



ČEZ DISTRIBUCE, A. S. ANNUAL REPORT 2011





3,556,514
connection points

43,864 GWh
electricity distributed,
including losses



1,077 CZK/MWh
cost to distribute 1 MWh,
including losses

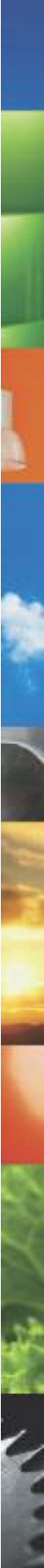
CZK 10,224 milion
capital expenditure



CZK 13,488 milion
EBITDA

RESPECTFUL
TO NATURE,
CONSIDERATE
TO PEOPLE






ČEZ Distribuce, a. s.
delivers electricity to its
customers while continuously
improving the quality and
reliability of its supplies.
We are concerned about
the environment in which
we operate and pursue our
economic goals. Therefore,
protecting that environment
is a fundamental priority
for us: we continually
increase the safety of our
plant and equipment
and provide protection
against the incidence of
hazardous substances.

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The 2011 Annual Report of ČEZ Distribution contains QR codes that link to the specific web pages www.cez.cz and PDF documents  that appear either in the Annual Report body text or next to the QR code in question. To read a QR code you will need a mobile telephone with a camera and installed "QR code reader" software, and to view a web page you will also need an Internet connection. Take a picture of the QR code and the reader will decode it and give you access to the information it contains.

INFORMATION ON PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

Responsibility for the Annual Report

Statutory Declaration

The information presented in the 2011 Annual Report of ČEZ Distribuce, a. s. is factual and no significant circumstances that could influence an accurate and correct assessment of ČEZ Distribuce, a. s. have been omitted or distorted.

Děčín, April 27, 2012

Editorial section:



Tomáš Truxa
Head of Corporate Office

Financial section:



Ivana Kolská
Head of Finance Department

INDEPENDENT AUDITOR'S REPORT

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

- I. We have audited the financial statements of ČEZ Distribuce, a. s. (the "Company") as at 31 December 2011 presented on pages 53–69 and our audit report dated 24 January 2012 stated the following:
- We have audited the accompanying financial statements of ČEZ Distribuce, a. s., which comprise the balance sheet as at 31 December 2011, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of ČEZ Distribuce, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

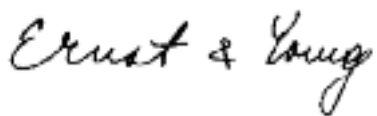
In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s., as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of ČEZ Distribuce, a. s., is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

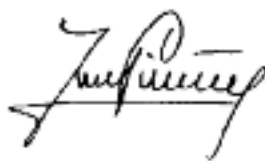
We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1–46 is consistent with that contained in the audited financial statements as at 31 December 2011. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion. Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

- III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of ČEZ Distribuce, a. s., for the year ended 31 December 2011 presented in the annual report of the Company on pages 47–52. The management of ČEZ Distribuce, a. s., is responsible for the preparation and accuracy of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related 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 applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of ČEZ Distribuce, a. s., for the year ended 31 December 2011 is materially misstated.



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



Josef Pivoňka
Auditor, License No. 1963

April 27, 2012
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,

In the past year, the company faced many factors affecting its financial performance. The most significant, in my opinion, was ongoing decline in electricity distribution volume. Despite these factors, the company posted very good earnings. Actual EBITDA was 104.8% of plan and the company's net income totaled CZK 5,674 million. These numbers, which demonstrate our strength and stability, also underline the esteem in which our company is held and brought us recognition in the Czech TOP 100 ranking.

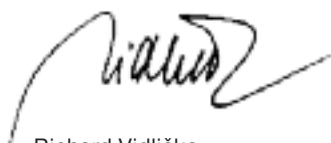
The company's capital expenditures in 2011 totaled nearly CZK 10.2 billion. Out of all the projects we implemented this year, here I will name just a few. We began building a new 110/22 kV transformer station in Ostrava – Poruba, which will be an important new distribution grid node in this region. We commissioned one of the biggest projects of late in the Ústí Region – a new compact 110 kV substation in central Ústí nad Labem. Our ability to meet demand for new connections and increased connection capacity for existing customers in the Turnov Industrial Zone will be assured by a new 110/35 kV transformer station there. And the building of a new 110/22 kV transformer station in Jablonec nad Nisou will cover increasing demand for electricity supply in that city and ensure increased reliability of supply over medium-voltage cables in that supply area.

While recognizing these positive accomplishments, we continue to search for ways to improve the company's internal functioning. The Asset Management initiative aimed to put in place effective technical and financial processes for managing distribution assets. As of February 1, 2012, the company's organization structure was modified in conjunction with the Asset Management initiative.

2011 saw a fundamental change in how permits are issued for renewable sources of energy and how these sources are connected to the distribution grid. First, long-term measurements were taken on a large number of photovoltaic power plants already connected to the power system, with the objective of finding out their real impact on the distribution grid. Then these measurements were analyzed, resulting in a comprehensive summary of conditions for assessing and connecting installations of this kind. Subsequently, at the very end of the year, an upper limit was set for connecting photovoltaic and wind power plants – necessary for maintaining safe and reliable operation of the Czech Republic Power System and maintaining a balance between electricity generation and use at all times during system operation.

I am convinced that the recent granting of a certificate of ČSN EN ISO 14001 compliance for our environmental management system is a clear recognition of our sustained environmental protection efforts. This certificate also reaffirms the fact that the investments made and technology utilized by our company fulfill the 2011 Annual Report's motto: "Respectful to nature, considerate to people".

In conclusion, allow me to thank the company's employees, business partners, and also our customers for the part they played in the results and accomplishments described in these pages. These results of our mutual collaboration are evidence of a decency and integrity that I respect.



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

SELECTED INDICATORS

Selected Economic Indicators

	Units	2010	2011
Work force head count at December 31	persons	1,232	1,213
Revenues from sale of finished products and services	CZK millions	41,536	52,483
EBITDA	CZK millions	11,247	13,488
EBIT	CZK millions	5,343	7,346
Net income	CZK millions	4,043	5,674
Return on Invested Capital (ROIC)	%	3.96	6.50
Total assets	CZK millions	129,817	130,906
Equity	CZK millions	86,586	86,360
Net debt	CZK millions	12,448	16,447
Net debt/Equity	%	20.21	19.73
Capital expenditures (CAPEX)	CZK millions	10,218	10,224
Net cash provided by operating activities	CZK millions	10,037	11,777

Selected Sector-Specific Indicators

	Units	2010	2011
Supply area	km ²	52,001	52,001
Number of connection points	number	3,544,605	3,556,514
of which: HV, MV – large end-customers	number	14,267	14,482
LV – retail-commercial	number	453,863	451,107
LV – retail-residential	number	3,076,475	3,090,925
Peak load	MW	5,963	5,727
Grid extended length	km	157,481	158,267
of which: HV	km	9,799	9,720
MV	km	49,697	49,908
LV	km	97,985	98,639
MV/LV transformer stations	number	55,314	56,710
of which: owned by Company	number	42,206	43,332
owned by others	number	13,108	13,378
HV/HV, HV/MV transformer stations	number	227	231

IMPORTANT EVENTS OF 2011 AND 2012 UP TO ANNUAL REPORT CLOSING DATE

Important Events of 2011

January

- 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 plan to implement these systems in the Czech Republic

February

- Smart Region project enters first implementation phase with installation of Smart Meters in the Vrchlabí municipal distribution grid

March

- amendment signed to the connection agreement with ČEPS, a.s.
- company executives meet with employees of ČEZ Distribuce, a. s. at various worksites

May

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

June

- English version of the ČEZ Distribuce, a. s. website goes on-line at www.cezdistribuce.cz ¹

July

- work commences on construction of Jablonec South 110/22 kV transformer station to increase distribution grid capacity in this location

August

- function tests begin on one of the biggest projects of late in the Ústí Region – a new compact 110 kV substation in central Ústí nad Labem

September

- construction begins on new 110/22 kV transformer station in Ostrava – Poruba

October

- the sole shareholder acting with the powers of the General Meeting of ČEZ Distribuce, a. s. elects Pavel Cyrani to the Supervisory Board



¹

[www](http://www.cezdistribuce.cz)

November

- elections of employee representatives to the Supervisory Board of ČEZ Distribuce, a. s. announced
- company receives energy and information technologies award, ranking among the 100 best companies in the Czech Republic in this area
- Energy Regulatory Office approves updated Rules of Distribution Grid Operation
- effective from February 1, 2012, the sole shareholder acting with the powers of the General Meeting elects Tomáš Pleskač, Tomáš Čejka, and Jaroslav Janda to the Supervisory Board

December

- elections held for members of the Supervisory Board of ČEZ Distribuce, a. s. elected by the employees; Irena Klůsová and Karel Čech elected
- Amendment No. 6 to the ČEZ Distribuce, a. s. Collective Agreement for the period 2008–2014 signed between company management and labor representatives
- company receives certificate of compliance with ČSN EN ISO 14001 – Environment Management Systems
- biggest project in the Moravia-Silesia Region commissioned – the new Kletné 400/110/22 kV transformer station
- amendment to connection agreement with ČEPS, a.s. signed

Important Events of 2012 Up to Annual Report Closing Date

January

- Václav Purkar, member of the Board of Directors, passes away
- Tomáš Pleskač elected Chairman of the Supervisory Board
- Jaroslav Janda elected Vice Chairman of the Supervisory Board

