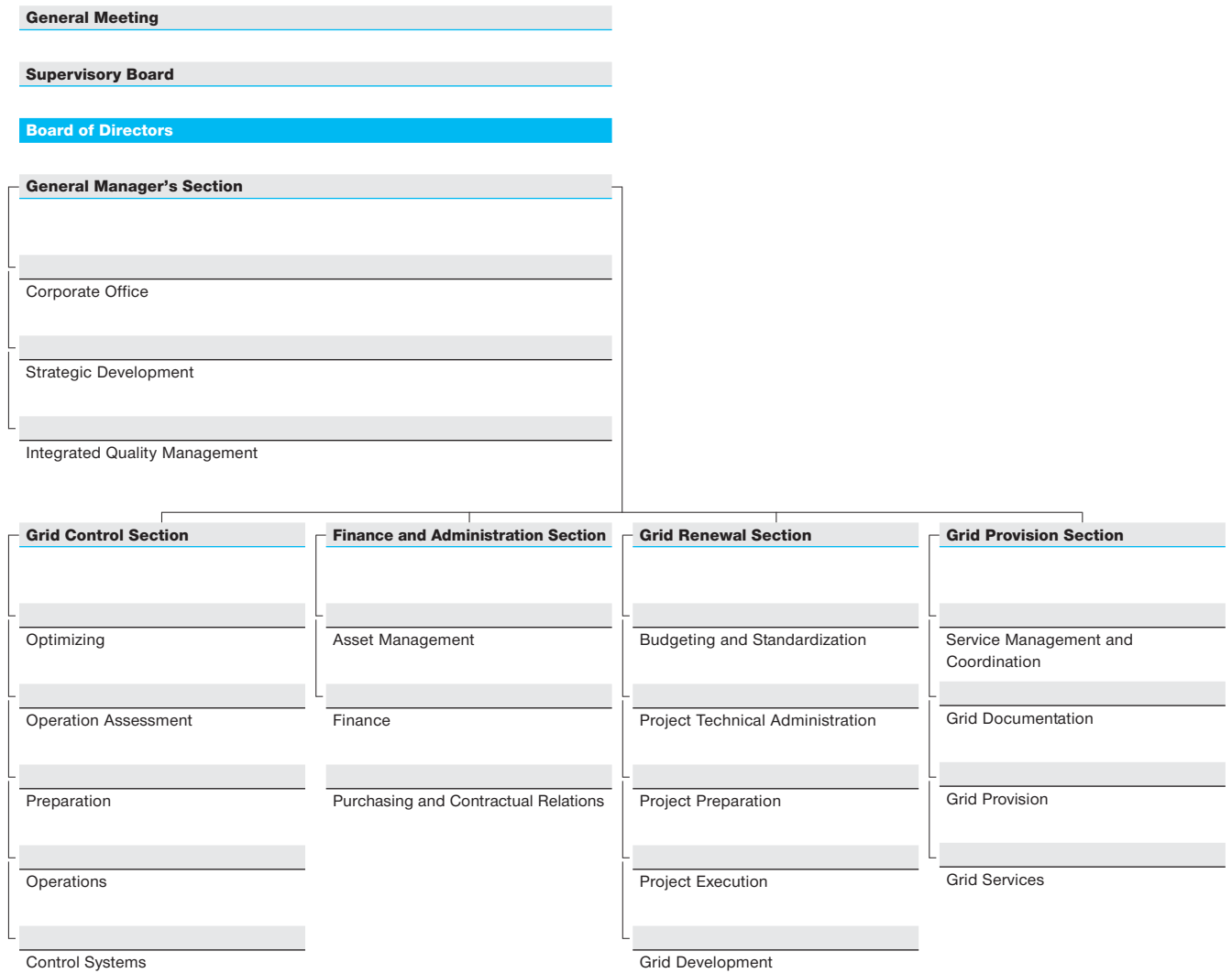
On 5 March 2010, Karel Čech was elected by the Company's employees as their representative in the Supervisory Board of ČEZ Distribuce, a. s. Ing. Richard Vidlička was appointed new Chief Executive Officer on 15 March 2010.

