



# ČEZ Distribuce, a.s. Annual Report 2010



**44.3 TWh**

electricity distributed, including losses

**3.5 million**

connection points

**CZK 10.2 billion**

capital expenditure

**850 CZK/MWh**

cost to distribute 1 MWh,

including losses

**CZK 11.2 billion**

EBITDA







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# Information on Persons Responsible for the Annual Report

## Responsibility for the Annual Report

### Statutory Declaration

The information presented in the 2010 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 28, 2011

Editorial section:



Tomáš Truxa  
Head of Corporate Office

Financial section:



Ivana Kolská  
Head of Finance





## Independent Auditor's Report

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

- I. We have audited the financial statements of ČEZ Distribuce, a. s. (the "Company") as at December 31, 2010 presented on pages 54–67 on which we have issued an auditors' report dated January 21, 2011, presented on page 53.
- II. We have also audited the consistency of the annual report with the financial statements described above. The statutory body 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 contained in the annual report is consistent with that contained in the audited financial statements as at December 31, 2010. We did not review any other information than accounting information drawn from the financial statements and 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. as at December 31, 2010 presented in the annual report on pages 47–52. The statutory body of ČEZ Distribuce, a. s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a statement on this report on related parties, based on our review. We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 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 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. as at December 31, 2010 is materially misstated.

A stylized, handwritten signature of 'Ernst &amp; Young' in black ink.

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

A handwritten signature of 'Josef Pivoňka' in black ink.

Josef Pivoňka  
Auditor, License No. 1963

April 28, 2011  
Prague, Czech Republic





Richard Vidlička  
Chairman of the Board of Directors  
and General Manager  
ČEZ Distribuce, a. s.



# Letter from the Chairman

Ladies and gentlemen,

2010 was a difficult year that posed a number of new challenges and risks for ČEZ Distribuce. Many unique events took place that our Company had never encountered before, and will never encounter again.

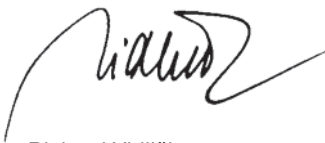
The most often repeated phrase consisted of four words: renewable sources of energy. The boom in photovoltaic power plants had an unprecedented impact on Company operations. The potential threat to our bottom line was so serious that it forced us to make a number of changes to Company processes and required extraordinary dedication on the part of our employees. Thanks to their efforts, the Company managed to process the wave of photovoltaic power plant connection applications late in the year and demonstrated that it is up to such challenges.

I am very proud that we were able to deal with the renewables situation and that we achieved good results. We fulfilled our ambitious capital expenditure plan and completed a number of major power-related projects. The most significant achievement is the Company's pre-tax income, which was 93% of the plan figure, despite the drop in the gross margin caused by support pay-outs to operators of renewable sources of energy.

The merger of ČEZ Distribuce, a. s. and ČEZ Distribuční zařízení, a. s. went as planned, and was completed on October 1, 2010. As a result, additional distribution assets were included in the Company's balance sheet. The merger did not affect the commercial relations between the merged companies, and the newly formed company took over their know-how, best practices, and experience.

Also included in the serious events of 2010 were six natural catastrophes that affected the Czech Republic and caused damage that affected our Company's operations. The largest of these – major floods that occurred in May 2010 in Moravia and flash floods that hit North Bohemia in August – we handled very well, based among other things on the way in which our customers, local government authorities, and the media evaluated the speed and quality with which we repaired the damage.

Dear customers and business partners, I am satisfied to report that, despite the problems described above, we met our goals and came through 2010 with honor. Allow me on behalf of the Board of Directors of ČEZ Distribuce, a. s. to thank you all for your trust, cooperation, and support for our efforts.



Richard Vidlička  
Chairman of the Board of Directors  
and General Manager  
ČEZ Distribuce, a. s.

# Selected Indicators

## Selected Economic Indicators

	Units	2010
Work force head count at December 31	persons	1,232
Revenues from sale of finished products and services	CZK millions	41,536
EBITDA	CZK millions	11,247
EBIT	CZK millions	5,343
Net income	CZK millions	4,043
Return on Invested Capital (ROIC)	%	3.96
Total assets	CZK millions	129,817
Equity	CZK millions	86,586
Net debt	CZK millions	12,448
Net debt/Equity	%	20.21
Capital expenditures (CAPEX)	CZK millions	10,218
Net cash provided by operating activities	CZK millions	10,037

## Selected Sector-Specific Indicators

	Units	2010
Supply area	km <sup>2</sup>	52,697
Number of connection points	number	3,544,605
of which: HV, MV – large end-customers	number	14,267
LV – retail-commercial	number	453,863
LV – retail-residential	number	3,076,475
Peak load	MW	5,963
Grid extended length	km	157,481
of which: HV	km	9,799
MV	km	49,697
LV	km	97,985
Number of transformer stations	number	55,314
of which: owned by Company	number	42,206
owned by others	number	13,108
Number of substations	number	220

# Important Events of 2010 and 2011 Up to Annual Report Closing Date

No doubt one of the principal events of 2010 was the implementation of a merger of two companies, giving rise to a new Czech joint-stock company: ČEZ Distribuce, a. s., with its seat at Teplická 874/8, Děčín IV-Podmokly, Děčín, postcode 405 02, Czech Republic, ID number 247 29 035, incorporated in the Commercial Register maintained by the Regional Court in Ústí nad Labem, part B, insert 2145. The Company was formed as of October 1, 2010 and the merger strike date was January 1, 2010.

ČEZ Distribuce, a. s. was established by the Project for In-country Merger of the Merged Companies ČEZ Distribuce, a. s. with its seat at Teplická 874/8, Děčín 4, postcode 405 02, ID number 272 32 425 and ČEZ Distribuční zařízení, a. s. with its seat at Duhová 2/1444, Prague 4, postcode 140 53, ID number 289 22 727, incorporated in the Commercial Register maintained by the Municipal Court in Prague, part B, insert 15391. As a result of the merger, the assets and liabilities of the merged companies, including rights and obligations arising out of labor-law relations, passed to the successor company. The successor company took over the business name of one of the merged companies.

## Important Merger Milestones

### April

- extraordinary meetings of the Boards of Directors of both merged companies approve project to merge ČEZ Distribuce, a. s. and ČEZ Distribuční zařízení, a. s., including related documents.
- joint announcement of deposit of project to merge ČEZ Distribuce, a. s. and ČEZ Distribuční zařízení, a. s. published in *Obchodní věstník*; announcement placed in Collection of Documents.

### June

- sole shareholder, acting with the powers of the General Meeting, approves merger of ČEZ Distribuce, a. s. and ČEZ Distribuční zařízení, a. s.

### August

- incorporation of ČEZ Distribuce, a. s. recorded, as of October 1, 2010 with merger strike date as of January 1, 2010, in the Commercial Register maintained by the Regional Court in Ústí nad Labem.

Up until the incorporation of the new legal entity was recorded in the Commercial Register on October 1, 2010, the compositions of the Boards of Directors of the two merged companies were as follows:

**ČEZ Distribuce, a. s. (ID number 272 32 425)**

[Josef Holub](#)

Chairman of the Board of Directors until February 24, 2010

[Richard Vidlička](#)

Chairman of the Board of Directors since February 24, 2010

[Martin Němeček](#)

Vice Chairman of the Board of Directors until February 24, 2010

[Petra Holomková](#)

Vice Chairwoman of the Board of Directors since February 24, 2010

[Pavel Filipi](#)

Member of the Board of Directors

[Jiří Koptík](#)

Member of the Board of Directors

[Filip Secký](#)

Member of the Board of Directors

**ČEZ Distribuční zařízení, a. s. (ID number 289 22 727)**

[Miroslav Kekule](#)

Chairman of the Board of Directors

[Otto Karl](#)

Vice Chairman of the Board of Directors

[Karel Kohout](#)

Member of the Board of Directors

Up until the incorporation of the new legal entity was recorded in the Commercial Register on October 1, 2010, the Supervisory Boards of the two merged companies operated in the following configurations:

**ČEZ Distribuce, a. s. (ID number 272 32 425)**

[Jiří Kudrnáč](#)

Chairman of the Supervisory Board

[Jaroslav Janda](#)

Vice Chairman of the Supervisory Board

[Michaela Chaloupková](#)

Member of the Supervisory Board

[Milan Špatenka](#)

Member of the Supervisory Board

[Irena Klůsová](#)

Member of the Supervisory Board

[Karel Čech](#)

Member of the Supervisory Board

**ČEZ Distribuční zařízení, a. s. (ID number 289 22 727)**

[Ondřej Mamula](#)

Chairman of the Supervisory Board

[Jaroslav Janda](#)

Vice Chairman of the Supervisory Board

[Kateřina Astlová](#)

Member of the Supervisory Board

## Important Events of 2010

### January

- Company executives meet with representatives of Serbian power companies

### February

- issuance of positive opinions on connection of photovoltaic and wind power stations in the ČEZ Distribuce, a. s. distribution area suspended, effective immediately, in conjunction with a letter from ČEPS, a.s.

### March

- Company joins association of European distribution companies

### May

- catastrophic flood damage in Moravia repaired

### June

- Company executives meet with employees of ČEZ Distribuce, a. s. at various worksites

### August

- damage repaired after a portion of the ČEZ Distribuce, a. s. supply area in the Liberec Region was hit by flash floods

### September

- construction of Mnichovo Hradiště 110/22 kV transformer station completed

### October

- multiple-share certificates handed over to the representative of the sole shareholder, ČEZ, a. s.
- elections announced of employee representatives to the Supervisory Board of ČEZ Distribuce, a. s.
- Filip Secký resigns as member of the Board of Directors of ČEZ Distribuce, a. s.
- rebuild of Ústí nad Orlicí – Rychnov 110 kV power line completed

### November

- ČEZ Distribuce, a. s. Supervisory Board elects a new member, Václav Purkar, to the Board of Directors
- Mírovka – Hlinsko 110 kV power line project put into trial operation
- rebuild of Černice 110/22 kV transformer station completed

### December

- elections of employee representatives to the Supervisory Board of ČEZ Distribuce, a. s. held, Irena Klůsová and Karel Čech elected

## Important Events of 2011 Up to Annual Report Closing Date

### January

- ČEZ Distribuce, a. s. takes over rotating chairmanship of the Czech Association of Regulated Electric Power Companies (ČSRES)
- Company gets involved in project "MISE" – Metering and Intelligent Systems in Energy, launched on February 1, 2011 with the aim of participating in a key possible plan for implementing these systems in the Czech Republic

### March

- amendment signed to the agreement with ČEPS, a.s., stipulating limits for connection of photovoltaic and wind power plants
- Company executives meet with employees of ČEZ Distribuce, a. s. at various worksites







**Lenka Procházková**

Cash Flow and Financial Planning Specialist

“By taking a responsible approach to developing the Company’s financial plans, I endeavor to lay firm foundations for my colleagues and, at the same time, create conditions amenable to decision-making concerning the Company’s future development. When work is over, I relax by spending time with my family, cycling, and skating.”