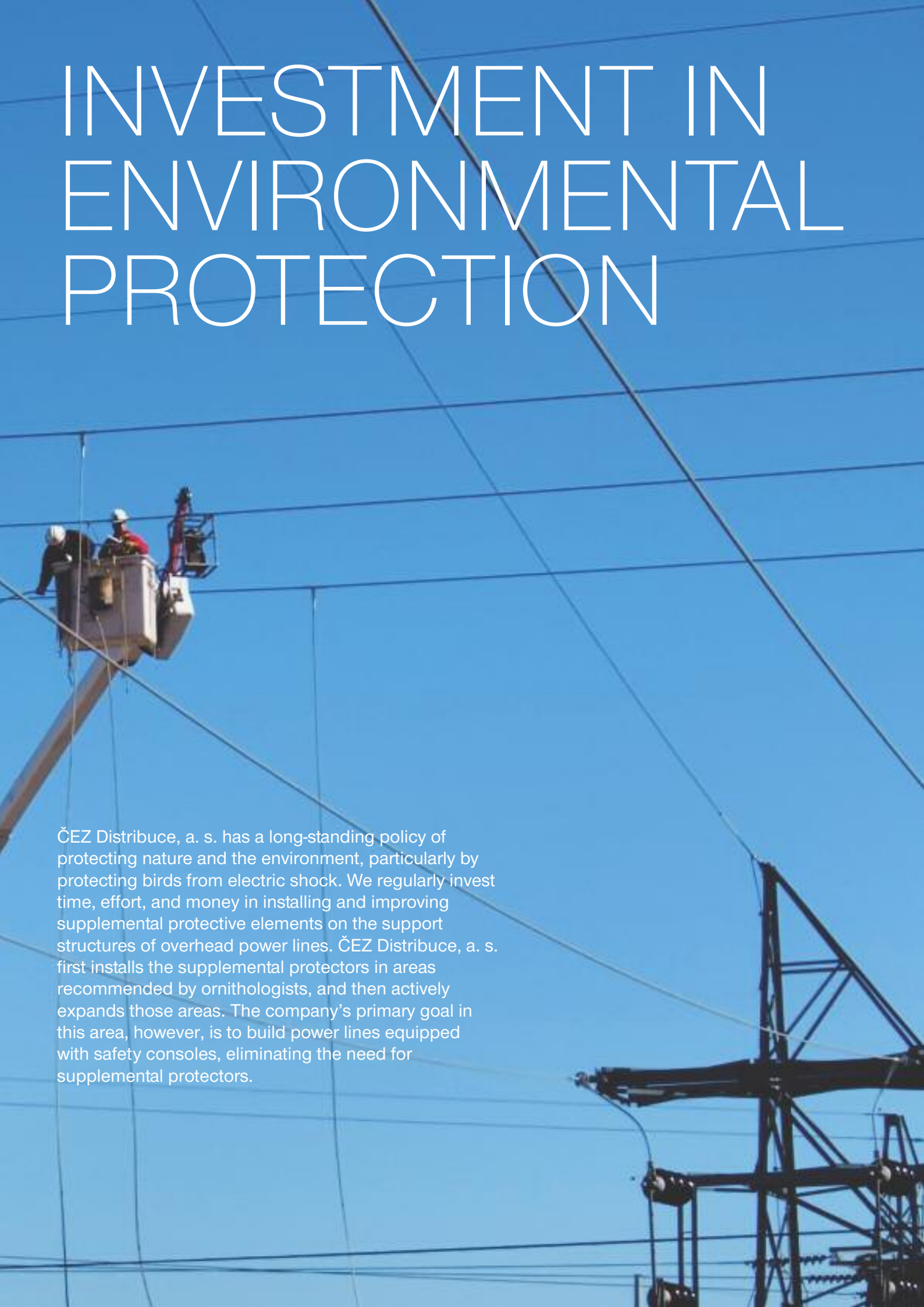
February

- on February 1, 2012 the organization structure of ČEZ Distribuce, a. s. is modified in conjunction with the Asset Management project
- sole shareholder issues decision amending the company's Articles of Association

March

- decision of the sole shareholder acting with the powers of the General Meeting elects Karel Kohout to the Board of Directors
- Jiří Koptík resigns from the Board of Directors on March 12, 2012

INVESTMENT IN ENVIRONMENTAL PROTECTION



ČEZ Distribuce, a. s. has a long-standing policy of protecting nature and the environment, particularly by protecting birds from electric shock. We regularly invest time, effort, and money in installing and improving supplemental protective elements on the support structures of overhead power lines. ČEZ Distribuce, a. s. first installs the supplemental protectors in areas recommended by ornithologists, and then actively expands those areas. The company's primary goal in this area, however, is to build power lines equipped with safety consoles, eliminating the need for supplemental protectors.

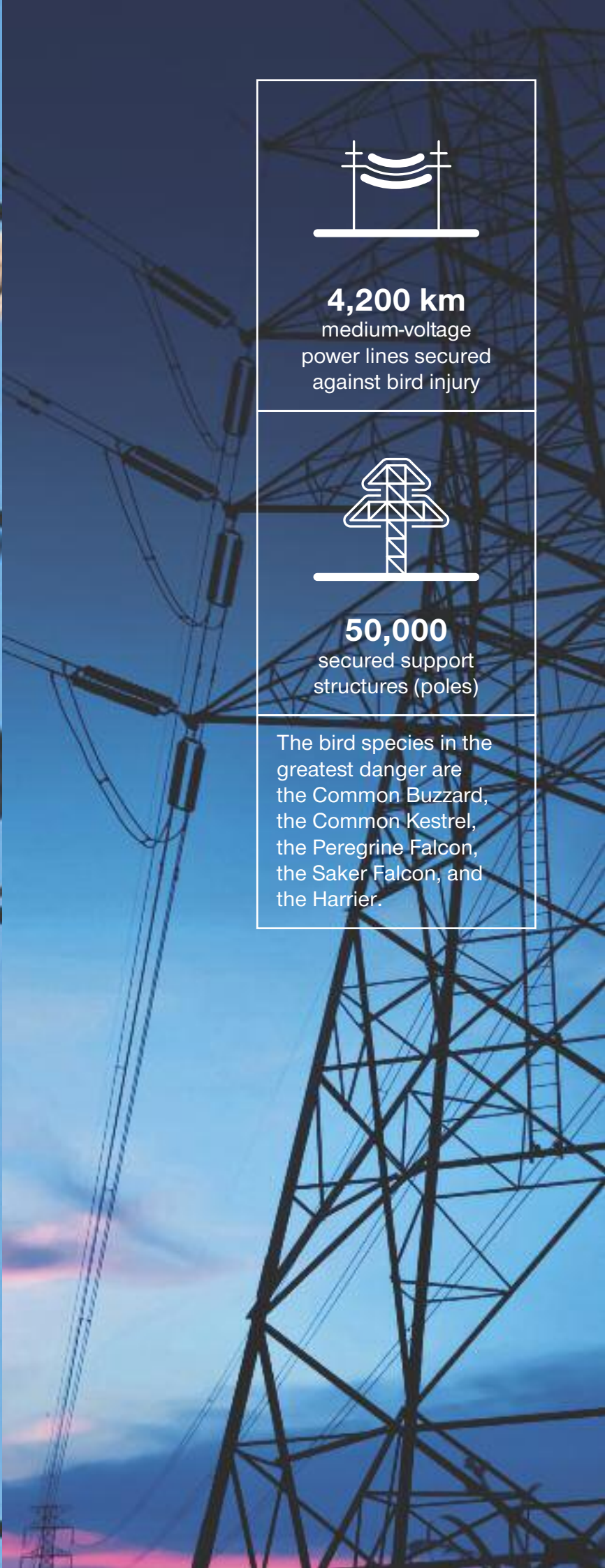


4,200 km
medium-voltage
power lines secured
against bird injury



50,000
secured support
structures (poles)

The bird species in the greatest danger are the Common Buzzard, the Common Kestrel, the Peregrine Falcon, the Saker Falcon, and the Harrier.



DIRECTORS AND OFFICERS

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

Supervisory Board

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

The Supervisory Board has six members: four are elected and removed by the General Meeting and two are elected by the employees in accordance with the provisions of Section 200, Act No. 513/1991 Sb., the Commercial Code, as amended. Details concerning Supervisory Board meetings, deliberations and decision-making are treated by the Rules of Order of the Supervisory Board.

Members of the Supervisory Board

[Tomáš Pleskač \(* 1966\)](#)

Member since January 1, 2012

Chairman since January 24, 2012

A graduate of the Brno Institute of Agriculture, Faculty of Business and Economics, Mr. Pleskač also holds an MBA from Prague International Business School.

Currently (as of April 1, 2012), he is Chief Distribution and International Affairs Officer of ČEZ, a. s.

He is a member of the Board of Directors of ČEZ, a. s. and a member of the Supervisory Board of ČEZ OZ uzavřený investiční fond a.s.

[Jaroslav Janda \(* 1945\)](#)

Member since January 1, 2012

Vice Chairman since January 24, 2012

A graduate of the Institute of Mechanical and Electrical Engineering in Pilsen (today's University of West Bohemia in Pilsen).

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 Chairman of the Supervisory Board of ČEZ Zákaznické služby, s.r.o.

Tomáš Čejka (* 1973)

Member since January 1, 2012

A graduate of the Technical University of Ostrava.

Currently he is manager of the Czech Republic Assets Performance Department at ČEZ, a. s.