■ 22. Statement of Cash Flows

The cash flow statement was prepared under the indirect method.

■ 23. Statement of Changes in Equity (see note 9)

ČEZ Distribuce, a. s. Organization Chart as at April 23, 2010



Glossary of Terms and Abbreviations

■ Glossary of Terms and Abbreviations

Term	Commentary
Cash pooling	A service under which the balances on all accounts of a particular client belonging to a given group are summed at the end of each day and the client receives a higher interest rate on its primary account based on that sum.
Compliance program	A program of measures to eliminate discriminatory behavior and distribution grid operator rules for making information available that put certain persons or groups at a disadvantage.
ČEPS, a.s.	Operator of the Czech Republic Transmission Grid.
Distribution grid	A mutually interconnected set of 110 kV power lines and equipment – with the exception of 110 kV power lines and equipment that are part of the transmission grid – and power lines and equipment with voltages 0.4/0.23 kV, 3 kV, 6 kV, 10 kV, 22 kV and 35 kV that serves purposes of distributing electricity in a designated area of the Czech Republic, including metering, protective, control, security, information and telecommunications systems and technologies.
EBIT	Earnings Before Income Tax.
EBITDA	Earnings Before Income Tax, Depreciation, and Amortization.
Eligible customer	An customer who has the right to choose their electricity supplier from among holders of licenses to generate and/or trade in electricity. An eligible customer may also purchase electricity directly on the market organized by the OTE.
Energy Regulatory Office	Administrative office responsible for regulating the energy sectors; has its own separate category in the Czech Republic national budget. The Energy Regulatory Authority supports competition and protects consumer interests in those areas of the energy industries where competition is not possible, with the aim of satisfying all reasonable demand for energy.
Framework agreement	An agreement entered into between a trader and the distributor in cases when the trader has at least one customer with an aggregation agreement.
HV	High Voltage – distribution grid plant and equipment with voltage between phases in excess of 52 kV.
LV	Low Voltage – distribution grid plant and equipment with voltage between phases of up to 1,000 V, inclusive.
MV	Medium Voltage – distribution grid plant and equipment with voltage between phases of 1–52 kV.
OTE	A State-established joint-stock company whose purpose is to operate the Czech Republic electricity market, draw up the reconciliation of agreed and actual amounts of electricity supplied and purchased by market players, see to the settlement of deviations of actual supply amounts from contracted-for amounts, and operate the electricity spot market.

Term	Commentary
PCB	Polychlorinated biphenyls, polychlorinated terphenyls, Monomethyl-Tetrachloro-Diphenyl methane, Monomethyl-Dichloro-Diphenyl methane, Monomethyl-Dibromo-Diphenyl methane, all mixtures containing one or more of the above substances with a total concentration of these substances higher than 50 mg/kg.
Renewable sources of energy	Sources of energy that renew themselves naturally. These include hydro, geothermal, solar, and wind energy, as well as energy obtained from the combustion of biomass.
Retail customer	A type of electricity customer defined as a customer connected to the low-voltage grid (up to 1 kV). This category is further subdivided into residential and commercial.
ROA	Return On Assets.
ROE	Return On Equity.
ROIC	Return On Invested Capital.
SAIDI	System Average Interruption Duration Index. An indicator of the reliability of electricity transmission/distribution, i.e. the total duration of all electricity distribution interruptions in the calendar year; expressed as minutes/year/customer.
SAIFI	System Average Interruption Frequency Index. An indicator of reliability of electricity transmission/distribution. The frequency of electricity distribution interruptions in terms of the number of electricity distribution interruptions in the calendar year; expressed as number of interruptions/year/customer.
Transmission grid	A mutually interconnected system of 400 kV, 220 kV power lines and equipment and selected power lines and equipment of the 110 kV grid, which serves the purpose of electricity transmission throughout the entire Czech Republic and that of interconnection with power systems of neighboring countries, including metering, protective, control, safety, information and telecommunications equipment; the transmission grid is built and operated in the public interest.
Unbundling	The separation, for accounting and legal purposes, of the holder of an electricity distribution license from the holders of licenses to generate electricity, transmit electricity, trade in electricity, or trade in gas. European Union Member States are subject to this requirement under EU Directive No. 2003/54/EC. In the Czech legal system, this requirement is given by Sections 24a and 25a of Act No. 91/2005 Sb. – since January 1, 2005 for transmission grid operators and since January 1, 2007 for distribution grid operators.
Wholesale electricity customer	A customer who uses electricity from the medium- and high-voltage grids.