Lenka Procházková, Cash Flow and Financial Planning Specialist, is a highly regarded worker in the Company’s financial planning function and, even during times of high stress at work, she manages her job in a good mood and with a contagious smile. She is a team player, upon whom others can always depend.

# Directors and Officers

In accordance with applicable law and the ČEZ Distribuce, a. s. Articles of Association, the General Meeting and employees elect and remove 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.

### Members of the Supervisory Board

#### Jiří Kudrnáč (\* 1965)

**Chairman of the Supervisory Board since October 1, 2010**

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

He is Vice Chairman of the Supervisory Board of ČEZ Distribuční služby, s.r.o.

#### Jaroslav Janda (\* 1945)

**Vice Chairman of the Supervisory Board since October 1, 2010**

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. and ČEZ Měření, s.r.o. He is also a member of the Supervisory Board of ČEZ Zákaznické služby, s.r.o.

#### Michaela Chaloupková (\* 1975)

**Member of the Supervisory Board since October 1, 2010**

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 Board of ČEZ ICT Services, a. s.

#### Milan Špatenka (\* 1970)

**Member of the Supervisory Board since October 1, 2010**

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 December 7, 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 December 7, 2010**

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.

## 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. In accordance with the law and the Articles of Association, the Supervisory Board is informed of selected matters.



### [Richard Vidlička \(\\* 1966\)](#)

Chairman of the Board of Directors since October 1, 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 Chairwoman of the Board of Directors  
since October 1, 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 of the Board of Directors since October 1, 2010

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.

**Petra Holomková (\* 1968)**

Director, Finance and Administration Section

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

**Pavel Filipi (\* 1953)**

Director, Grid Control Section

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

**Jiří Koptík (\* 1975)**

Director, Grid Provision Section

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

**Václav Purkar (\* 1956)**

Director, Grid Renewal Section

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



#### Jiří Koptík (\* 1975)

Member of the Board of Directors since October 1, 2010

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

He is a member of the Supervisory Board of ČEZ Distribuční služby, s.r.o.



#### Václav Purkar (\* 1956)

Member of the Board of Directors since November 1, 2010

A graduate of the Czech Technical University, Prague.

He is Vice Chairman of the Supervisory Board of ČEZ Měření, s.r.o.

#### 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 2010, 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 linked exclusively to 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.

# Report on Operations

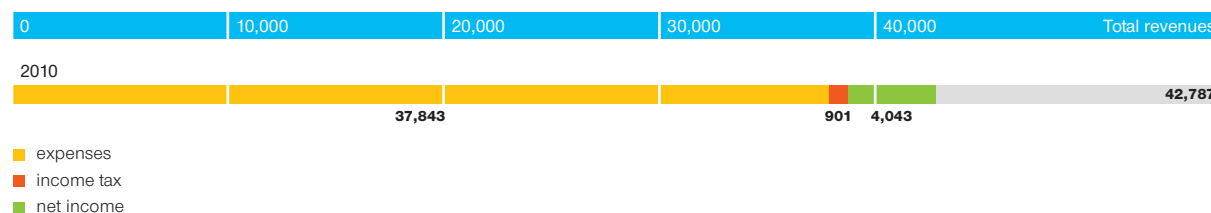
## Financial Performance

ČEZ Distribuce, a. s. was established by a Project for In-country Merger with a merger strike date of January 1, 2010 and was incorporated in the Commercial Register maintained by the Regional Court in Ústí nad Labem, part B, insert 2145, on October 1, 2010.

Its principal businesses are the operation of a distribution grid and distribution of electricity to private individuals and legal entities.

### Revenues, Expenses, Income

#### Income Breakdown (CZK millions)



In 2010, the Company's pre-tax income totaled CZK 4,944 million and net income was CZK 4,043 million.

The operating result was CZK 5,343 million.

The financial result was a loss of CZK 399 million.

Expenses, net of income tax, totaled CZK 37,843 million in 2010. The biggest expense components, at CZK 21,230 million, were purchasing of system and distribution services and purchasing of electric power to cover losses. The next largest components were other production-related consumption (CZK 8,757 million), amortization and depreciation of intangible and tangible fixed assets (CZK 5,904 million), personnel expenses (CZK 1,009 million), and other operating expenses (CZK 943 million).

Revenues totaled CZK 42,787 million in 2010 and consisted predominantly of revenues from sales of system and distribution services (CZK 41,294 million), other sales and service revenues (CZK 1,456 million), and other operating revenues (CZK 37 million).

## Structure of Assets and Capital

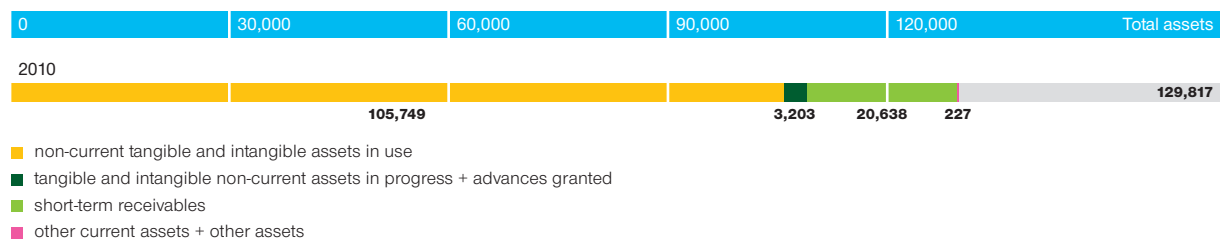
### Assets

Total assets reached CZK 129,817 million.

Non-current assets reached CZK 108,952 million. The largest components in non-current assets were constructions (CZK 80,762 million), separate movable items (CZK 24,268 million), tangible assets in progress (CZK 3,115 million), land (CZK 605 million), and non-current intangible assets (CZK 112 million).

Current assets reached CZK 20,854 million in 2010. The items with the highest values were unbilled revenue (CZK 10,667 million, mainly from services related to electricity distribution), amounts owed by the controlling entity relating to Group cash pooling (CZK 6,459 million), short-term trade receivables (CZK 1,620 million), short-term advances granted (CZK 831 million), and work in progress (CZK 213 million).

#### Structure of Assets (CZK millions)



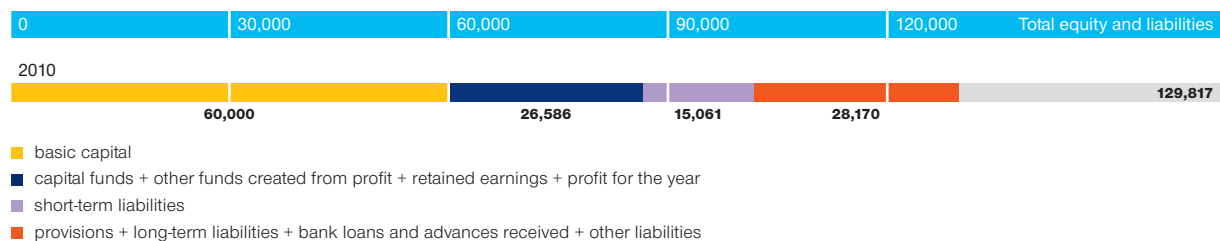
### Equity and Liabilities

Equity totaled CZK 86,586 million. The biggest components of equity were the basic capital recorded in the Commercial Register (CZK 60,000 million), the reserve fund (CZK 12,000 million), retained earnings for the previous years (CZK 10,542), and the profit for the year (CZK 4,043 million).

Liabilities reached CZK 34,960 million. The largest items were deferred tax liability (CZK 11,951 million), short-term advances received (CZK 10,376 million), liabilities to group companies with majority control (CZK 6,569 million), unbilled deliveries (CZK 2,102 million), and short-term trade payables (CZK 2,094 million).

Other liabilities, consisting primarily of deferred income from connection fees, reached CZK 8,271 million.

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

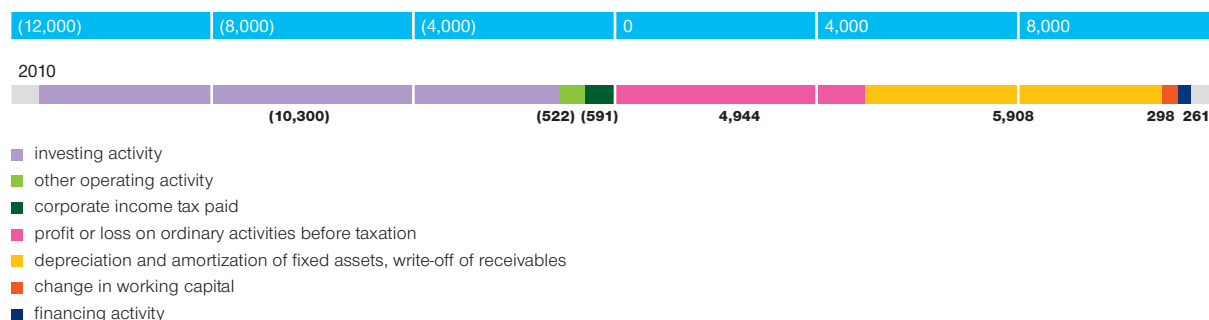




## Company Financing

### Cash Flows

#### Cash Flows (CZK millions)



Short-term financial assets as at December 31, 2010 totaled CZK 0.03 million.

Cash provided by operating activities (CZK 10,037 million) consisted of the following items:

profit or loss on ordinary activities before taxation	CZK 4,944 million
corporate income tax paid	CZK -591 million
depreciation and amortization of fixed assets, write-off of receivables	CZK 5,908 million
change in working capital	CZK 298 million
other operating activity	CZK -522 million.

Cash used in investing activities totaled CZK 10,300 million, and the biggest component therein was purchase of fixed assets, at CZK 10,333 million.

Total cash provided by financing activities was CZK 261 million. Within this figure, change in the balance of a loan totaled CZK 1,853 million and, on the other hand, change in receivables/payables related to group cash pooling was CZK 1,592 million.

### Borrowings and Their Maturity

At December 31, 2010 the Company had an outstanding loan of CZK 6,956 million. Of this figure, the loan's non-current portion accounted for CZK 6,569 million and the current portion CZK 387 million.

The loan matures on December 27, 2019 and was provided to finance reconstruction and development of the distribution grid in the Czech Republic.

### Key Performance Indicators

	Unit	2010
Return on Equity (ROE), net	%	4.78
Return on Assets (ROA), net	%	3.21
EBIT margin	%	12.50
Net debt/Equity	%	8.23
Net debt/EBITDA	%	110.68
Current ratio	%	89.43
Operating cash flow-to-liabilities ratio	%	54.19
Assets turnover	1	0.34
Fixed assets coverage	%	96.47
Extent of depreciation	%	51.59



# Commercial and Financial Outlook for 2011

2011 is the second year of the third regulation period. The electricity distribution services purchasing and sales plan is in line with anticipated electricity consumption in the ČEZ Distribuce, a. s. region for 2011 and the Energy Regulatory Office's price decrees for 2011, which reflect 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 2011 envisions revenues of CZK 51,441 million, pre-tax income of CZK 6,460 million, and capital expenditures of CZK 10,490 million.