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

Pavel Cyrani (* 1976)

Member since October 1, 2011

A graduate of the University of Economics, Prague, and the Kellogg School of Management, USA.

He is currently Chief Strategy Officer of ČEZ, a. s.

He is a member of the Board of Directors of ČEZ, a. s. and a member of the Supervisory Board of Severočeské doly a.s.

Karel Čech (* 1958)

Member elected by the employees since December 16, 2011

A graduate of the secondary industrial school of electrical engineering. He works for ČEZ Distribuce, a. s. in the Distribution Grid Renewal & Maintenance Section, as a senior supplier management technician.

Irena Klůsová (* 1953)

Member elected by the employees since December 16, 2011

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.



Richard Vidlička
Chairman of the
Board of Directors and
General Manager



Petra Šárová
Vice Chairwoman of the
Board of Directors and
Director, Finance and
Administration Section



Pavel Filipi
Member of the Board
of Directors and Director,
Grid Control Section



Karel Kohout
Member of the Board
of Directors and Director,
Distribution Grid Renewal &
Maintenance Section

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 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. He is a member of EDSO for Smart Grids (Brussels).

[Petra Šárová \(* 1968\)](#)

Vice Chairwoman since October 1, 2010

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

[Pavel Filipi \(* 1953\)](#)

Member 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.

[Karel Kohout \(* 1953\)](#)

Member since March 1, 2012

A graduate of the University of Mechanical and Electrical Engineering, Pilsen, and postgraduate studies in Transmission and Distribution of Electricity at the same institution. He is a member of the Supervisory Board of MARTIA a.s.

As of the Annual Report closing date, the fifth member of the Board of Directors position was vacant.

Senior Management

[Richard Vidlička \(* 1966\)](#)

General Manager

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

[Petra Šárová \(* 1968\)](#)

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.

[Karel Kohout \(* 1953\)](#)

Director, Distribution Grid Renewal & Maintenance Section

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

As of the Annual Report closing date, the Director, Distribution Asset Management Section position was vacant. Pavel Filipi was Acting Director of that section.

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 2011, 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 sole shareholder acting with the powers of the General Meeting, as were the General Manager's targets for purposes of the system of incentives which, in accordance with the unbundling rules, is dependent exclusively on the company's performance results. The remuneration principles and task assignments of the other members of executive management are also approved by the sole shareholder acting with the powers of the General Meeting, and are derived from the General Manager's task assignments. Each executive's task assignments are evaluated once per year.

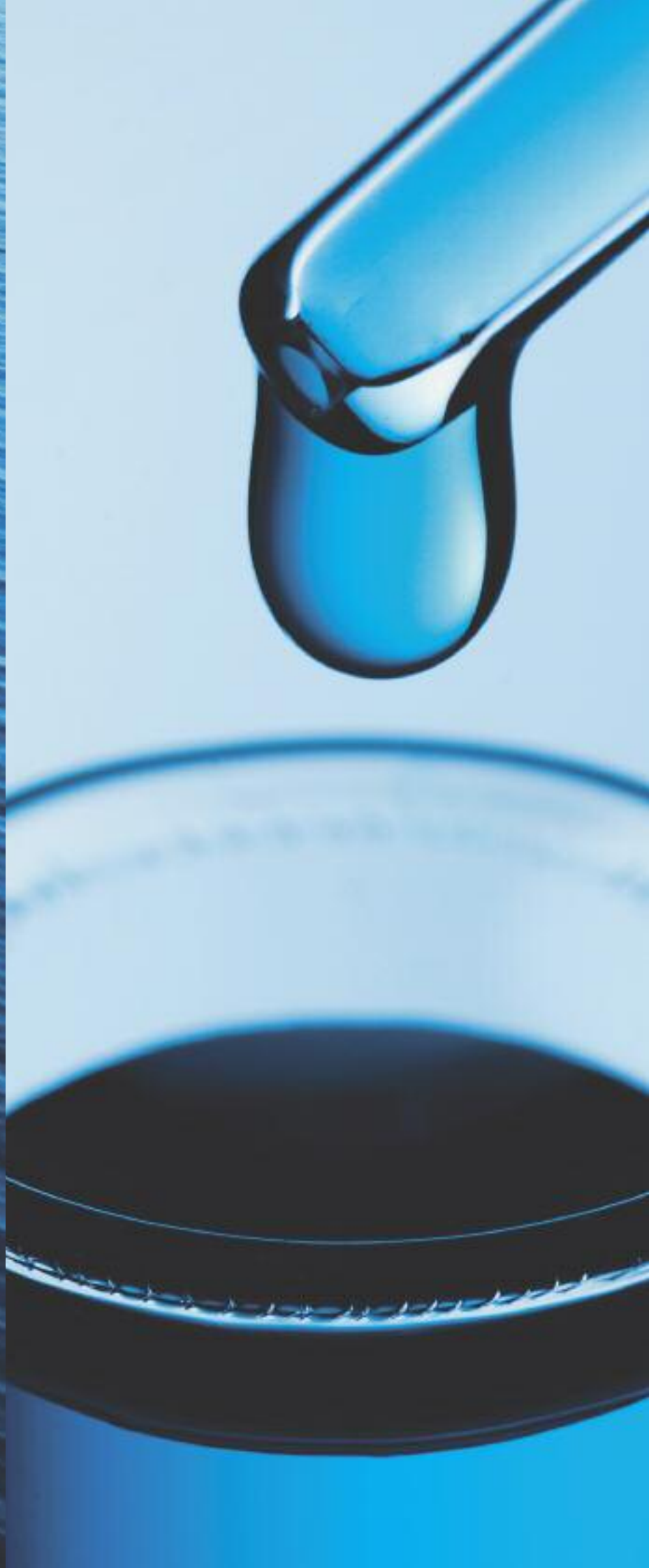
A photograph showing three hands cupped together, catching a stream of water falling from above. The water is splashing and creating droplets. The background is a clear blue sky. The text 'HEALTH HAS PRIORITY' is overlaid in white at the top left.

HEALTH HAS PRIORITY

Our company is a major supporter of surface and underground water protection. An important factor is monitoring of potentially hazardous chemical substances – polychlorinated biphenyls (PCBs) – in the vicinity of water resources. On an ongoing basis, transformer oil samples are taken and analyzed, and wider audits are undertaken. At present, there are no polychlorinated biphenyls in any ČEZ Distribuce, a. s. equipment, and any incidence of PCBs in equipment that becomes company property is immediately dealt with in accordance with applicable law.



None of our equipment
contains hazardous
substances.



REPORT ON OPERATIONS

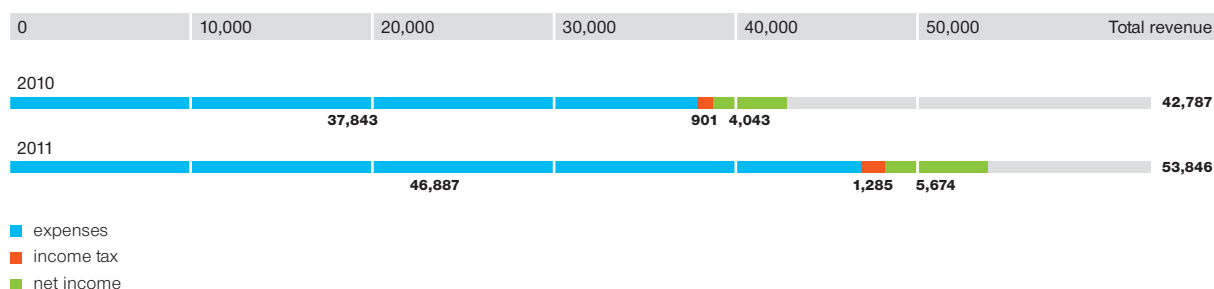
FINANCIAL PERFORMANCE

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 2011, the company's pre-tax income totaled CZK 6,959 million and net income was CZK 5,674 million, up CZK 1,631 million from 2010's figure.

The operating result was CZK 7,346 million, an increase of CZK 2,003 million from 2010's figure, particularly on a CZK 1,908 million increase in the gross margin.

The financial result was a loss of CZK 387 million, which is attributable to interest on a borrowing. The loss is CZK 12 million lower than it was in 2010.

Expenses, net of income tax, totaled CZK 46,887 million in 2011, up CZK 9,044 million from the previous year. The biggest expense components were purchasing of system and distribution services, renewable sources support expenses and purchasing of electric power to cover losses (CZK 30,270 million; up CZK 9,040 million from the previous year), other production-related consumption (CZK 8,584 million), amortization and depreciation of intangible and tangible fixed assets (CZK 6,141 million), other expenses (CZK 986 million), other operating expenses (CZK 505 million), and financing expenses (CZK 401 million).

Revenues totaled CZK 53,846 million in 2011 and consisted of revenues from sales of system and distribution services (CZK 52,242 million), other sales and service revenues (CZK 1,590 million), and financing revenues (CZK 14 million).

Compared to 2010, total revenues were up CZK 11,059 million, with electricity revenues accounting for CZK 10,948 million of the increase.