■ Explanation of Units Used in this Document

Unit	Commentary
kV	kilovolt, $1 \text{ kV} = 10^3 \text{ V}$, V = a unit of electrical potential (voltage)
MW	megawatt, $1 \text{ MW} = 10^6 \text{ W} = 10^3 \text{ kW}$, W = a unit of power (load)
GWh	gigawatt-hour, $1 \text{ GWh} = 10^9 \text{ Wh} = 10^6 \text{ kWh}$, Wh = a unit of work (energy)
TWh	terawatt-hour, $1 \text{ TWh} = 10^{12} \text{ Wh} = 10^9 \text{ kWh}$, Wh = a unit of work (energy)

■ Method Used to Calculate Key Figures

Name of indicator	Calculation
Assets turnover ratio	(Revenue from sale of goods + Revenue from sale of finished products and services + Change in inventory produced internally + Own work capitalized) / Average total assets
Coverage of non-current assets	(Shareholders' equity + Long-term liabilities + Reserves + Long-term bank loans) / Non-current assets
Current ratio	(Current assets + Accrued assets and deferred liabilities - Long-term receivables) / (Current liabilities + Short-term bank loans + Accrued liabilities and deferred assets)
EBIT	Operating income result
EBIT margin	Operating income result / (Revenue from sale of goods + Revenue from sale of finished products and services)
EBITDA	Operating income result + depreciation and amortization
Extent of depreciation	Accumulated depreciation and impairment allowances on property, plant and equipment / Acquisition cost of property, plant and equipment in use, gross
Financial debt	Long-term bank loans including current portion + Bonds payable + Short-term bank loans
Financial debt / EBITDA	(Long-term bank loans including current portion + Bonds payable + Short-term bank loans) / EBITDA
Financial debt / Equity	(Long-term bank loans including current portion + Bonds payable + Short-term bank loans) / Average shareholders' equity
Net income	Income after income tax
Operating cash flow	Net cash from operating activities
Operating cash flow-to-liabilities ratio	Net cash from operating activities / (Long-term liabilities + Reserves + Long-term bank loans)
Return on Assets (ROA), net	Income after income tax / Average total assets
Return on Equity (ROE), net	Income after income tax / Average shareholders' equity
Return on Invested Capital (ROIC)	(EBIT + Net change in operating provisions and impairment allowances) * (1 - Income tax rate) / (Average tangible and intangible non-current assets + Average net working capital)