**Kateřina Grande**

Documentation and Data Administration Specialist

“Years ago, when I was deciding what career path to follow, a job offer at a personnel agency caught my eye and after an interview at the agency I learned the name of the company. Today, I am proud to be an employee of the Grid Control Section and contribute to the section’s good operations in the area of managed documentation. In my leisure time, I like to go on nature hikes with my family, play sports, or relax with a good book.”

At the Company, Kateřina Grande is a skilled documentation and data administration specialist in the Grid Control Section. Her main job responsibilities are issuance and organization of managed documentation comment proceedings. She has an excellent command of entering contracts into the system and administering the section’s projects in SAP, as well as good knowledge of human resources and purchase ordering functions.

# Capital Expenditure

## Capital Projects

In 2010, the Company invested CZK 10,218 million in renewing and upgrading the distribution system. Distribution grid development aimed, in particular, to ensure sufficient distribution grid capacity and meet demand for connecting customers and generating facilities. Substantial capital expenditures were incurred in conjunction with connection of renewable sources, and photovoltaic power plants in particular.

## 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.

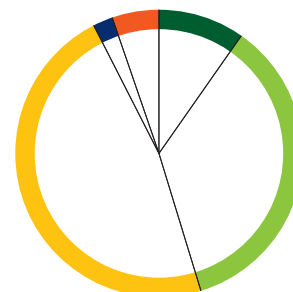
## Overview of Capital Expenditure in 2010, Plan for 2011 (CZK millions)

### Capital Expenditure

	2010	Plan for 2011
HV plant and equipment	1,006	1,575
MV plant and equipment	3,648	3,679
LV plant and equipment	4,797	4,199
Electric meters	525	743
Ancillary projects	242	294
<b>Total</b>	<b>10,218</b>	<b>10,490</b>

### CAPEX Distribution

	%
■ HV plant and equipment	10
■ MV plant and equipment	36
■ LV plant and equipment	47
■ electric meters	5
■ ancillary projects	2
<b>Total</b>	<b>100</b>



## Distribution Grid CAPEX

Capital projects in 2010 focused primarily on MV and LV projects. A total of CZK 8,445 million was invested in MV and LV plant and equipment in 2010. The projects included, in particular, 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 demands of generation facilities and electricity customers. Capital expenditures on HV projects totaled CZK 1,006 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 3,781 million.

### Most Significant Projects

#### Internal projects:

- Ústí nad Orlicí – Rychnov, renovation of 110 kV line
- Rokytnice nad Jizerou – Špindlerův Mlýn, 2x35 kV underground line
- Nový Jičín – Příbor, renovation of 110 kV line
- Kletné, 400/110/22 kV transformer station
- Černice, 110/22 kV transformer station
- Slaný, 110/22 kV transformer station
- Mnichovo Hradiště, 110/22 kV transformer station
- Přeštice – Rokycany, renovation of 110 kV line
- Svitavy, 110/22 kV transformer station, renovation of 22 kV substation
- Horní Životice, 110/22 kV transformer station, renovation of 110 kV substation
- Rychnov, 110/35 kV transformer station, renovation of 35 kV substation
- Řeporyje, transformer station, renovation of 110 kV substation, and control system – phase two

#### Projects to meet customer requirements:

- Ropice, 110/22 kV transformer station
- Dluhonice – Hodolany, renovation of 110 kV line
- Liberec, Multi Veste Czech Republic, construction of 35 kV underground line
- Zábědov, industrial park, 3x35 kV overhead line
- Doubrava, shifting of 110 kV substation

### Other Capital Projects

Other investment in capital projects, totaling CZK 767 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.

# Information on the Company's Core Business

The Company's main mission is to distribute electricity to private individuals and legal entities and to continually improve the quality and reliability of supplies to all customers. The Company administers the assets comprising the distribution grid, the operation of which it controls through a grid control center.

In 2010, the distribution grid was operated and maintained 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 17 and May 16, 2010 with 510 and 377 extraordinary electricity distribution outages longer than three minutes, respectively, affecting customers.

When natural disasters are excluded, grid control recorded 49 supply interruptions in the high-voltage system, 6,965 in the medium-voltage system, and 31,862 in the low-voltage system. These numbers are for outages lasting longer than three minutes and affecting at least one customer.

The Company monitors and evaluates 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)

0	50	100	150	200	250	Total
2010						269.667

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., as amended, 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 65 cases and the standard for meeting a planned restriction or interruption in electricity distribution was not met in 64 cases.

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

#### Distribution Grid Plant and Equipment

	Unit	2010
Grid extended length	km	157,481
of which: HV	km	9,799
MV	km	49,697
LV	km	97,985
Substations	number	220
Transformer stations	number	55,314
of which: owned by the Company	number	42,206
owned by other entities	number	13,108

The Company's distribution grid was used to distribute a total of 44,323 GWh of electricity in 2010.

#### Analysis of Electricity Distribution (GWh)

	2010
<b>Input to the distribution grid</b>	
From transmission grid operators	23,361
From ČEZ, a. s. power plants	8,900
From neighboring distribution service providers	1,052
From other producers, including private power plants	8,986
From other installations	249
Import (from other countries) at the distribution services level	123
Distribution license holders (local distribution grid)	1,652
<b>Input to the distribution grid, total</b>	<b>44,323</b>
<b>Output from the distribution grid</b>	
End customers at HV, MV levels	14,068
End customers at LV level	14,586
Used by producers from grids operated by distribution service providers	1,554
Used by other generating facilities	249
Supplied to neighboring distribution service providers	5,832
Supplied to grids operated by transmission service providers	1,395
Export (to other countries) at distribution services level	339
Distribution license holders (local distribution grid)	3,705
Other consumption by distribution service providers	54
Losses	2,541
<b>Output from the distribution grid, total</b>	<b>44,323</b>

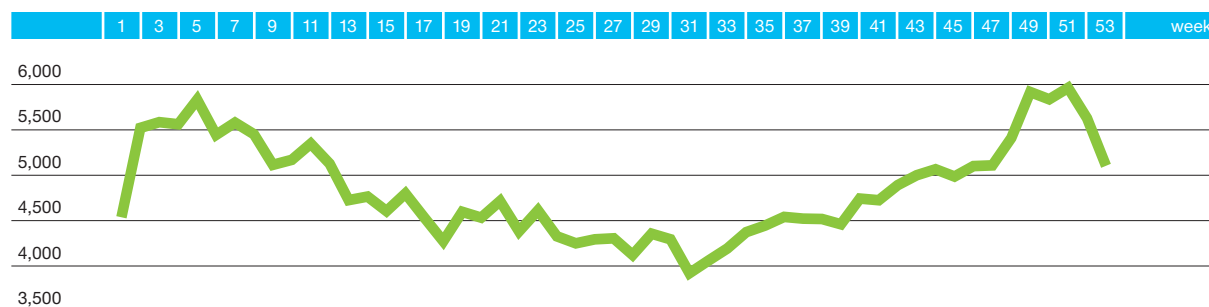


The total volume of electricity that flowed into the grid in 2010 was 44,323 GWh. The biggest component in total volume, at 52.71%, was electricity from the ČEPS, a.s. grid totaling 23,361 GWh. Supplies from other generating facilities, including in-house producers, totaled 8,986 GWh for a share of 20.27%. Electricity procured from ČEZ, a. s. sources totaled 8,900 GWh (20.08%). Another 1,652 GWh (3.73%) was procured from local distribution services providers. The volume of electricity procured from neighboring distribution services providers was 1,052 GWh (2.37%). A total of 372 GWh (0.84%) came from other sources, including imports.

The volume of electricity distributed to customers at the HV and MV levels was 14,068 GWh and accounted for 31.74% of total supplies. Electricity distributed to customers at the LV level totaled 14,586 GWh and its share was 32.91% of overall supplies. Power used by other generating facilities, including producers, 1,803 GWh (4.07%). Supplies to neighboring distribution service providers totaled 5,832 GWh (13.16%). Supplies back to the ČEPS, a.s. grid totaled 1,395 GWh (3.15%), and 339 GWh was exported. Supplies to local distribution service providers totaled 3,705 GWh (8.36%). The volume of losses declined by 2,541 GWh (5.73%).

The highest one-hour peak, 5,963 MW, was achieved on December 16, 2010 at 5:00 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 2010 ČEZ Distribuce, a. s. had framework agreements with 47 active traders.

#### Number of Connection Points

	Unit	2010
HV – large end-customers	number	102
MV – large end-customers	number	14,165
LV – retail-commercial customers	number	453,863
LV – retail-residential customers	number	3,076,475
<b>Total</b>		<b>3,544,605</b>

In 2010, over 10,000 new connection points were added to the grid and reserved capacity was increased for another 34,000 connection points. CZK 0.9 billion in connection fees were collected from customers in 2010 pursuant to Decree No. 51/2006 Sb. on Conditions for Connection to the Power System, and CZK 3.6 billion was expended to meet the new demand.

#### New Connections, Connection Capacity Increases

Voltage level	Distribution grid expenditures (CZK millions)	Connection fees collected (CZK millions)	New connections and capacity increases (MWh)
HV	71	127	443
MV	910	286	980
LV	2,661	517	625
<b>Total</b>	<b>3,642</b>	<b>930</b>	<b>2,048</b>





#### Zdeněk Linhart

Head of HV, MV Contractual Relations Department

“For me, well-drafted and precisely formulated partner and customer contracts are a clear and positive investment in the future. A mutually beneficial bilateral contractual relationship in HV and MV power distribution is a foundation on which further collaboration can be developed. I am proud that we are able to give fast, high-quality service to so many contractual partners.”

The Contractual Relations Department is managed, reliably and knowledgeably, by Zdeněk Linhart. His many years of experience as a technician together with rich professional experience in the Company predestine him to conduct stimulating and precise administration of all contracts with maximum knowledge of the topic. As a good superior, he is always there for his colleagues to provide help and advice when needed, no matter what the need. Through his professionalism and human touch, he gains the trust and friendship of customers and colleagues alike.

# Safety and Quality Management, Environmental Protection

## Safety and Occupational Health

In 2010, a positive trend in on-the-job safety and occupational health was achieved thanks to an optimally conceived and maintained system for managing these activities. One of the major factors contributing to the good results is the implementation of an OHS management system in accordance with the "Safe Enterprise" program.

ČEZ Distribuce, a. s. adopted a new safety policy, in accordance with the CEZ Group Safety Policy. Based on this new conceptual guidance, two segment-level safety management centers were set up for the Distribution and Generation areas. In 2011, the safety management center for the Distribution area will aim primarily to unify OHS management documentation in companies that have been placed under the center's process methodology remit, thereby securing high-quality safety management in this segment.

## Fire Safety

The objective of the Company's fire protection efforts is to continuously create and maintain conditions for safe operations and to protect employees and property. The fire protection function was managed centrally for the entire Company and subjected to regular evaluations. Fire protection activities focused particularly on preventing fires from starting, and emphasis was placed on minimizing risk to human life and of damage to property.

Fire protection documentation was updated on an ongoing basis 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.