Structure of Assets and Capital

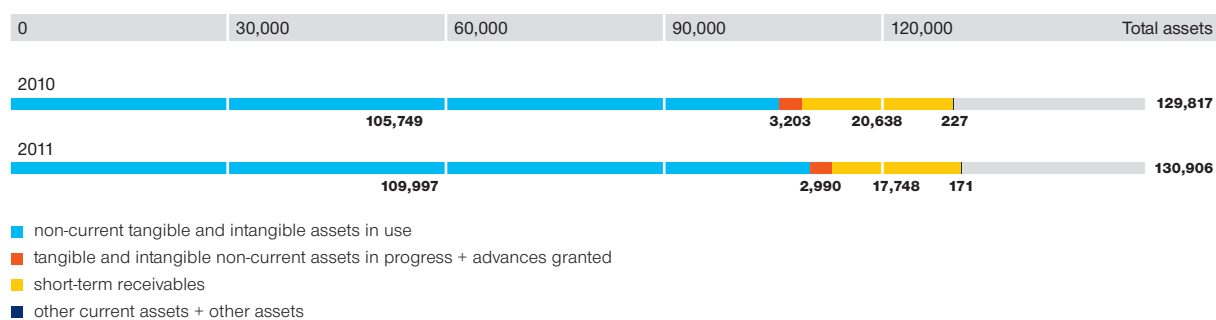
Assets

Total assets reached CZK 130,906 million, up CZK 1,089 million from 2010.

Non-current assets totaled CZK 112,987 million, an increase of CZK 4,035 million compared to 2010. The largest components in non-current assets were constructions (CZK 84,122 million), separate movable items (CZK 25,091 million), tangible assets in progress (CZK 2,765 million), land (CZK 666 million), and non-current intangible assets (CZK 217 million).

Current assets were down CZK 2,945 million in 2011, to reach CZK 17,909 million. The items with the highest values comprised unbilled revenue (CZK 12,237 million, mainly from services related to electricity distribution), amounts owed by the controlling entity relating to Group cash pooling (CZK 1,891 million), short-term trade receivables (CZK 1,793 million), tax refunds owed by the State (CZK 1,235 million), short-term advances granted (CZK 591 million), and work in progress (CZK 160 million).

Structure of Assets (CZK millions)

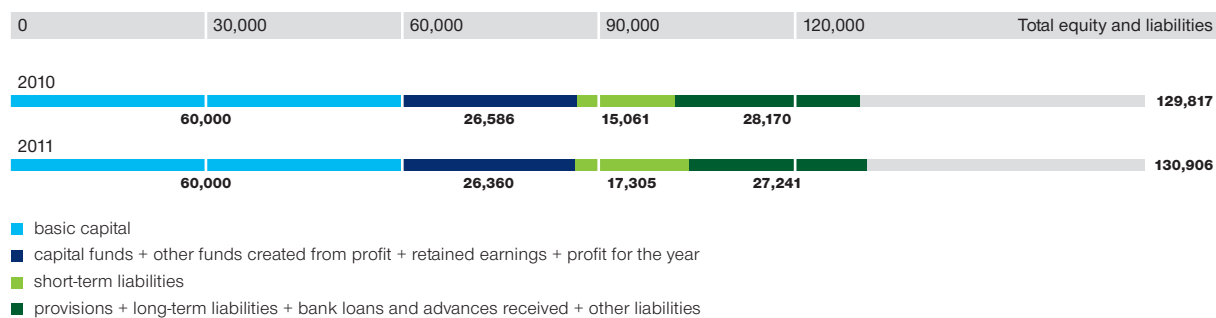


Equity and Liabilities

Equity totaled CZK 86,360 million, which is down CZK 226 million from 2010's figure. 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 8,685), and the profit for the year (CZK 5,674 million).

Liabilities reached CZK 36,188 million, up CZK 1,228 million from the previous year. The largest items were deferred tax liability (CZK 11,769 million), short-term advances received (CZK 11,353 million), long-term liabilities to group companies with majority control (CZK 5,410 million), current trade payables (CZK 2,915 million), and unbilled deliveries (CZK 1,713 million). Other liabilities, consisting primarily of deferred income from connection fees, reached CZK 8,358 million, an increase of CZK 87 million from the previous year.

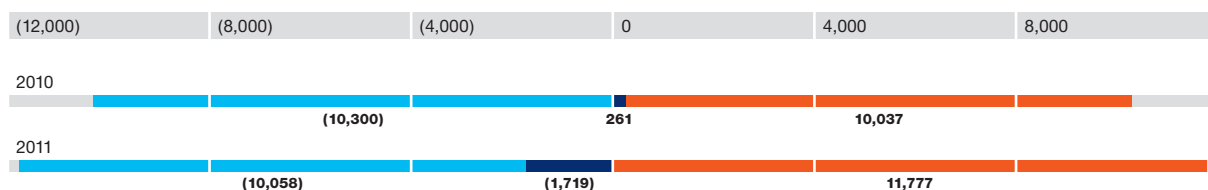
Structure of Equity and Liabilities (CZK millions)



Company Financing

Cash Flows

Cash Flows (CZK millions)



- investing activities
- financing activities
- operating activities

Short-term financial assets as at December 31, 2011 totaled CZK 0.05 million.

Cash provided by operating activities (CZK 11,777 million) consisted of the following items:

- profit or loss on ordinary activities before taxation CZK 6,959 million
- corporate income tax paid CZK (1,228) million
- depreciation and amortization of fixed assets, write-off of receivables CZK 6,148 million
- change in working capital CZK 301 million
- other operating activity CZK (403) million.

Cash used in investing activities totaled CZK 10,058 million, and the biggest component therein was purchase of fixed assets, at CZK 10,088 million.

Financing activities used CZK 1,719 million in cash. Components include CZK 5,900 million in dividend pay-outs, and a CZK 387 million change in the balance of a loan. On the other hand, change in receivables/payables related to group cash pooling generated CZK 4,568 million in cash.

Borrowings and Their Maturity

At December 31, 2011 the company had an outstanding loan of CZK 6,569 million. Of this figure, the loan's non-current portion accounted for CZK 5,410 million and the current portion was CZK 1,159 million.

The loan matures on December 27, 2019 and was provided to finance reconstruction and development of the Czech Republic distribution grid at the medium- and low-voltage levels.

Key Performance Indicators

	Units	2010	2011
Return on Equity (ROE), net	%	4.78	6.56
Return on Assets (ROA), net	%	3.21	4.35
EBIT margin	%	12.50	13.65
Net debt/Equity	%	8.23	7.60
Net debt/EBITDA	%	110.68	121.94
Current ratio	%	89.43	69.82
Operating cash flow-to-liabilities ratio	%	54.19	68.55
Assets turnover	1	0.34	0.41
Fixed assets coverage	%	96.47	91.64
Extent of depreciation	%	51.59	51.64

COMMERCIAL AND FINANCIAL OUTLOOK FOR 2012

2012 is the third year of the third regulation period. The electricity distribution services purchasing and sales plan is in line with electricity consumption estimates and anticipated generation from renewable sources in the ČEZ Distribuce, a. s. region for 2012 and the Energy Regulatory Office's price decrees for 2012, 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 2012 envisions revenues of CZK 52,529 million, pre-tax income of CZK 5,409 million, and capital expenditures of CZK 8,406 million.

CAPITAL EXPENDITURE

Capital Projects

In 2011, the company invested CZK 10,224 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.

Principal Capital Expenditure Policy Objectives

Capital projects focused primarily on distribution grid plant and equipment, with the objectives of developing the company's assets in the most effective manner possible 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 and 2011, Plan for 2012 (CZK millions)

Capital Expenditure

	2010	2011	Plan for 2012
HV plant and equipment	1,006	1,151	981
MV plant and equipment	3,648	3,396	2,815
LV plant and equipment	4,797	4,668	3,644
Electric meters	525	718	657
Ancillary projects	242	291	309
Total	10,218	10,224	8,406

CAPEX Distribution

	%
HV plant and equipment	11
MV plant and equipment	33
LV plant and equipment	46
electric meters	7
ancillary projects	3
Total	100



Distribution Grid CAPEX

Capital projects in 2011 focused primarily on MV and LV projects. A total of CZK 8,064 million was invested in MV and LV plant and equipment in 2011. The projects included, in particular, rebuilds and upgrades of medium- and low-voltage underground cables and overhead power lines, construction of new and rebuilding of existing HV/MV transformer stations, and construction of new MV/LV distribution transformer stations. A substantial portion the projects (both new construction and rebuilds) was undertaken to meet demand for capacity from both producers and customers.

Capital expenditures on HV projects totaled CZK 1,151 million. These consisted mostly of overhead HV lines (rebuilds and new construction), projects undertaken to meet customer demand, and transmission grid/HV substations.

Capital expenditures on customer-initiated projects totaled CZK 3,723 million.