List of Tables and Graphs

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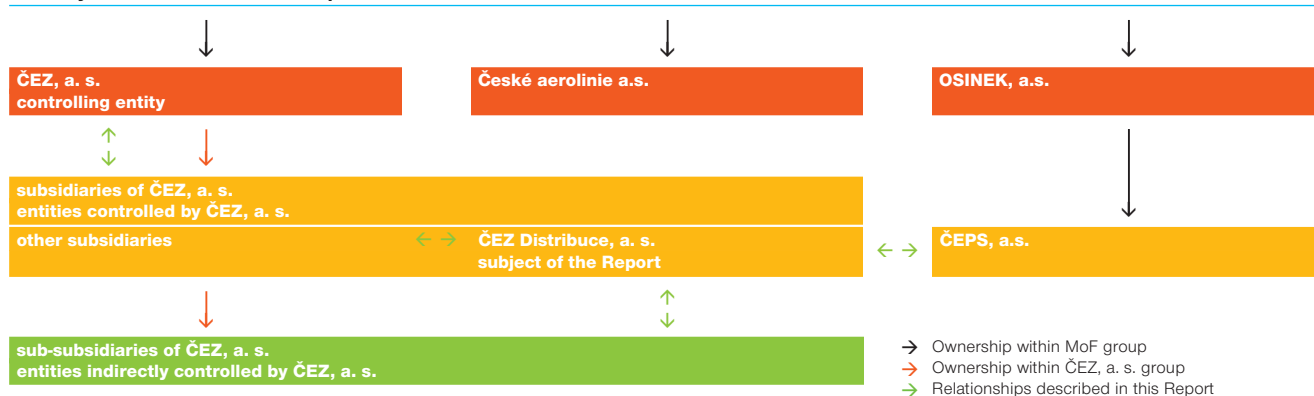
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Related Parties Report for 2009

1. Chart Showing Relationships Within the Group

Ministry of Finance of the Czech Republic



2. Group Structure Chart

See separate annex under back cover flap.

3. Controlling Entity and Subject of Related Entities Report

Controlling Entity

The Controlling Entity of ČEZ Distribuce, a. s. pursuant to Section 66a(2) of the Commercial Code (Act No. 513/1991 Sb.), as amended, is ČEZ, a. s.

Company name	ČEZ, a. s.
With its seat at (address)	Duhová 2/1444, 140 53 Prague 4
ID No.	452 74 649
Incorporated in Commercial Register maintained by	Municipal Court in Prague (part B, insert 1581)
Manner of control	The controlling entity, ČEZ, a. s., owns a 100% equity stake in ČEZ Distribuce, a. s.

Controlled Entity – Subject of Report

Company name	ČEZ Distribuce, a. s.
With its seat at (address)	Děčín 4, Teplická 874/8, postcode 405 02
ID No.	272 32 425
Incorporated in Commercial Register maintained by	Ústí nad Labem Regional Court (part B, insert 1704)

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

The Related Parties Report, unlike the rest of the 2009 Annual Report, contains data only for the period January 1 – December 31, 2009.

■ Alphabetical List of Companies – Group Members

See separate annex under back cover flap.

■ 5. Contractual Relationships

■ List of valid contracts

The following list contains contracts entered into by the controlled entity, i.e. ČEZ Distribuce, a. s., with related parties within the MoF group. The companies are listed alphabetically, regardless of amount of consideration.

1. ČEPS, a.s.

Six contracts: one contract on provision of transmission grid services, two agreements on future transmission grid connection contracts, and three project contracts.

2. ČEZ, a. s.

Nine contracts: one framework agreement on assignment of receivables, one framework agreement on provision of services in the areas of accounting, taxes, and financing, one agreement on mutual lines of credit, one SLA, one contract on distribution and regulation of energy, two contracts on energy distribution – export, two project contracts, and one amendment to a lease.

3. ČEZ Distribuční služby, s.r.o.

7,333 contracts: 7,331 service contracts, one SLA, one project contract, three amendments to the SLA, and five amendments to a lease.

4. ČEZ Distribuční zařízení, a.s.

One lease.

5. ČEZ Energetické služby, s.r.o.

94 contracts: one lease, 91 service contracts, and two project contracts including amendments thereto.

6. ČEZ ICT Services, a. s.

32 contracts: one lease, three agreements to agree, 27 service contracts, one project contract, two amendments to the project contract, one amendment to the SLA, one amendment to the framework agreement, one amendment to the lease of PB DG lines, one amendment to a sub-contract concerning lease of line terminal equipment, one amendment to a contract for maintenance of line terminal equipment.

7. ČEZ Logistika, s.r.o.