## Environmental Protection

In accordance with applicable law, ČEZ Distribuce, a. s. paid sustained attention to creating conditions for environmental protection. Specialized Company employees dealt with all aspects of the environment – in particular, waste and water management, accident prevention 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. In 2010, clean-up work was completed at three sites, and clean-up work and/or monitoring is ongoing at another 10 sites. Over CZK 1.2 million was drawn from the State fund designated for remedying legacy environmental burdens for the purposes of ČEZ Distribuce, a. s.

Protecting birds from electric shock is an ever-current topic in the nature protection area. The Company's pledge to invest in bird protection beyond mere compliance with legal requirements was fulfilled in 2010, 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 2010 was CZK 15.6 million. This money helped secure over 133 miles (214 km) of medium-voltage power lines in places with the highest risk in terms of bird populations.

The Company newly equipped all its worksites that carry increased risk of oil discharge – e.g., primarily transformer stations – with CZK 1.1 million worth of accident-response gear for fast and safe clean-up after an extraordinary oil-release event. Also, certain accident-response plans for leaks of hazardous substances at transformer stations were updated during the year.

In 2010 we began preparing the Environmental Management System (EMS) for ČSN EN ISO 14001 certification. Expenses for disposal of waste generated by the Company in 2010 totaled CZK 2.9 million.

# Shares and Shareholders

The total basic capital of ČEZ Distribuce, a. s. recorded in the Commercial Register as of the Annual Report closing date was CZK 60,000 million.

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

## Types and Volumes of Securities Issued

The basic capital is divided into 600 shares of stock, registered and in documentary form, each with a face value of CZK 100 million. The shares themselves are replaced by MULTIPLE-SHARE CERTIFICATE No. 1 with a total face value of CZK 60,000 million issued to ČEZ, a. s. with its seat at Duhová 2/1444, Prague 4, postcode 140 53, Czech Republic, ID number 452 74 649.

The registered 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.

# 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

	Number of employees
Newly hired	84
Left the Company	61

The work force head count at December 31, 2010 was 1,232 persons.

## Social Policy

The Company's social policy includes providing employees monetary and non-monetary benefits. Non-monetary benefits are provided in the form of reduced work hours and one extra week of paid vacation above the statutory amount. Monetary benefits provided by the Company in 2010 totaled CZK 76.3 million. The employer contributed primarily to employees' pension and life insurance plans and the employee meal plan. All full-time employees received a personal account that can be used to pay for items such as holiday trips.

## Training

Employee training and development at ČEZ Distribuce, a. s. 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 the Company, employee qualifications were increased and otherwise developed primarily through studies at universities and secondary schools. The study fields and programs are chosen on the basis of employees' job descriptions or planned direction of future career growth. The Company also provided language skills training, focusing predominantly on the English language. The Company organized training for middle managers. Expenses incurred by the Company for all employee development and training activities totaled CZK 6.4 million.

## Labor Relations

A total of 34 basic labor organizations operate at ČEZ Distribuce, a. s. In 2010, 52% of work force was unionized. The collective bargaining process in 2010 was influenced primarily by efforts to ensure stability of the Collective Agreement's contents at a time when it is necessary to address the negative impact of external factors. As a result, wage tariffs, additional wage amounts, and contractual wages for 2011 all remained at their existing levels. The amendment to the Collective Agreement for 2011 was signed on December 14, 2010.

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 are held regularly. 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, labor representatives were notified of changes to the Company's organization and selected management documents were consulted with them. Although both social partners have differing interests, in most cases a path to agreement was found and labor peace was upheld.

# Research and Development

During the year, work went forward on several studies and analyses in cooperation with the specialized laboratories of EGÚ Brno,a.s. and VŠB – TECHNICAL UNIVERSITY OF OSTRAVA.

These studies and analyses included:

- the “Smart Grids” project
- gathering basic underlying data for evaluating the reliability of individual distribution grid components (component reliability)
- design of a fault detector for suspended insulated cables, which will contribute significantly to more accurate detection and localization of faults on this type of power line.

ČEZ Distribuce, a. s. continued to participate in the committees that decide which university applicants will receive grants from the CZECH SCIENCE FOUNDATION, 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.



# Donorship and Sponsorship Program

Sponsorship donations made through ČEZ Foundation totaled CZK 66 million in 2010. 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.

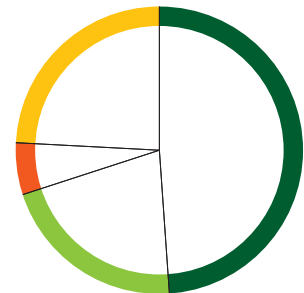
Direct sponsorship donations by ČEZ Distribuce, a. s., totaled CZK 7.3 million in 2010. This sum was distributed amongst 16 projects.

Through selected activities, several municipalities were enabled to implement projects including the construction and rebuilding of playgrounds, sports fields, and nursery school and primary school buildings, as well as to provide social services for their citizens. In the healthcare area, attention was focused on projects to upgrade equipment in pediatric wards and improve health care for the general public. We also contributed to projects designed to support specialized social facilities and protected workshops, with the aim of making it easier for handicapped people to engage in day-to-day life. In 2010, the Company made major contributions to Regional Authorities in parts of the Czech Republic for clean-up and repair of damage caused by natural disasters.

The Company contributed over CZK 1 million to the CEZ GROUP SENIORS Foundation Fund.

## Distribution of Direct Donations

	CZK millions	%
■ municipalities, regions	3.6	49
■ healthcare and social services	1.5	21
■ sports, culture & the arts	0.5	6
■ school facilities	1.7	24
<b>Total</b>	<b>7.3</b>	<b>100</b>



# Development of the Legislative Framework

The legislative framework governing the distribution of electricity is based upon the following laws:

- Act No. 458/2000 Sb. on the Conditions for Doing Business and Exercising State Administration in the Energy Sectors and amending certain acts (the Energy Act)
- Act No. 180/2005 Sb. on Promotion of Electricity Produced from Renewable Sources and amending certain acts (the Renewable Energy Promotion Act)
- Act No. 406/2000 Sb. on Energy Management.

During 2010 the above acts were directly amended as follows:

- Act No. 458/2000 Sb. (the Energy Act) was amended by Act No. 155/2010 Sb., an act amending certain acts to improve their application and to reduce the administrative burden on businesses, effective August 1, 2010
  - Act No. 180/2005 Sb. (the Renewable Energy Promotion Act) was amended by Act No. 330/2010 Sb. This act took effect on January 1, 2011 (except for the provisions of Article I, item 2 and Article II, item 1, which took effect on March 1, 2011)
- Act No. 180/2005 Sb. was also amended by Act No. 402/2010 Sb. This act took effect on January 1, 2011 – except for the provisions of a part of Article I, item 1 and Article II, item 1, which took effect on December 28, 2010.

The main reason for and objective of the submitted amendment of Act No. 458/2000 Sb. (the Energy Act) is:

- to implement obligations ensuing from Directive 2009/72/EC of the European Parliament and Council concerning common rules for the internal market in electricity and Directive 2009/72/EC of the European Parliament and Council concerning common rules for the internal market in natural gas and adapt the relevant provisions of the Energy Act to the directly applicable community law treatment given, in particular, by Regulation of the European Parliament and of the Council (EC) 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) 1228/2003, and Regulation of the European Parliament and of the Council (EC) 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) 1775/2005
- adapt the Energy Act and the regulatory framework created by the Energy Regulatory Office to Regulation of the European Parliament and of the Council (EC) 713/2009 establishing an Agency for the Cooperation of Energy Regulators, and create a framework for Energy Regulatory Office cooperation with the newly established Agency for the Cooperation of Energy Regulators
- also, to a minimal extent, to clarify and add additional language to the Energy Act to ensure efficient regulation and minimize interpretative difficulties.

The main reason for and objective of the amendment to Act No. 180/2005 Sb. (the Renewable Energy Promotion Act) is:

- to limit supported solar power generating facilities to certain classes of such facilities, by placement and installed capacity
- to define conditions under which the Government will provide an annual subsidy to cover excess expenses associated with support for electricity generated from renewable sources, as well as conditions for ensuring financing of support provided by the transmission grid operator or regional distribution grid operator
- to stipulate conditions under which a levy will be imposed on electricity from solar power generating facilities and conditions for exemption from such levy.

## Other Changes to Legislation in 2010

The following regulations were promulgated in 2010 that implement the above acts or amend other implementing regulations:

- Decree No. 264/2010 Sb., effective from September 15, 2010, amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures  
The amendment introduces a methodology for regulating the operator of the market for electricity and natural gas, treats the methodology for regulating the price of transportation in conjunction with the transition of capacity reservation in the transport of natural gas from a point-to-point system to reservation on an entry/exit basis.
- Decree No. 81/2010 Sb., effective from April 1, 2010, amending Decree No. 51/2006 Sb. on conditions for connection to the Power System  
The amendment introduces a new term, “connectability study”, stipulates obligation of connection applicant and conditions for payment of connection fees, and removes from the connection decree the conditions for calculation of damage compensation in the event of unauthorized use and supply of electricity.
- Decree No. 41/2010 Sb., effective from February 4, 2010, amending Decree No. 540/2005 Sb. on the quality of supplies of electricity and related services  
The amendment increases payments for non-fulfillment of electricity supply and distribution quality standards and extends period for claiming compensation for non-fulfillment of standards.
- Decree No. 400/2010 Sb., effective from January 1, 2010, amending Decree No. 541/2005 Sb. on the Electricity Market Rules, principles for setting prices for activities conducted by the electricity market operator and implementing certain other provisions of the Energy Act  
The amendment treats the status of the intra-day electricity market, enabling it to be integrated with neighboring markets, collateral provided by clearing entities to the market operator, and transition of the deviations settlement system from business days to calendar days.
- Government Regulation No. 418/2010 of December 22, 2010, stipulating a limit on State budget funds for providing subsidies for payment of additional costs related to the promotion of electricity from renewable sources  
The amendment stipulates a limit on such funds for 2011.
- Decree No. 79/2010 Sb. on dispatcher management of the Power System and on handing over of data for dispatcher management, effective from April 1, 2010
- Decree No. 80/2010 Sb. on states of emergency in the power sector and on required contents of the accident plan, effective from April 1, 2010
- Decree No. 401/2010 Sb. stipulating required contents of the Transmission Grid Operating Rules, the Distribution Grid Operating Rules, the Rules for Transmission Grid Operators, the Rules for Distribution Grid Operators, the Rules for Underground Gas Storage Facility Operators, and the general terms and conditions of the market operator, effective from January 1, 2011.