Most Significant Projects

Internal projects:

- Slaný, renovation of 110 kV substation
- Přeštice – Rokycany, renovation of 110 kV line
- Řeporyje, complete rebuild of 110 kV substation and I&C system – Phase Two
- Kletné, new 400/110/22 kV transformer station
- Ústí nad Labem – Downtown, new 110/22 kV transformer station
- Hoštice – Horní Životice branch, upgrade of 110 kV line
- Rokytnice nad Jizerou – Dvoračky, construction of new 35 kV line
- Rychnov – Týniště, upgrade of 110 kV line
- Jablonec nad Nisou – South, new 110/22 kV transformer station
- Kletné – Suchdol branch, 2x110 kV line
- Liberec – Ostašov, expansion of 110/35 kV transformer station
- Sázava – Kostelec nad Černými lesy, renovation of 22 kV line

Projects to meet customer requirements:

- Dluhonice – Hodolany, renovation of 110 kV line
- Kladno – Tuchlovice, upgrade of 110 kV line
- Český Brod – new Poříčany industrial park, new 22 kV double line
- Ostrava – Nová Karolína, upgrade of 22 kV substation
- Noviny, expansion of 110 kV substation

Other Capital Projects

Other investment in capital projects, totaling CZK 1,009 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

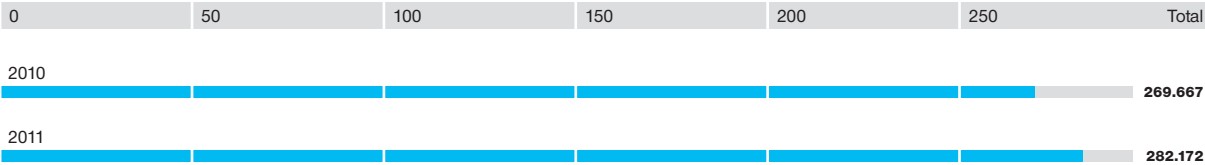
The company's main mission is to distribute electricity to private individuals and legal entities and to continually improve the quality and reliability of supplies to all customers. The company administers the assets comprising the distribution grid, the operation of which it controls through a grid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

In 2011, 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 by two local breakdowns caused by unfavorable weather conditions: January 14–17, 2011 and December 16–17, 2011, with 34 and 88 extraordinary electricity distribution outages longer than three minutes, respectively, affecting customers. Other than these weather-related events, grid control recorded 38 supply interruptions in the high-voltage system, 7,328 in the medium-voltage system, and 30,783 in the low-voltage system. These numbers are for outages lasting longer than three minutes and affecting at least one customer. Damaged circuit breakers in customer breaker or cable boxes were replaced in 7,111 cases.

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)



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 66 cases and the standard for meeting a planned restriction or interruption in electricity distribution was not met in 54 cases.

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

Distribution Grid Plant and Equipment

	Units	2010	2011
Grid extended length	km	157,481	158,267
of which: HV	km	9,799	9,720
MV	km	49,697	49,908
LV	km	97,985	98,639
MV/LV transformer stations	number	55,314	56,710
of which: owned by the company	number	42,206	43,332
owned by other entities	number	13,108	13,378
HV/HV, HV/MV transformer stations	number	227	231

The company's distribution grid was used to distribute a total of 43,864 GWh of electricity in 2011.

Analysis of Electricity Distribution (GWh)

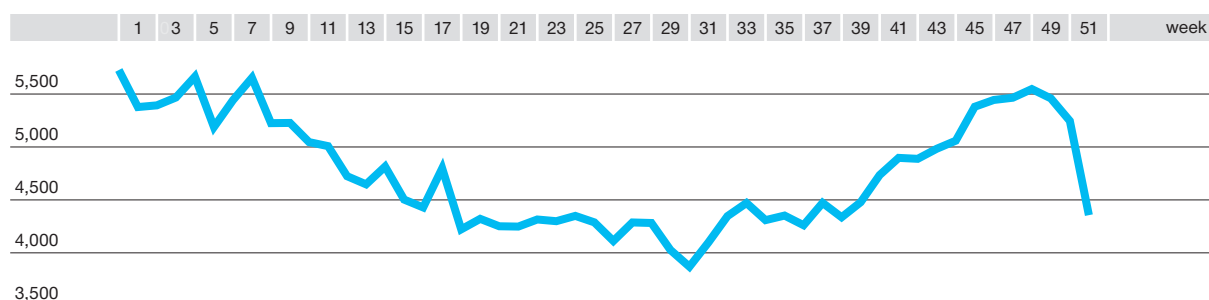
	2010	2011
Input to the distribution grid		
From transmission grid operators	23,361	21,905
From ČEZ, a. s. power plants	8,900	8,437
From neighboring distribution service providers	1,052	1,087
From other producers, including private power plants	8,986	9,506
From other installations	249	229
Import (from other countries) at the distribution services level	123	268
Distribution license holders (local distribution grid)	1,652	2,432
Input to the distribution grid, total	44,323	43,864
Output from the distribution grid		
End customers at HV, MV levels	14,068	13,116
End customers at LV level	14,586	13,850
Used by producers from grids operated by distribution service providers	1,554	1,713
Used by other generating facilities	249	229
Supplied to neighboring distribution service providers	5,832	5,505
Supplied to grids operated by transmission service providers	1,395	1,678
Export (to other countries) at distribution services level	339	342
Distribution license holders (local distribution grid)	3,705	4,923
Other consumption by distribution service providers	54	52
Losses	2,541	2,456
Output from the distribution grid, total	44,323	43,864

The total volume of electricity that flowed into the grid in 2011 was 43,864 GWh. Compared to 2010, there was a decrease of 1.04%, or 459 GWh. The biggest component in total volume, at 49.94%, was electricity from the ČEPS, a.s. grid totaling 21,905 GWh (down 1,456 GWh from 2010). Electricity procured directly from ČEZ, a. s. sources totaled 8,437 GWh (down 463 GWh from 2010). On the other hand, supplies from local distribution service providers were up 780 GWh. Increases were also seen in supplies from other generating facilities including in-house producers (up 520 GWh), imports from abroad (up 145 GWh), and supplies from neighboring distribution services providers (up 35 GWh).

The volume of electricity distributed to customers at the HV and MV levels was down 952 GWh year-on-year, and the volume of electricity distributed at these voltage levels accounted for 29.90% of total supplies. Electricity distribution volume also fell at the LV level (by 736 GWh), which accounted for 31.57% of total supplies. Power used by other generating facilities, including producers, was up 139 GWh. Supplies to neighboring distribution service providers were down 327 GWh year-on-year, and their share in the overall electricity distribution volume was 12.55%. Supplies back to the ČEPS, a.s. grid rose 283 GWh, while 342 GWh of electricity was exported. Supplies to local distribution service providers were up 1,218 GWh year-on-year. The volume of losses declined by 85 GWh.

The highest one-hour peak, 5,727 MW, was achieved on January 6, 2011 at 5:00 p.m.

Weekly Peak Loads (MW)



ČEZ Distribuce, a. s. distributes electricity to end customers through electricity dealers and by direct sale of distribution services. In 2011 ČEZ Distribuce, a. s. had framework agreements with 58 active dealers.

Number of Connection Points

	Units	2010	2011
HV, MV – large end-customers	number	14,267	14,482
LV – retail-commercial customers	number	453,863	451,107
LV – retail-residential customers	number	3,076,475	3,090,925
Total	number	3,544,605	3,556,514

In 2011, nearly 11,000 new connection points were added to the grid and reserved capacity was increased for another 35,000 connection points. Almost CZK 486 million in connection fees was collected from customers in 2011 pursuant to Decree No. 51/2006 Sb. on conditions for connection to the power system, and CZK 3,623 million 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	165	(14) ¹⁾	81
MV	629	70	192
LV	2,829	430	531
Total	3,623	486	804

¹⁾ Connection fee refunds upon customer withdrawal were higher than connection fees collected.

SAFETY AND QUALITY MANAGEMENT, ENVIRONMENTAL PROTECTION

Occupational Safety and Health

In 2011, 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 OSH management system in accordance with the "Safe Enterprise" program.

Based on new conceptual guidance for safety management, a Safety Management Segment Center began operating in the Distribution Segment. Its primary objective was to implement a new safety management model and unify management documentation in the OSH, fire safety, and EMS areas in companies that have been included in the Distribution Segment.

Fire Safety

The objective of the company's fire protection efforts is continual creation of conditions for safe operation and protection of employees and property. The company's fire protection function is managed centrally and evaluated regularly. Fire protection focuses on preventing fires from starting, and emphasis is placed on minimizing risk to human life and of damage to property.

Fire protection documentation was updated on an ongoing basis in accordance with legislative requirements.

The company's fire protection system has proven effective, and materials have been prepared for obtaining ISO 14001 certification. Employee training and regular checks of fire protection equipment and devices in company work areas are two areas that receive continuous attention in terms of fire safety.

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.

As at December 31, 2011, clean-up work had been completed at 48 sites, follow-up monitoring was ongoing at 22 sites, and clean-up work was ongoing at another eight sites.

Protecting birds from electric shock is an ever-current topic in the nature protection area. The company's pledge to invest in bird protection was fulfilled in 2011, in accordance with a plan worked out in cooperation with ornithologists. Power lines identified in accordance with the ornithologists' priorities were equipped with devices designed to protect birds from injury. The total amount invested in these measures in 2011 was CZK 11.4 million. This money helped secure over 110 km of medium-voltage power lines in places with the highest risk in terms of bird populations.

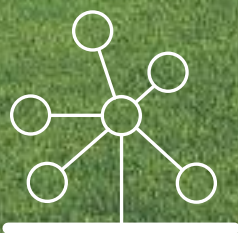
In 2011 we continued to prepare the Environmental Management System (EMS) and in December its operation was confirmed by a certification audit. Thus, the company newly obtained a certificate issued by the CQS Association, confirming that the EMS at ČEZ Distribuce, a. s. complies with the requirements of the ČSN EN ISO 14001:2005 standard. Expenses for disposal of waste generated by the company in 2011 totaled CZK 2.26 million.





WITH FEELING

In building its distribution stations, ČEZ Distribuce, a. s. takes into consideration the overall quality of the space in which the station will be located. The transformer stations we are building today are 50% smaller – more compact – and their color scheme can be adapted to match their surroundings. As a matter of course, maximum emphasis is placed on safety – not just of stations that are newly built, but also of those that were built in the past.