14,571 contracts: 14,570 contracts for supply of materials and one SLA.

8. ČEZ Měření, s.r.o.

49 contracts for supply of materials and services, five amendments to the SLA, and six amendments to a lease.

9. ČEZ Obnovitelné zdroje, s.r.o.

One project contract, one amendment to a lease.

10. ČEZ Prodej, s.r.o.

One contract for supply of electricity and losses in the distribution grid, one amendment to the SLA.

11. ČEZ Správa majetku, s.r.o.

37 contracts: 27 service contracts, seven project contracts, one lease, one sub-contract on processing and sending of correspondence, one sub-contract on provision of filing and shredding services, 13 amendments to a lease, eight amendments to a vehicles lease, four amendments to a garage lease, and one amendment to a project contract.

12. ČEZ Teplárenská, a.s.

One lease.

13. ČEZ Zákaznické služby, s.r.o.

One project contract, two amendments to the SLA, two amendments to a lease, and one amendment to a project contract.

14. Martia a.s.

65 contracts on preparation of project documentation and execution of construction work.

15. SINIT,a.s.

16 contracts on preparation of project documentation and execution of construction work.

16. Ústav jaderného výzkumu Řež a.s.

One project contract.

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

■ 6. Other Relationships

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

■ 7. Other Information

■ 7.1. Confidentiality

Within CEZ Group, information is considered confidential if it constitutes:

- part of a business secret of ČEZ, a. s.,
- part of a business secret of other related parties,
- information that has been declared confidential by any entity that is part of the Group and all commercial information that could be, by itself or in conjunction with other information or facts, injurious to any of the entities constituting the Group or to contractual partners of said entities.

For the above reasons, the Report for 2009 does not include:

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

■ 7.2. Auditor's Report on the Related Parties Report

This Report has been audited. The auditor's opinion on the Report is included in the Auditor's Opinion on the 2009 Annual Report of ČEZ Distribuce, a. s., which is contained in the Company's Annual Report.

■ 7.3. Abbreviations Used

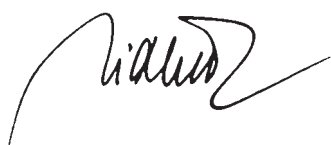
DG	distribution grid
MoF	Ministry of Finance of the Czech Republic
PD	project documentation
SLA	Service Level Agreement

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


■ 8. Conclusion

The Report was compiled with due care, with maximum effort to ensure the disclosure of objective information obtained for the stipulated purpose of this Report, from available documents and materials, with the use of best efforts and with regard to the disclosure of all relevant circumstances that could otherwise influence an accurate and correct assessment of this Report. The statutory body hereby states that the contracts entered into among related parties in the past accounting period did not cause any damage to ČEZ Distribuce, a. s. in the sense of Commercial Code, Section 66a(9). The statutory body of ČEZ Distribuce, a. s. approved this Report at its meeting of March 31, 2010. The Report was submitted to the Supervisory Board for review pursuant to the Commercial Code, Section 66a(10), despite the obvious fact stated in paragraph 16 of said statute.

Děčín, March 31, 2010



Richard Vidlička
Chairman of the Board of Directors



Petra Holomková
Vice Chairwoman of the Board of Directors

- **Group Structure Chart**
- **Alphabetical List of Companies – Group Members**

ČEZ Distribuce, a. s.

Teplická 874/8
405 02 Děčín 4
Czech Republic

Registered in the Commercial Register maintained by the
Regional Court in Ústí nad Labem (part B, insert 1704)

Year of inception: 2005
Legal form: joint-stock company
ID No.: 272 32 425
Tax ID: CZ27232425
Bankers: Komerční banka, a.s., account no. 35-4544580267/0100
Tel.: +420 411 121 111
Fax: +420 411 122 997
Internet: <http://www.cezdistribuce.cz>
E-mail: cezdistribuce@cezdistribuce.cz

License number: 120504641
OTE registration number: 715