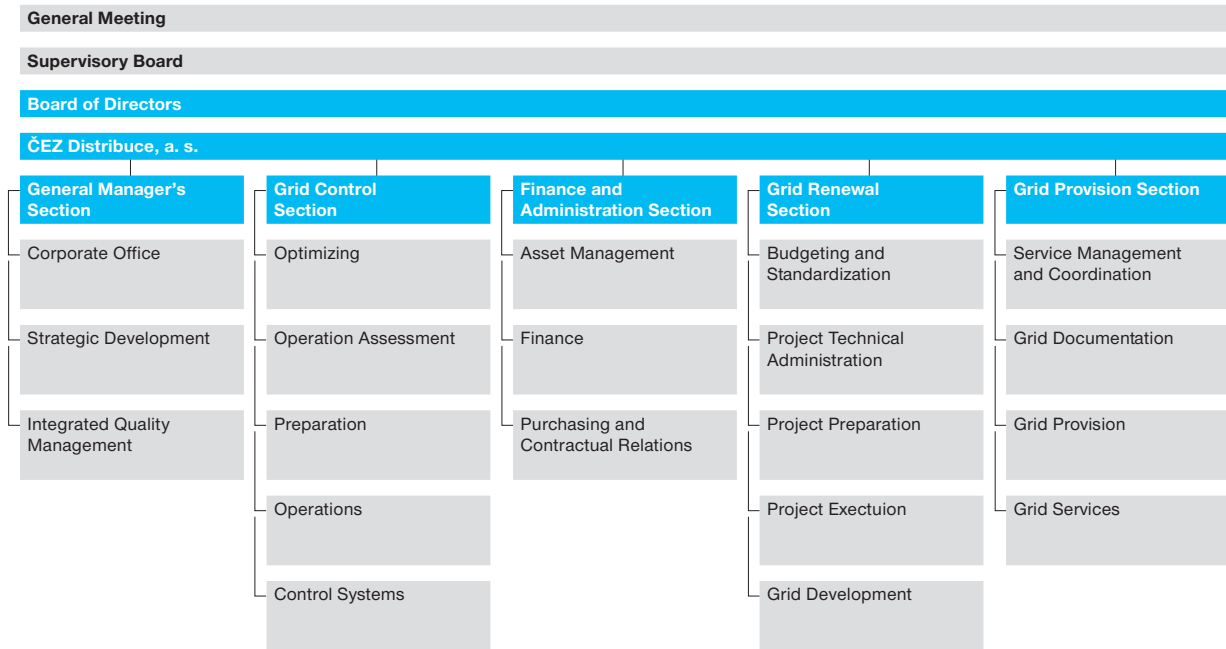
#### Jaroslav Soukup

Head of Budgeting Department

“For me, after I finished my studies, the decision of which employer to work for was a clear way to remain in a field that I understand and which, even after all these years, I still find fun and fulfilling. Only here, in this company, can I keep up with the trends and respond to them dynamically in the budget area. Outside the company, my active relaxation centers on my family, cycling, and martial arts.”

Jaroslav Soukup is head of the Budgeting Department. His experience and drive to succeed help the Company to budget for all kinds of projects. He and his colleagues approach administration of the supplier catalog with the same responsibility. His personal contribution is beyond doubt.

# Basic Organization Chart of ČEZ Distribuce, a. s. as at April 28, 2011



# Glossary of Terms and Abbreviations

## Glossary of Terms and Abbreviations

Term	Commentary
Cash pooling	A method for optimizing management of bank accounts. Using this method, the balances on accounts of participating companies are consolidated on a daily basis. Contractually stipulated credit and debit interest rates are applied to accounts involved in the cash pool.
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 selected 110 kV power lines and equipment that are part of the transmission grid – and 0.4/0.23 kV, 3 kV, 6 kV, 10 kV, 22 kV and 35 kV power lines and equipment 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.
Energy Regulatory Office	Administrative office responsible for regulating the energy sectors; has its own separate category in the Czech Republic national budget. The seat of the Energy Regulatory Office is Jihlava. The Energy Regulatory Office is charged with supporting competition and protecting consumer interests in those areas of the energy sector 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.
Large end-customer of electricity	A customer who uses electricity from the medium- and high-voltage grids.
LV	Low Voltage – distribution grid plant and equipment with voltage between phases of up to 1 kV, inclusive.
MV	Medium Voltage – distribution grid plant and equipment with voltage between phases of 1–52 kV.



Term	Commentary
OHS	Occupational Health and Safety.
OTE (Operátor trhu s elektřinou)	A State-established joint-stock company charged with organizing the Czech Republic electricity market, drawing up the reconciliation of agreed and actual amounts of electricity supplied and purchased by market participants, seeing to the settlement of deviations of actual supply amounts from contracted-for amounts, and organizing the electricity spot market.
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. The aggregate total duration of all electricity distribution interruptions in the calendar year; expressed as minutes/year/customer.
SAIFI	System Average Interruption Frequency Index. 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.
Smart Grids	Electric power and communication networks that enable electricity generation and consumption to be regulated in real time – both locally and globally. They are based on the principle of interactive, bi-directional communication between generation sources and appliances or consumers concerning current energy generation and consumption possibilities.
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.

## List of Units and Abbreviations Used

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 Financial Indicators

Term	Commentary
Assets turnover ratio	Total operating revenues / Average assets
Coverage of non-current assets	(Shareholders' equity + Non-controlling interests + Long-term liabilities + Deferred tax liability) / Non-current assets
Current ratio	(Current assets + Accrued assets and deferred liabilities) / (Current liabilities + Short-term bank loans + Accrued liabilities and deferred assets)
EBIT	Earnings before income tax
EBIT margin	EBIT / Operating revenues
EBITDA	Earnings before income tax, depreciation and amortization
Extent of depreciation	- 1 * (Accumulated depreciation and allowances on property, plant and equipment) / Property, plant and equipment in use, gross
Financial debt / Equity	(Long-term bank loans including current portion + Bonds payable + Short-term bank loans) / Average shareholders' equity
Net debt	Long-term bank loans including current portion + Short-term loans - Cash and cash equivalents - Highly liquid short-term financial assets
Net debt / EBITDA	(Long-term bank loans including current portion + Bonds payable + Short-term loans - Cash and cash equivalents - Highly liquid short-term financial assets) / Earnings before income tax, depreciation and amortization
Net income	Income after income tax (profit for the year)
Operating cash flow-to-liabilities ratio	Net cash provided by operating activities / Long-term liabilities
Return on Assets (ROA), net	Income after income tax / Average total assets
Return on Equity (ROE), net	Income after income tax attributable to equity holders of the parent / Average equity attributable to equity holders of the parent
Return on Invested Capital (ROIC)	(EBIT + Net change in operating provisions and allowances) * (1 - Income tax rate) / Average invested capital
Total debt / Total capital	(Long-term bank loans including current portion + Short-term loans) / (Long-term loans including current portions + Short-term loans + Equity)

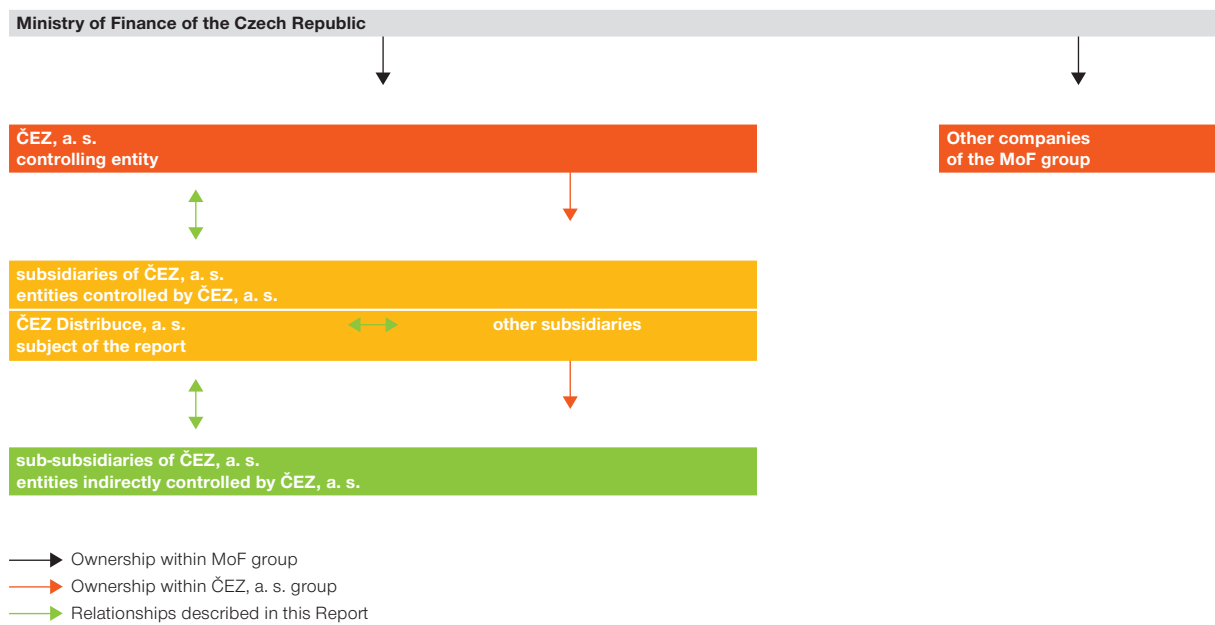
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# Related Parties Report for the Year 2010

## 1. Chart Showing Relationships Within the Group



## 2. Group Structure Chart

See separate insert under back cover flap.

### 3. Controlling Entity and Compiler 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 Number	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, Děčín IV-Podmokly, Teplická 874/8, 405 02
ID Number	247 29 035
Incorporated in Commercial Register maintained by	Ústí nad Labem Regional Court, Part B, insert 2145

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.

This Report contains information for the period January 1 – December 31, 2010.

### 4. Alphabetical List of Companies – Group Members

See separate insert under back cover flap.

## 5. Contractual Relationships

### List of valid contracts

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

#### 1. AREA-GROUP CL a.s.

One contract on provision of services.

#### 2. ČEZ, a. s.

102 contracts: one SLA on provision of services, one SLA on provision of physical security services, one framework agreement on accident assistance, one framework agreement on location swap and provision of regulation in supplies of electricity to a separate island, two implementation agreements on collaboration in public procurement, one agreement on processing of personal data, three agreements on provision of distribution services, three agreements on provision of regulation services in supplies of electricity to a separate island, one lease agreement, two agreements on voltage regulation, four agreements on processing, evaluation, and possibilities for utilization of new technologies for "Vrchlabí Smart Region", one purchase contract, 81 contracts for supplies of materials and services, one amendment to an agreement on provisions of services, four amendments to an agreement on supply and use of hot water, two amendments to an agreement on supply and use of industrial steam, one amendment to an agreement on supply of electricity.

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

12,984 contracts: 12,950 service contracts, one SLA on data gathering, one SLA on provision of OHS, FP, and EMS services, one service agreement on the execution of defined activities in selected areas, one framework agreement, three agreements on the provision of partial services, and 27 construction project contracts.

#### 4. ČEZ Energetické služby, s.r.o.

28 service contracts.

#### 5. ČEZ Distribuční zařízení, a. s.

Three amendments to a distribution equipment lease.

#### 6. ČEZ Logistika, s.r.o.

13,058 contracts: one SLA on the securing of accident response supplies, one amendment to the agreement on the securing of accident response supplies, one agreement on standardization services, and 13,057 agreements on supplies of materials.

#### 7. ČEZ Měření, s.r.o.

Ten contracts: one SLA on gathering of GPS coordinates in the scope of meter reading activities, nine agreements on supplies of materials and services, six amendments to an agreement on provision of services, four amendments to a non-residential lease.