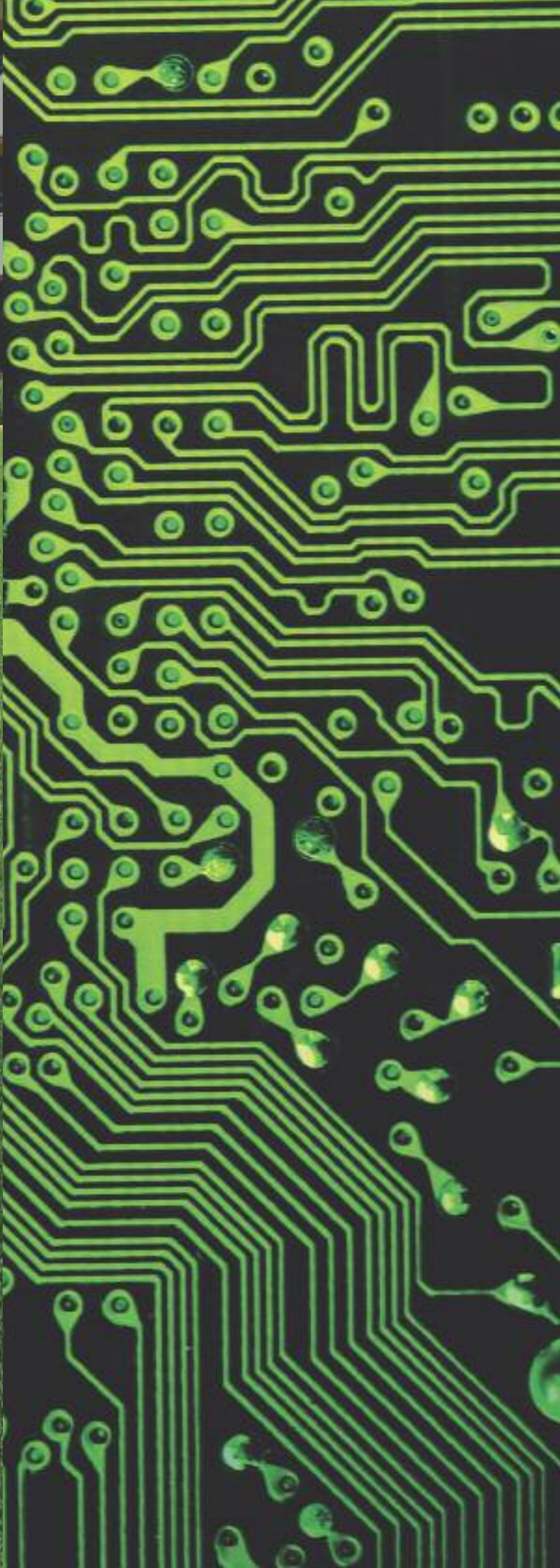
1,126 new distribution
stations were built in 2011.



The new distribution
stations are a natural part
of the local architecture.



We utilize the latest
technologies.



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. ¹ 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.



¹

[www](http://www.cez.cz)

HUMAN RESOURCES

Employment

In the area of labor relations and social policy, the company strived to uphold labor peace and respected the Labor Code, including related legislation, and the valid Collective Agreement.

Hires and Terminations in 2011

	Number of employees
Newly hired	34
Left the company	53

The work force head count at December 31, 2011 was 1,213 persons.

Training

ČEZ Distribuce's business puts high demands on specialized expertise and other qualifications of employees. The company focuses, in a targeted and differentiated manner, on reinforcing the perception of safety and quality as part of everyday, routine work, with emphasis on professional training in the field of electric power. In this area, a unified system has been put in place for training and knowledge verification, and the company continues to expand its electronic training portfolio for employees, including the introduction of new forms.

For middle managers, there is the "ČEZ Manažer" program, whose principal objective is to develop management skills and leadership.

In 2011, ČEZ Distribuce, a. s. dedicated a total of CZK 5.3 million to developing its employees, and a total of 952 employees received training.

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, one extra week of paid vacation above the statutory requirement, and the like. Monetary benefits provided by the company totaled nearly CZK 70.4 million. Most importantly, the employer contributed to employees' pension and life insurance plans, the meal plan, and employee healthcare. All full-time employees have a personal account that can be used to pay for benefits such as holiday trips.

Labor Relations

A total of 34 basic labor organizations operate at ČEZ Distribuce, a. s. In 2011, 50% of the overall work force was unionized.

The collective bargaining process commenced in May 2011, when the unions submitted a draft amendment to the Collective Agreement. The process concluded with an agreement and Amendment No. 6 to the company's Collective Agreement was signed on December 6, 2011. The most important result was a 2.5% wage increase from January 1, 2012.

In addition to collective bargaining, regular meetings are held every 14 days. At the meetings, representatives of the company and the labor unions discussed organizational changes and selected management directives of the company. The employer's goal is to reinforce communication with the employees and uphold labor peace.

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., EGC - EnerGoConsult ČB s.r.o., and VŠB – TECHNICAL UNIVERSITY OF OSTRAVA.

These studies and analyses included:

- in the R&D area, the company focused predominantly on proposals and pilot projects for new medium- and low-voltage grid technologies – the bulk of this work took place in the “Smart Grids” project [1](#)
- gathering basic underlying data and developing a calculation methodology for evaluating the reliability of individual distribution grid components (component reliability)
- continued design work on a fault detector for insulated suspended cables, which will contribute significantly to more accurate detection and localization of faults on this type of power line
- assessment of renewable sources operation and viability, and the impact of these sources on the Czech Republic Power System.

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.



[1](#)

[www](#)

DONORSHIP AND SPONSORSHIP PROGRAM

Donorship

Projects implemented through the Nadace ČEZ foundation in 2011 reached a total of CZK 66 million. The Nadace ČEZ foundation [1](#) 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 donations by ČEZ Distribuce totaled CZK 4.7 million in 2011. This sum was distributed amongst 12 projects. Through selected projects, several municipalities were enabled to build and renovate nursery schools and primary schools, and to provide social services for their citizens. In the healthcare area, attention was focused on projects to improve the quality of healthcare for the general public. Last but not least, the company supported projects focused on supporting the operation of non-profit organizations.

ČEZ Distribuce, a. s. contributed CZK 0.98 million to the CEZ GROUP SENIORS Foundation Fund.



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 2011 the above acts were directly amended as follows:

- Act No. 458/2000 Sb. (the Energy Act) was amended by Act No. 211/2011 Sb. of June 9, 2011
- Act No. 406/2000 Sb. on Energy Management and Act No. 458/2000 Sb. (the Energy Act) were amended by Act No. 299/2011 Sb. of September 6, 2011.

The main reason for and objective of the amendment of Act No. 458/2000 Sb. (the Energy Act) by Act No. 211/2011 Sb. was:

- in conjunction with the connection of large numbers of new renewable sources to the power system, to require selected producers of electricity from renewable sources to equip their power generation plant with devices enabling it to be centrally managed and thereby enable transmission and distribution grid operators to control these sources in the event safe and reliable operation of the power system is threatened
- to stipulate work conditions for the auditor of the distribution grid operators equal treatment program.

The main reasons for and objectives of the amendment to Act No. 406/2000 Sb. on Energy Management and Act No. 458/2000 Sb. (the Energy Act) by Act No. 299/2011 Sb. were the following:

- to give the State Energy Inspection more power to enforce the Energy Management Act
- to stipulate product naming conditions for launching products
- to tighten conditions for building power generation installations in terms of authorization to conduct construction operations
- to give the State Energy Inspection more power to enforce the Energy Act.

Other Changes to Legislation in 2011

The following regulations were promulgated in 2011 that implement the above acts or amend other implementing regulations:

- Decree No. 393/2011 Sb. of December 5, 2011 amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures
Among other things, the decree allows a correction factor – relating to support for electricity from renewable sources, combined heat and power generation, and secondary energy sources – to be applied to anticipated excess costs of more than one regulated year. When the correction factor is divided over multiple years, the Energy Regulatory Office shall reflect the time value of money for the benefit of the regulated entity.

- Decree No. 82/2011 Sb. of March 17, 2011 on electricity metering and on a method of determining damages for unauthorized use, unauthorized supply, unauthorized transmission, and/or unauthorized distribution of electricity
The decree contains language stipulating a method to be used to determine damages in the event of unauthorized use, supply, transmission, and/or distribution of electricity. Analogous language was stricken from Decree No. 51/2006 Sb. on connection.
- Decree No. 210/2011 Sb. of July 1, 2011 on the scope of, requirements for, and deadlines for billing supplies of electricity, gas, and heat energy and related services
This is a new decree that treats billing for supplies of energy. The new decree will apply to bills issued after January 31, 2012.
- Decree No. 401/2010 Sb., effective from January 1, 2011, 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
- Decree No. 400/2010 Sb., effective from January 1, 2011, 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.
- Decree No. 371/2011 Sb. of December 21, 2011, amending Decree No. 541/2005 Sb. on the Electricity Market Rules, principles for setting prices for activities conducted by the electricity market operator
Amongst other things, the amendment revises the conditions for switching to a different supplier effective from January 1, 2012, including a transition period lasting until the end of 2011.
- Decree No. 392/2011 Sb. of December 1, 2011, amending Decree No. 426/2005 Sb. stipulating details for granting of licenses to do business in the energy sectors
- Notification of the Energy Regulatory Office No. 443/2001 of December 19, 2011, stipulating a limit on the use of State budget funds to provide subsidies to pay for excess costs connected with support for electricity from renewable sources. The Notification stipulates the limit on such funds for 2012.