#### 8. ČEZ Obnovitelné zdroje, s.r.o.

12 contracts: one SLA on provision of OHS, FP, and EMS services, three agreements on creation of a right in rem, two agreements to agree on future connection of an electricity generation facility, six service contracts.

#### 9. ČEZ Prodej, s.r.o.

Nine contracts: one agreement on supply of electricity and distribution grid loss, one agreement on submitter aggregation, seven service contracts, one agreement to a non-residential lease, two amendments to a service contract, three amendments to an agreement on supplies of electricity to cover losses.

#### 10. ČEZ Správa majetku, s.r.o.

178 contracts: 12 contracts on creation of right in rem (as the beneficiary), two agreements on creation of right of rem (as the obligated party), two purchase contracts on real property, 157 service contracts, five agreements on re invoicing of real expenses, two amendments to a partial agreement on vehicle fleet management, ten amendments to a full service leasing agreement, one amendment to an agreement on car and truck rental, eleven amendments to non-residential leases, three amendments to a garage leases, one amendment to the Alpha Praha building office lease, one amendment to a partial agreement on processing of incoming and outgoing correspondence, one amendment to a partial agreement on provision of document filing and shredding services, two amendments to a partial agreement on provision of printing and reprographic services.

**11. ČEZ Teplárenská, a.s.**

Three contracts: one SLA on provision of OHS, FP, and EMS services, two service contracts.

**12. ČEZ Zákaznické služby, s.r.o.**

Seven contracts: one SLA on provision of OHS, FP, and EMS services, six service contracts, one amendment to a service contract, one amendment to a confidentiality agreement.

**13. ČEZ ICT Services, a. s.**

93 contracts: 12 project implementation contracts, eight contracts for project documentation, one agreement on data processing, five agreements to agree, one service contract, one project execution contract, 65 contracts for supply of materials and services, two amendments to a lease of line terminal equipment, two amendments to a framework agreement regarding provision of computer and telecommunications equipment for the distribution grid, one amendment to an agreement on maintenance of line terminal equipment, two amendments to a framework agreement on provision of computer and telecommunications equipment services, one amendment to a non-residential lease, one amendment to the Agreement on Payment for Electricity – Hradec Králové Back-up Power Source.

**14. Elektrárna Chvaletice a.s.**

Two contracts: one lease of real property, one service contract.

**15. HOLIDAYS Czech Airlines, a.s.**

One service contract.

**16. Martia a.s.**

62 contracts: one construction project execution contract, one contract for project documentation, 60 agreements on preparation of project documentation and execution of construction work.

**17. OSC, a.s.**

Four contracts: two project execution contracts, two amendments to project execution contracts.

**18. SD - KOMES, a.s.**

One service contract.

**19. Severočeské doly a.s.**

Two service contracts.

**20. SINIT,a.s.**

34 contracts: 32 agreements on preparation of project documentation and execution of construction work, one agreement on provision of services for dealing with failure states and collaboration in inspection work, one agreement on the securing of service work.

**21. Teplárna Trmice, a.s.**

Eight contracts: two voltage regulation agreements, one heat supply contract, five service contracts.

**22. Ústav jaderného výzkumu Řež a.s.**

Three project execution contracts.

**23. 3 L invest a.s.**

Three contracts: two construction project execution contracts, one lease.

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 2010 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 2010 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
FP	Fire Protection
EMS	Environmental Management System
OHS	Occupational Health and Safety
GPS	Global Positioning System

## 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 in a *per rollam* decision dated March 31, 2011.

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, 2011



Richard Vidlička  
Chairman of the Board of Directors



Petra Holomková  
Vice Chairwoman of the Board of Directors





# 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 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of ČEZ Distribuce, a. s., see Note 1 to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s. as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

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

Josef Pivoňka  
Auditor, License No. 1963

21 January 2011  
Prague, Czech Republic

# ČEZ Distribuce, a. s.

## Balance Sheet

### as of December 31, 2010

(in CZK thousands)

	2010		Opening balance sheet	
	Gross	Provision	Net	Net
<b>TOTAL ASSETS</b>	<b>242,200,372</b>	<b>(112,383,702)</b>	<b>129,816,670</b>	<b>122,135,731</b>
Stock subscription receivable	0	0	0	0
<b>Fixed assets</b>	<b>221,104,083</b>	<b>(112,152,072)</b>	<b>108,952,011</b>	<b>104,689,207</b>
<b>Intangible assets</b>	<b>261,429</b>	<b>(149,488)</b>	<b>111,941</b>	<b>111,733</b>
Foundation and organization expenses	86	(26)	60	77
Research and development	6,817	(4,642)	2,175	3,050
Software	150,267	(105,764)	44,503	52,432
Patents, royalties and similar rights	51,561	(26,630)	24,931	26,933
Goodwill	0	0	0	0
Other intangible assets	48,407	(12,426)	35,981	25,159
Intangible assets in progress	4,291	0	4,291	4,082
Advances granted for intangible assets	0	0	0	0
<b>Tangible assets</b>	<b>220,842,654</b>	<b>(112,002,584)</b>	<b>108,840,070</b>	<b>104,577,474</b>
Land	604,648	0	604,648	503,202
Constructions	162,797,060	(82,035,423)	80,761,637	76,455,832
Separate movable items and groups of movable items	54,179,531	(29,911,185)	24,268,346	23,204,177
Perennial crops	0	0	0	0
Livestock	0	0	0	0
Other tangible assets	9,547	(2,502)	7,045	7,349
Tangible assets in progress	3,168,603	(53,474)	3,115,129	4,386,491
Advances granted for tangible assets	83,265	0	83,265	20,423
Gain or loss on revaluation of acquired property	0	0	0	0
<b>Financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
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
<b>Current assets</b>	<b>21,085,563</b>	<b>(231,630)</b>	<b>20,853,933</b>	<b>17,434,090</b>
<b>Inventory</b>	<b>215,648</b>	<b>0</b>	<b>215,648</b>	<b>207,385</b>
Materials	8	0	8	698
Work in progress and semi-finished production	213,037	0	213,037	204,084
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
<b>Long-term receivables</b>	<b>630</b>	<b>0</b>	<b>630</b>	<b>256</b>
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	630	0	630	256
Deferred tax asset	0	0	0	0
<b>Short-term receivables</b>	<b>20,869,254</b>	<b>(231,630)</b>	<b>20,637,624</b>	<b>17,224,859</b>
Trade receivables	1,851,470	(231,337)	1,620,133	568,188
Receivables from group companies with majority control	6,458,924	0	6,458,924	4,866,565
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	1,046,705	0	1,046,705	1,337,517
Short-term advances granted	831,278	0	831,278	947,419
Unbilled revenue	10,666,716	0	10,666,716	9,504,171
Other receivables	14,161	(293)	13,868	999
<b>Short-term financial assets</b>	<b>31</b>	<b>0</b>	<b>31</b>	<b>1,590</b>
Cash	31	0	31	1,590
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
<b>Accrued assets and deferred liabilities</b>	<b>10,726</b>	<b>0</b>	<b>10,726</b>	<b>12,434</b>
Prepaid expenses	9,579	0	9,579	9,832
Prepaid expenses (specific-purpose expenses)	0	0	0	0
Unbilled revenue	1,147	0	1,147	2,602

(in CZK thousands)

	2010	Opening balance sheet
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>129,816,670</b>	<b>122,135,731</b>
<b>Equity</b>	<b>86,585,781</b>	<b>82,542,258</b>
<b>Basic capital</b>	<b>60,000,000</b>	<b>60,000,000</b>
Registered capital	60,000,000	60,000,000
Own shares and own ownership interests (-)	0	0
Changes in basic capital	0	0
<b>Capital funds</b>	<b>617</b>	<b>0</b>
Share premium (agio)	0	0
Other capital funds	617	0
Gain or loss on revaluation of assets and liabilities	0	0
Gain or loss on revaluation of company transformations	0	0
<b>Reserve funds and other funds created from profit</b>	<b>12,000,000</b>	<b>11,853,223</b>
Legal reserve fund	12,000,000	11,853,223
Statutory and other funds	0	0
<b>Profit (loss) for the previous years</b>	<b>10,542,258</b>	<b>10,689,035</b>
Retained earnings for the previous years	10,542,258	10,689,035
Accumulated loss of previous years	0	0
<b>Profit (loss) for the year (+/-)</b>	<b>4,042,906</b>	<b>0</b>
<b>Liabilities</b>	<b>34,960,224</b>	<b>31,696,722</b>
<b>Reserves</b>	<b>1,379,185</b>	<b>978,948</b>
Reserves created under special legislation	0	0
Reserve for pensions and similar obligations	0	0
Reserve for corporate income tax	1,148,800	751,488
Other reserves	230,385	227,460
<b>Long-term liabilities</b>	<b>18,520,498</b>	<b>16,784,841</b>
Trade payables	0	0
Liabilities to group companies with majority control	6,569,225	4,591,800
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	11,951,273	12,193,041
<b>Current liabilities</b>	<b>15,060,541</b>	<b>13,932,933</b>
Trade payables	2,094,039	2,492,732
Liabilities to group companies with majority control	386,440	510,200
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	48,736	41,785
Liabilities arising from social security and health insurance	28,584	21,008
Due to government – taxes and subsidies	9,663	7,424
Advances received	10,375,868	9,335,712
Bonds payable	0	0
Unbilled deliveries	2,102,353	1,509,112
Other liabilities	14,858	14,960
<b>Bank loans and borrowings</b>	<b>0</b>	<b>0</b>
Long-term bank loans	0	0
Short-term bank loans	0	0
Borrowings	0	0
<b>Accrued liabilities and deferred assets</b>	<b>8,270,665</b>	<b>7,896,751</b>
Accruals	1,127	38,269
Deferred income	8,269,538	7,858,482

# ČEZ Distribuce, a. s.

## Statement of Income

### as of December 31, 2010

(in CZK thousands)