SAFETY FOR CHILDREN AND ADULTS

In the Czech Republic, it is common for new power line projects to consolidate several lines into a single protection zone, thereby minimizing interference with the rights of private landowners and refraining from encumbering their property. In municipal, residential, and commercial built-up areas, the company frequently builds power lines in the form of underground cables.

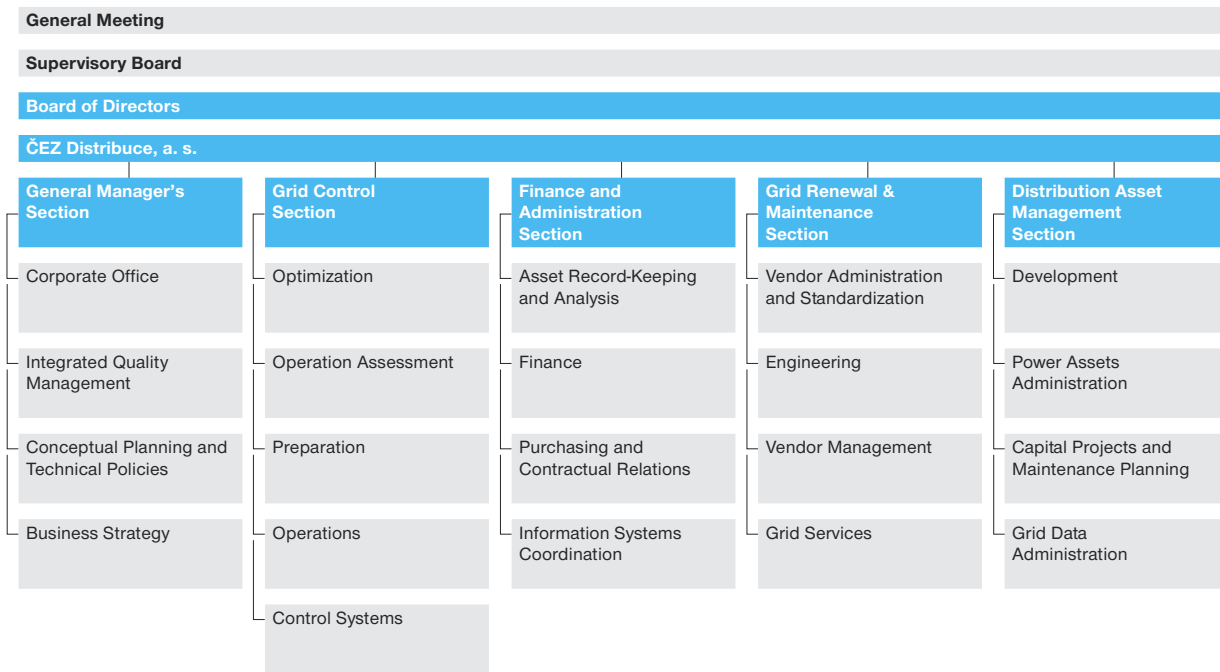




We take into consideration the ownership rights of individuals and legal entities. We gather as much information as possible before making a decision on what type of power line to build.



BASIC ORGANIZATION CHART OF ČEZ DISTRIBUCE, A. S. AS AT FEBRUARY 1, 2012



GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and Abbreviations

Item	Commentary
Asset management	Disposition of the company's current and non-current assets, including plant and equipment and various components thereof, such as power lines, substations, and transformer stations, including machinery and equipment for automating their operation. All of these items are referred to using the general term "assets".
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 Interest and Taxes.
EBITDA	Earnings Before Interest, Taxes, 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.
OSH	Occupational Safety and Health.

Term	Commentary
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.
PCBs	Polychlorinated biphenyls.
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

Indicator	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 interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBIT margin	EBIT / Operating revenues
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 interest, taxes, 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

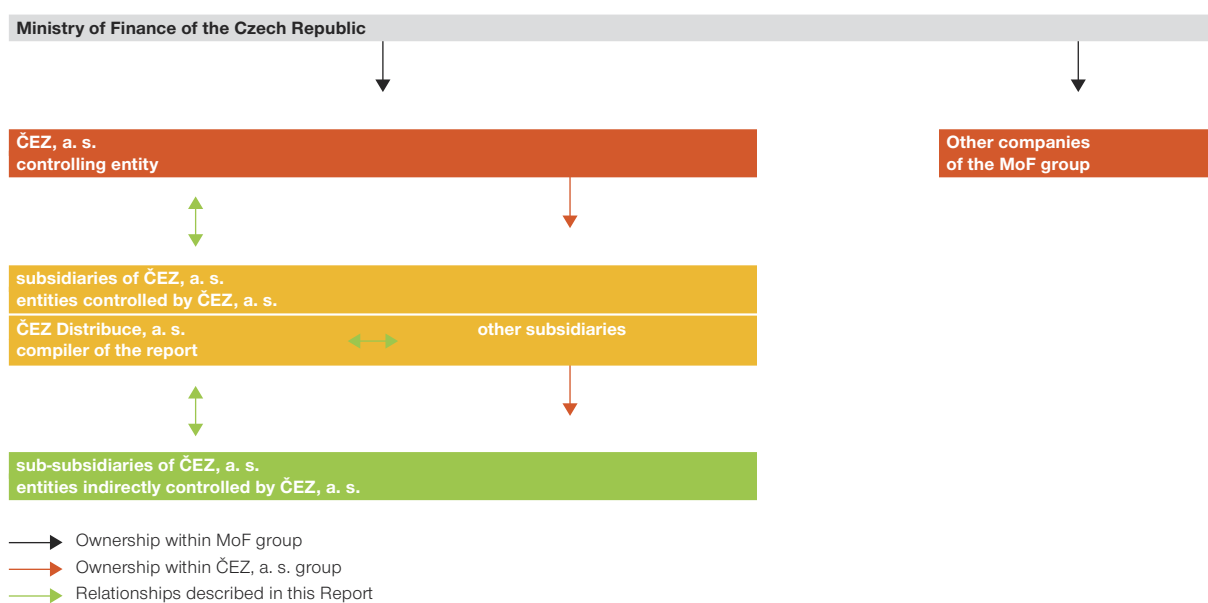
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RELATED PARTIES REPORT FOR THE YEAR 2011

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 Parties 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, postcode 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, 2011.

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, i.e. 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 production support contract.

2. Bioplyn technologie s.r.o.

One production support contract.

3. ČEZ, a. s.

Eight contracts: one SLA on settlement of expenses for provision of merger-related legal services in 2010, one agreement on settlement of expenses for provision of merger-related consulting services in 2010, one implementation agreement on collaboration in public procurement (development programs), one license agreement on provision of right to use a trademark, two agreements on provision of distribution services, one agreement on provision of regulation services for supplies of electricity to a separate island, one amendment to an agreement on provision of distribution services, one amendment to a framework agreement on location swap and provision of regulation in supplies of electricity to a separate island, two amendments to a lease, one amendment to a lease (Vítkovice heating plant).

4. ČEZ Distribuční služby, s.r.o.

8,076 contracts: one framework agreement on provision of services, three sub-agreements on provision of services, one lease, 8,071 service contracts (manipulation), one amendment to a framework agreement, two amendments to sub-agreements on provision of services, three amendments to a lease.

5. ČEZ Energo, s.r.o.

One production support agreement.

6. ČEZ Energetické služby, s.r.o.

34 contracts: one agreement on water use, one sewerage agreement, 30 construction contracts, one agreement on creation of an easement, one purchase contract (sale of support structures), two amendments to a lease.

7. ČEZ Logistika, s.r.o.

10,141 contracts: one SLA on supply of goods and provision of services, one SLA on securing accident supplies, 9,963 contracts on supply of materials, 175 contracts on supply of services, one purchase contract, one amendment to a SLA.

8. ČEZ Měření, s.r.o.

One contract for supply of materials, six amendments to an agreement on provision of services (SLA), five amendments to a lease.

9. ČEZ Obnovitelné zdroje, s.r.o

33 contracts: two lease of non-residential space, four agreements on creation of an easement, 18 production support agreements, one SLA on provision of fire protection services, two agreements regarding a future agreement concerning connection of an electricity generation installation, six agreements on provision of services.

10. ČEZ Prodej, s.r.o.

Two contracts: one agreement on supply of electricity and distribution grid loss, one agreement on provision of electricity distribution services, two amendments to an agreement on provision of services signed in 2007, two amendments to a lease.

11. ČEZ Správa majetku, s.r.o.

50 contracts: two purchase agreements for real property (purchase of land parcels), 29 agreements on creation of an easement, 14 construction contracts, one sublease of a garage in Karlovy Vary, one SLA for services in the areas of OSH, fire safety, and EMS, three agreements on supply and use of water, nine amendments to a Full Service Leasing sub-agreement, one amendment to a sub-agreement on vehicle fleet administration, one amendment to a sub-agreement on car rental, one amendment to a sub-agreement on provision of printing and copying services, one amendment to a sub-agreement on provision of archival and shredding services, two amendments to a sublease (Alpha Building in Prague), one amendment to a sublease (garage in Karlovy Vary), 14 amendments to leases.

12. ČEZ Teplárenská, a.s.

One agreement on creation of an easement.

13. ČEZ Zákaznické služby, s.r.o.

Two contracts: one agreement on compensation for damage, one SLA on provision of OSH, FP, and EMS services, one amendment to an agreement on provision of services (customer service) signed in 2005, one amendment to a lease (Hodolany), two amendments to a lease (Česká Třebová).

14. ČEZ ICT Services, a. s.