	Accounting period 2010
Revenue from sale of goods	0
Cost of goods sold	0
<b>Gross margin</b>	<b>0</b>
<b>Production</b>	<b>41,747,754</b>
Revenue from sale of finished products and services	41,536,116
Change in inventory produced internally	8,954
Own work capitalized	202,684
<b>Production related consumption</b>	<b>29,986,613</b>
Consumption of material and energy	12,057,767
Services	17,928,846
<b>Value added</b>	<b>11,761,141</b>
<b>Personnel expenses</b>	<b>1,009,245</b>
Wages and salaries	687,896
Bonuses to members of company or cooperation bodies	3,510
Social security and health insurance	235,605
Other social costs	82,234
Taxes and charges	8,679
Amortization and depreciation of intangible and tangible fixed assets	5,903,785
<b>Revenue from sale of intangible and tangible fixed assets and materials</b>	<b>45,576</b>
Revenues from sale of intangible and tangible fixed assets	23,306
Revenue from sale of materials	22,270
<b>Net book value of intangible and tangible fixed assets and materials sold</b>	<b>45,332</b>
Net book value of intangible and tangible fixed assets sold	44,645
Materials sold	687
Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	102,807
Other operating revenues	956,473
Other operating expenses	349,974
Transfer of operating revenues	0
Transfer of operating expenses	0
<b>Profit or loss on operating activities</b>	<b>5,343,368</b>
Revenue from sale of securities and interests	0
Securities and interests sold	0
Income from financial investments	0
Income from subsidiaries and associates	0
Income from other long-term securities and interests	0
Income from other financial investments	0
Income from short-term financial assets	0
Expenses related to financial assets	0
Gain on revaluation of securities and derivatives	0
Loss on revaluation of securities and derivatives	0
Change in reserves and provisions relating to financial activities	0
Interest income	36,679
Interest expense	435,231
Other finance income	320
Other finance cost	1,588
Transfer of finance income	0
Transfer of finance cost	0
<b>Profit or loss on financial activities</b>	<b>(399,820)</b>
Tax on profit or loss on ordinary activities	900,642
- due	1,142,409
- deferred	(241,767)
<b>Profit or loss on ordinary activities after taxation</b>	<b>4,042,906</b>
Extraordinary gains	0
Extraordinary losses	0
Tax on extraordinary profit or loss	0
- due	0
- deferred	0
<b>Extraordinary profit or loss</b>	<b>0</b>
Transfer of share of profit or loss to partners (+/-)	0
<b>Profit or loss for the year (+/-)</b>	<b>4,042,906</b>
<b>Profit or loss before taxation (+/-)</b>	<b>4,943,548</b>

# ČEZ Distribuce, a. s.

## Statement of Cash Flows

### as of December 31, 2010

(in CZK thousands)

	Accounting period 2010
Cash and cash equivalents at beginning of year	1,590
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit or loss on ordinary activities before taxation (+/-)	4,943,548
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	5,785,446
Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	5,907,763
Change in provisions and reserves	(542,437)
Change in provisions	99,883
Change in reserves	2,925
Change in accrued and deferred assets and liabilities	(645,245)
Gain/Loss on disposal of fixed assets	21,339
Interest expense and interest income	398,552
Interest expense	435,231
Interest income	(36,679)
Other non-cash movements	229
Income from dividends and profit sharing	0
<b>Net cash from operating activities before taxation, changes in working capital and extraordinary items</b>	<b>10,728,994</b>
Change in non-cash components of working capital	297,680
Change in trade receivables	(2,086,049)
Change in trade payables	2,391,992
Change in inventory	(8,263)
<b>Net cash from operating activities before taxation, interest paid and extraordinary items</b>	<b>11,026,674</b>
Interest paid	(435,231)
Interest received	36,679
Tax paid	(591,014)
Gains and losses on extraordinary items	0
Dividends received	0
<b>Net cash provided by (used in) operating activities</b>	<b>10,037,108</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets	(10,332,999)
Proceeds from sale of fixed assets	33,024
<b>Net cash provided by (used in) investing activities</b>	<b>(10,299,975)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Change in long-term liabilities and long-term, resp. short-term, loans	1,853,665
Change in receivables/payables related to group cashpooling	(1,592,359)
Effect of changes in equity on cash	2
Effect of changes in basic capital on cash	0
Cash donations recorded in equity	0
Cash payments from equity funds	2
Dividends or profit sharing paid	0
Acquisition/sale of own shares	0
<b>Net cash provided by (used in) financing activities</b>	<b>261,308</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,559)</b>
Cash and cash equivalents at end of year	31

# ČEZ Distribuce, a. s.

## Notes to the Financial Statements

### as of December 31, 2010

#### 1. Description of the Company

ČEZ Distribuce, a. s. ("the Company") is a Czech joint stock company founded through a project of a merger by consolidation. The Company's registered office is located at Děčín IV-Podmokly, Teplická 874/8, post code: 405 02, Czech Republic, and the business registration number (IČ) is 247 29 035. The Company is involved in the operation of the power grid and in the distribution of electricity to individuals and legal entities.

The sole shareholder 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 ČEZ Group and in the consolidated group of the parent company ČEZ, a. s.

The Company has no foreign branch.

#### Members of the bodies as at 31 December 2010

Board of Directors		Supervisory Board	
Chair	Ing. Richard Vidlička, MBA	Chair	Ing. Jiří Kudrnáč
Vice-chair	Ing. Petra Holomková	Vice-chair	Ing. Jaroslav Janda
Member	Ing. Jiří Koptík	Member	JUDr. Michaela Chaloupková, MBA
Member	Ing. Pavel Filipi	Member	Karel Čech
Member	Ing. Václav Purkar	Member	Irena Klůsová
		Member	Ing. Milan Špatenka

On 27 October 2010 Ing. Filip Secký resigned from his position of the Board of Directors member with effect from 31 October 2010.

On 27 October 2010 the Supervisory Board elected Ing. Václav Purkar a new member of the Board of Directors with effect from 1 November 2010. The changes were made to the Commercial Register entry on 1 December 2010.

ČEZ Distribuce, a. s. was founded, based on a merger by consolidation, as a successor company of the dissolving companies ČEZ Distribuční zařízení, a. s., with its registered office at Praha 4, Michle, Duhová 2/1444, post code 140 53, the business registration number (IČ) 289 22 727, registered in the Commercial Register maintained in the Municipal Court in Prague, Section B, file 15391, and ČEZ Distribuce, a. s., with its registered office at Děčín 4, Teplická 874/8, post code 405 02, the business registration number (IČ) 272 32 425, registered in the Commercial Register maintained in the Regional Court in Ústí nad Labem, Section B, file 1704, with a decisive merger date being 1 January 2010. As a result of the merger by consolidation, the business assets, including employment related rights and obligations, of the dissolving companies were transferred to the successor company.

The Company's 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 2010.

#### 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 2010 financial statements and the opening balance sheet as at 1 January 2010 are as follows:

#### a) Intangible Fixed Assets

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

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

#### b) Tangible Fixed Assets

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

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

#### 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

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 2010. The revaluation of acquisition costs and net book value of assets was made in connection with the merger project.

#### 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. Costs of purchased inventory include acquisition-related costs (freight, customs, commission, etc.).

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

#### e) Receivables

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

#### f) Equity

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Registry Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting which was not entered in the Commercial Register as at the financial statements date is recorded through changes in basic capital. Contributions in excess of basic capital are recorded as share premium. Other capital funds consist of monetary and non-monetary contributions in excess of basic capital.

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 legal reserve fund is allocated 5% of profit after tax until the fund reaches 20% of basic 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.

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

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

#### h) Foreign Currency Transactions

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

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

#### i) 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.

#### j) 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.

## 4. Fixed Assets

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

#### Cost

	At beginning of year	Additions	Disposals	Transfers	At end of year
Foundation and organization expenses	86	-	-	-	86
Research and development	6,817	-	-	-	6,817
Software	137,267	-	(2,619)	15,619	150,267
Patents, royalties and similar rights	46,839	-	(62)	4,784	51,561
Other intangibles	31,418	-	-	16,989	48,407
Intangibles in progress	4,082	37,601	-	(37,392)	4,291
<b>2010 Total</b>	<b>226,509</b>	<b>37,601</b>	<b>(2,681)</b>	<b>-</b>	<b>261,429</b>

#### Accumulated Amortization

	At beginning of year	Amortization during year	Disposals	At end of year	Net book value
Foundation and organization expenses	(9)	(17)	-	(26)	60
Research and development	(3,767)	(875)	-	(4,642)	2,175
Software	(84,835)	(23,548)	2,619	(105,764)	44,503
Patents, royalties and similar rights	(19,906)	(6,786)	62	(26,630)	24,931
Other intangibles	(6,259)	(6,167)	-	(12,426)	35,981
Intangibles in progress	-	-	-	-	4,291
<b>2010 Total</b>	<b>(114,776)</b>	<b>(37,393)</b>	<b>2,681</b>	<b>(149,488)</b>	<b>111,941</b>

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

As at 31 December 2010 and 1 January 2010, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 1,666 thousand and CZK 1,013 thousand at acquisition cost, respectively.



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

## Cost

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	503,202	695	(2,875)	103,626	604,648
Constructions	155,751,197	228,955	(1,512,786)	8,329,694	162,797,060
Separate movable items	52,176,071	199,468	(1,118,320)	2,922,312	54,179,531
Art works and collections	348	-	-	-	348
Other tangibles	9,199	-	-	-	9,199
Tangibles in progress	4,439,965	9,981,713	(8,884)	(11,244,191)	3,168,603
Advances for tangibles	20,423	174,283	-	(111,441)	83,265
<b>2010 Total</b>	<b>212,900,405</b>	<b>10,585,114</b>	<b>(2,642,865)</b>	<b>-</b>	<b>220,842,654</b>

## Accumulated Depreciation

	At beginning of year	Depreciation during year	Cost of sales	Disposals	Transfers	At end of year	Allowances	Net book value
Land	-	-	-	-	-	-	-	604,648
Constructions	(79,295,365)	(3,720,831)	(1,700)	1,106,515	(124,042)	(82,035,423)	-	80,761,637
Separate movable items	(28,971,894)	(2,145,257)	(31,202)	1,112,963	124,205	(29,911,185)	-	24,268,346
Art works and collections	-	-	-	-	-	-	-	348
Other tangibles	(2,198)	(304)	-	-	-	(2,502)	-	6,697
Tangibles in progress	-	-	-	-	-	-	(53,474)	3,115,129
Advances for tangibles	-	-	-	-	-	-	-	83,265
<b>2010 Total</b>	<b>(108,269,457)</b>	<b>(5,866,392)</b>	<b>(32,902)</b>	<b>2,219,478</b>	<b>163</b>	<b>(111,949,110)</b>	<b>(53,474)</b>	<b>108,840,070</b>

The total value of small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 23,274 thousand and CZK 19,786 thousand at acquisition cost as at 31 December 2010 and 1 January 2010, respectively.

The Company has adjusted the carrying value of tangibles in progress for a diminution in value through an allowance charged against income (see Note 6).

## 5. Receivables

Allowances against outstanding receivables that are considered doubtful were charged to income based on collectibility and ageing analysis of receivables in 2010 (see Note 6).

As at 31 December 2010 and 1 January 2010, receivables overdue for more than 30 days totaled CZK 251,781 thousand and CZK 177,728 thousand, respectively.

Receivables from related parties (see Note 18).

Unbilled revenue represents, in particular, unbilled distribution services.

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

Unbilled distribution services	Total	Retail business customers	Retail household customers
Opening balance as at 1/1/2010	9,388,853	3,017,048	6,371,805
Changes in 2010	1,212,850	440,833	772,017
<b>Closing balance as at 31/12/2010</b>	<b>10,601,703</b>	<b>3,457,881</b>	<b>7,143,822</b>

Based on a comparison of the balance and controlling methods of unbilled electricity computation, a one-time adjustment of unbilled electricity was recorded in an amount of CZK 939,732 thousand.

## 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)

	Opening balance as at 1/1/2010	Additions	Deductions	Closing balance as at 31/12/2010
Allowances against fixed assets in progress	53,474	–	–	53,474
Allowances against receivables	131,747	151,569	(51,686)	231,630
of which: legal	106,661	33,321	(7,888)	132,094
other	25,086	118,248	(43,798)	99,536

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

## 7. Short-term Financial Assets

The Company is a part of cash pooling system for the companies in the CEZ Group managed by Komerční banka, a.s.

Cash in CZK provided to the parent company ČEZ, a. s. within the cash pooling bears an interest rate of PRIBID O/N -0.15% p.a. and, effective from 1 December 2010, PRIBID O/N -0.21% p.a. (receivables); cash in CZK provided by the parent company within the cash pooling bears an interest rate of PRIBOR +0.59% p.a. and, effective from 11 November 2010, PRIBOR +0.35% p.a. (payables).

The balance of cash transferred to the parent company ČEZ, a. s. within the cash pooling system was CZK 6,458,924 thousand and CZK 4,866,565 thousand as at 31 December 2010 and 1 January 2010, 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 2010 and 1 January 2010.

## 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 7,651 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., which are recognized into income for the year in which they were earned.

## 9. Equity

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

The movements in the capital accounts during 2010 were as follows (in CZK thousands):

	Balance as at 1/1/2010	Increase	Decrease	Balance as at 31/12/2010
Number of shares	600	–	–	600
Basic capital	60,000,000	–	–	60,000,000
Other capital funds	–	617	–	617
Legal reserve fund	11,853,223	146,777	–	12,000,000
Retained earnings	10,689,035	–	(146,777)	10,542,258

## 10. Provisions

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

Provisions	Balance as at 1/1/ 2010	Additions	Deductions	Balance as at 31/12/2010
Provision for income tax	751,488	1,148,800	(751,488)	1,148,800
Other provisions	227,460	5,305	(2,380)	230,385

In 2010, other provisions in the amount of CZK 230,385 thousand were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement

## 11. Long-term Liabilities

As at 31 December 2010, the Company had the following long-term liabilities (in CZK thousands):

	Due date	31. 12. 2010	1. 1. 2010
1st credit line	27/12/2019	4,591,800	5,102,000
2nd credit line	27/12/2019	2,363,850	-
<b>Total</b>		<b>6,955,650</b>	<b>5,102,000</b>
Current portion		(386,425)	(510,200)
Long-term portion		6,569,225	4,591,800

A contract for 1st credit line was signed by and between dissolved company 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. As a result of the merger by consolidation, the loan was transferred to the successor company ČEZ Distribuce, a. s. Other arrangements of the loan contracts remained unchanged.

A contract for 2nd credit line was signed by and between ČEZ Distribuce, a. s. (debtor) and ČEZ, a. s. (creditor) on 21 January 2010. The loan was withdrawn on 25 and 26 January 2010 and is repayable by 27 December 2019. The interest rate has been set at 5.757% p.a. 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 relating to loans for 2010 was CZK 435,231 thousand.

The aggregate maturities of loans (in CZK thousands)

	Loans
2011	386,425
2012	1,159,275
2013	772,850
2014 and thereafter	4,637,100
<b>Total</b>	<b>6,955,650</b>

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

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

The Company was in compliance with these terms and conditions as at 31 December 2010.

## 12. Current Liabilities

As at 31 December 2010 and 1 January 2010, the Company had overdue current liabilities for more than 30 days totaling CZK 6,633 thousand and CZK 28,912 thousand, respectively.

As at 31 December 2010 and 1 January 2010, the Company had liabilities of CZK 28,584 thousand and CZK 21,008 thousand, respectively 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 2010.

Payables to related parties (see Note 18).

## 13. Other Liabilities

Accruals include particularly interest on the loan provided by ČEZ, a. s., and are charged to income for the year 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 2010 (in CZK thousands)

Balance at 1 January 2010	7,858,482
Additions in 2010	1,049,538
Released to revenues in 2010	(638,482)
<b>Balance at 31 December 2010</b>	<b>8,269,538</b>

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

	2010 in CZK thousands
Profit before taxes	4,943,548
Difference between book and tax depreciation	812,281
Difference between net book value of fixed assets for accounting and tax purposes	102,783
Non-deductible expenses	
Creation of provisions	2,925
Creation of allowances	74,449
Other (e.g. entertainment expenses, shortages and losses)	111,771
Taxable income	6,047,757
Current income tax rate	19%
Tax	1,149,074
Tax allowance	(274)
Provision for income tax	1,148,800
Adjustment of the tax paid in previous years	(6,391)
<b>Current tax expense</b>	<b>1,142,409</b>

The calculation of the 2010 corporate income tax liability is preliminary. The Company will submit its regular tax return by 30 June 2011.

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

Deferred tax items	31/12/2010		1/1/2010	
	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	–	(12,012,167)	–	(12,244,847)
Other temporary differences				
Allowance against receivables	12,728	–	4,767	–
Provisions	43,773	–	43,217	–
Other	4,393	–	3,323	–
Tax loss	–	–	499	–
<b>Total</b>	<b>60,894</b>	<b>(12,012,167)</b>	<b>51,806</b>	<b>(12,244,847)</b>
<b>Net</b>		<b>(11,951,273)</b>		<b>(12,193,041)</b>

## 15. 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 2010 and 1 January 2010, the Company had concluded contracts for future supplies of fixed assets (capital expenditures and repairs) in the amount of approx. CZK 4,846,746 thousand and CZK 3,515,206 thousand, respectively. As at 31 December 2010, an amount of contractual liabilities for next years comprises a contractual fee totaling CZK 4,613,293 thousand for investments, CZK 181,286 thousand for repairs and CZK 52,167 thousand for relaying.

## 16. Revenues

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

	2010
Provided reserved capacity	7,973,575
Provision of system services	5,469,860
Use of grids	26,766,286
Other energy services	1,084,077
Other non-energy services	242,318
<b>Total revenues</b>	<b>41,536,116</b>

In 2010, the revenues of the Company comprised primarily sales from the provision of distribution network 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 2010.

## 17. Personnel and Related Expenses

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

	2010	
	Total	Of which managerial bodies
Average number of employees	1,224	25
Wages and salaries	687,896	42,331
Bonuses to members of statutory bodies	3,510	–
Social security and health insurance	235,605	14,390
Social cost	82,234	1,786
<b>Total personnel expenses</b>	<b>1,009,245</b>	<b>58,507</b>

In 2010 bonuses to members of statutory and supervisory bodies amounted to CZK 3,510 thousand.

## 18. 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 2010 and they do not hold any shares of the Company.

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

As at 31 December 2010 and 1 January 2010, advances granted to related parties amounted to a total of CZK 269,312 thousand and CZK 441,976 thousand, respectively.

As at 31 December 2010 and 1 January 2010, receivables from group companies with majority control in the amount of CZK 6,458,924 thousand and CZK 4,866,565 thousand, respectively 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 2010, sales were as follows (in CZK thousands):

Related party	2010
ČEZ Prodej, s.r.o.	29,268,435
Severočeské doly a.s.	214,474
ČEZ, a. s.	99,514
ČEZ ICT Services, a. s.	81,729
ČEZ Distribuční služby, s.r.o.	40,143
Teplárna Trmice, a.s.	12,637
Ústav jaderného výzkumu Řež a.s.	2,897
ČEZ Měření, s.r.o.	1,966
ČEZ Zákaznické služby, s.r.o.	1,783
ČEZ Logistika, s.r.o.	694
ČEZ Správa majetku, s.r.o.	656
Elektrárna Chvaletice a.s.	614
ČEZ Obnovitelné zdroje, s.r.o.	271
ČEZ Energetické služby, s.r.o.	427
<b>Total</b>	<b>29,726,240</b>

### Short-term receivables from related parties as at 31 December 2010 (in CZK thousands)

Related party	2010
ČEZ Prodej, s.r.o.	1,178,916
ČEZ, a. s.	34,024
Severočeské doly a.s.	21,538
ČEZ ICT Services, a. s.	8,915
ČEZ Distribuční služby, s.r.o.	4,960
Teplárna Trmice, a.s.	900
Elektrárna Chvaletice a.s.	736
ČEZ Správa majetku, s.r.o.	168
ČEZ Měření, s.r.o.	170
ČEZ Zákaznické služby, s.r.o.	158
Ústav jaderného výzkumu Řež a.s.	125
ČEZ Energetické služby, s.r.o.	42
ČEZ Obnovitelné zdroje, s.r.o.	35
<b>Total</b>	<b>1,250,687</b>

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2010 were as follows (in CZK thousands):

Related party	2010
ČEZ Distribuční služby, s.r.o.	4,439,838
ČEZ Logistika, s.r.o.	3,812,763
ČEZ Prodej, s.r.o.	3,118,004
ČEZ Měření, s.r.o.	1,679,412
ČEZ ICT Services, a. s.	1,212,364
ČEZ Zákaznické služby, s.r.o.	734,303
ČEZ, a. s.	587,333
ČEZ Obnovitelné zdroje, s.r.o.	224,469
ČEZ Správa majetku, s.r.o.	200,607
ČEZ Energetické služby, s.r.o.	46,770
Teplárna Trmice, a.s.	19,781
MARTIA a.s.	6,933
Ústav jaderného výzkumu Řež a.s.	2,343
Elektrárna Chvaletice a.s.	286
SD - KOMES, a.s.	80
ČEZ Teplárenská, a.s.	18
Severočeské doly a.s.	3
<b>Total</b>	<b>16,085,307</b>

As at 31 December 2010 and 1 January 2010, advances received from related parties amounted to a total of CZK 11,620,818 thousand and CZK 8,751,503 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 2010 were as follows (in CZK thousands):

Related party	2010
ČEZ Distribuční služby, s.r.o.	472,191
ČEZ Prodej, s.r.o.	414,617
ČEZ ICT Services, a. s.	232,356
ČEZ Logistika, s.r.o.	229,097
ČEZ Měření, s.r.o.	207,050
ČEZ, a. s.	139,515
ČEZ Zákaznické služby, s.r.o.	70,504
ČEZ Správa majetku, s.r.o.	23,395
ČEZ Obnovitelné zdroje, s.r.o.	21,875
Teplárna Trmice, a.s.	1,761
MARTIA a.s.	1,196
Ústav jaderného výzkumu Řež a.s.	670
Elektrárna Chvaletice a.s.	150
ČEZ Energetické služby, s.r.o.	9
ČEZ Teplárenská, a.s.	2
<b>Total</b>	<b>1,814,388</b>

## 19. 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.

## 20. Statement of Cash Flows

The cash flow statement was prepared under the indirect method.

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



# Identification of ČEZ Distribuce, a. s.

## ČEZ Distribuce, a. s.

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

Registered in the Commercial Register maintained by the  
Regional Court in Ústí nad Labem, part B, insert 2145

Year of inception:	2010
Legal form:	joint-stock company
ID No.:	247 29 035
Tax ID:	CZ24729035
Bankers:	Komerční banka, a.s., account no. 35-4544580267/0100
Tel.:	+420 411 121 111
Fax:	+420 411 122 997
Internet:	<a href="http://www.cezdistribuce.cz">www.cezdistribuce.cz</a>
E-mail:	<a href="mailto:info@cezdistribuce.cz">info@cezdistribuce.cz</a>

License number: 121015583  
OTE registration number: 715

**Group Structure Chart**

**Alphabetical List of Companies – Group Members**