39 contracts: one SLA on provision of ICT services, two agreements on future agreement, one service contract (preparation of distribution grid data for distribution control systems), 27 TPS contracts, one purchase contract, one SLA on provision of OSH, FP, and EMS services, six agreements on creation of an easement, two amendments to a lease, one amendment to an agreement on fiber-optics maintenance in CEFOCs, one amendment to an agreement on provision of TPS services, one amendment to a lease, one amendment to an agreement on payment for electricity (Hradec Králové back-up source).

15. MARTIA a.s.

331 contracts: one HCR framework agreement, one HCR II framework agreement, one framework agreement on HCR PD, 328 PD and construction contracts.

16. OSC, a.s.

Two contracts: one agreement on provision of consulting services, one project execution contract on preparation of a study of the impact of distributed generation on ASI, drafting of technical function specification of modifications to generation installations and distribution grid necessary for ASI implementation in the Řeporyje nodal area.

17. Severočeské doly a.s.

Four contracts: three agreements on creation of an easement, one lease of non-residential space.

18. SINIT,a.s.

34 contracts: 32 construction contracts, one agreement on provision of services for dealing with failure states and collaboration in inspection work, repairs & maintenance services, MRC diagnostics in the Moravia and East areas, one agreement on the securing of service work on selected ARCS equipment in the Moravia area, including preventive maintenance and repair of equipment.

19. ŠKO-ENERGO, s.r.o.

One production support contract.

20. Teplárna Trmice, a.s.

Three contracts: one agreement on creation of an easement, one heat supply contract, on agreement on purchase of electricity and services.

21. Ústav jaderného výzkumu Řež a.s.

Four contracts: one project execution contract (drafting of power industry standards), one agreement on creation of an easement, one production support agreement, one agreement on payment of system services with an LDG.

22. 3 L invest a.s.

One production support contract.

All contracts listed in Section 5 of this Report were entered into at arm's length.

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 2011 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 2011 Annual Report of ČEZ Distribuce, a. s., which is contained in the company's Annual Report.

7.3. Abbreviations Used

ARCS	automatic remote control system
ASI	automatically separated island
CEFOC	combined earthing fiber optic cable
EMS	environmental management system
FP	fire protection
HCR	hourly clearing rate
LDG	local distribution grid
MoF	Ministry of Finance of the Czech Republic
MRC	mass remote control
OSH	occupational safety and health
PD	project documentation
SLA	service level agreement
TPS	technical protection 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 on March 15, 2012.

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 15, 2012



Richard Vidlička
Chairman of the
Board of Directors



Petra Šárová
Vice Chairwoman of the
Board of Directors

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF ČEZ DISTRIBUCE, A. S.

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

We have audited the accompanying financial statements of ČEZ Distribuce, a. s., which comprise the balance sheet as at 31 December 2011, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of ČEZ Distribuce, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

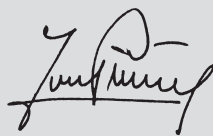
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s., as at 31 December 2011, 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

January 24, 2012
Prague, Czech Republic

ČEZ DISTRIBUCE, A. S.

BALANCE SHEET

AS OF DECEMBER 31, 2011

(in CZK thousands)

	2011			2010
	Gross	Allowances	Net	Net
TOTAL ASSETS	248,048,414	(117,142,433)	130,905,981	129,816,670
Stock subscription receivable	0	0	0	0
Fixed assets	229,833,298	(116,845,986)	112,987,312	108,952,011
Intangible assets	393,218	(175,751)	217,467	111,941
Foundation and organization expenses	86	(43)	43	60
Research and development	5,646	(4,333)	1,313	2,175
Software	161,357	(127,333)	34,024	44,503
Patents, royalties and similar rights	41,558	(20,731)	20,827	24,931
Goodwill	0	0	0	0
Other intangible assets	77,964	(23,311)	54,653	35,981
Intangible assets in progress	106,607	0	106,607	4,291
Advances granted for intangible assets	0	0	0	0
Tangible assets	229,440,080	(116,670,235)	112,769,845	108,840,070
Land	666,341	0	666,341	604,648
Constructions	169,354,088	(85,232,011)	84,122,077	80,761,637
Separate movable items and groups of movable items	56,472,921	(31,381,945)	25,090,976	24,268,346
Perennial crops	0	0	0	0
Livestock	0	0	0	0
Other tangible assets	9,546	(2,805)	6,741	7,045
Tangible assets in progress	2,818,507	(53,474)	2,765,033	3,115,129
Advances granted for tangible assets	118,677	0	118,677	83,265
Gain or loss on revaluation of acquired property	0	0	0	0
Financial investments	0	0	0	0
Subsidiaries	0	0	0	0
Associates	0	0	0	0
Other long-term securities and interests	0	0	0	0
Loans to subsidiaries and associates	0	0	0	0
Other long-term investments	0	0	0	0
Long-term investments in progress	0	0	0	0
Advances granted for long-term investments	0	0	0	0
Current assets	18,205,205	(296,447)	17,908,758	20,853,933
Inventory	160,430	0	160,430	215,648
Materials	0	0	0	8
Work in progress and semi-finished production	160,430	0	160,430	213,037
Finished products	0	0	0	0
Livestock	0	0	0	0
Goods	0	0	0	0
Advances granted for inventory	0	0	0	0
Long-term receivables	245	0	245	630
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	245	0	245	630
Deferred tax asset	0	0	0	0
Short-term receivables	18,044,478	(296,447)	17,748,031	20,637,624
Trade receivables	2,089,398	(296,172)	1,793,226	1,620,133
Receivables from group companies with majority control	1,891,156	0	1,891,156	6,458,924
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	1,235,080	0	1,235,080	1,046,705
Short-term advances granted	591,242	0	591,242	831,278
Unbilled revenue	12,237,194	0	12,237,194	10,666,716
Other receivables	408	(275)	133	13,868
Short-term financial assets	52	0	52	31
Cash	52	0	52	31
Bank accounts	0	0	0	0
Short-term securities and interests	0	0	0	0
Short-term financial assets in progress	0	0	0	0
Accrued assets and deferred liabilities	9,911	0	9,911	10,726
Prepaid expenses	9,560	0	9,560	9,579
Prepaid expenses (specific-purpose expenses)	0	0	0	0
Unbilled revenue	351	0	351	1 147

(in CZK thousands)

	2011	2010
TOTAL EQUITY & LIABILITIES	130,905,981	129,816,670
Equity	86,359,578	86,585,781
Basic capital	60,000,000	60,000,000
Registered capital	60,000,000	60,000,000
Own shares and own ownership interests (-)	0	0
Changes in basic capital	0	0
Capital funds	617	617
Share premium (agio)	0	0
Other capital funds	617	617
Gain or loss on revaluation of assets and liabilities	0	0
Gain or loss on revaluation of company transformations	0	0
Reserve funds and other funds created from profit	12,000,000	12,000,000
Legal reserve fund	12,000,000	12,000,000
Statutory and other funds	0	0
Profit (loss) for the previous years	8,685,164	10,542,258
Retained earnings for the previous years	8,685,164	10,542,258
Accumulated loss of previous years	0	0
Profit (loss) for the year (+/-)	5,673,797	4,042,906
Liabilities	36,188,144	34,960,224
Reserves	1,703,409	1,379,185
Reserves created under special legislation	0	0
Reserve for pensions and similar obligations	0	0
Reserve for corporate income tax	1,462,444	1,148,800
Other reserves	240,965	230,385
Long-term liabilities	17,179,331	18,520,498
Trade payables	0	0
Liabilities to group companies with majority control	5,409,950	6,569,225
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	11,769,381	11,951,273
Current liabilities	17,305,404	15,060,541
Trade payables	2,914,619	2,094,039
Liabilities to group companies with majority control	1,159,280	386,440
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	38,920	48,736
Liabilities arising from social security and health insurance	22,222	28,584
Due to government – taxes and subsidies	89,436	9,663
Advances received	11,352,977	10,375,868
Bonds payable	0	0
Unbilled deliveries	1,713,055	2,102,353
Other liabilities	14,895	14,858
Bank loans and borrowings	0	0
Long-term bank loans	0	0
Short-term bank loans	0	0
Borrowings	0	0
Accrued liabilities and deferred assets	8,358,259	8,270,665
Accruals	196,866	1,127
Deferred income	8,161,393	8,269,538

ČEZ DISTRIBUCE, A. S. STATEMENT OF INCOME AS OF DECEMBER 31, 2011

(in CZK thousands)

	Accounting period	
	2011	2010
Revenue from sale of goods	0	0
Cost of goods sold	0	0
Gross margin	0	0
Production	52,627,846	41,747,754
Revenue from sale of finished products and services	52,482,754	41,536,116
Change in inventory produced internally	(52,607)	8,954
Own work capitalized	197,699	202,684
Production related consumption	38,854,244	29,986,613
Consumption of material and energy	20,796,118	12,057,767
Services	18,058,126	17,928,846
Value added	13,773,602	11,761,141
Personnel expenses	985,952	1,009,245
Wages and salaries	676,811	687,896
Bonuses to members of company or cooperation bodies	2,136	3,510
Social security and health insurance	229,440	235,605
Other social costs	77,565	82,234
Taxes and charges	9,763	8,679
Amortization and depreciation of intangible and tangible fixed assets	6,141,485	5,903,785
Revenue from sale of intangible and tangible fixed assets and materials	68,679	45,576
Revenues from sale of intangible and tangible fixed assets	35,087	23,306
Revenue from sale of materials	33,592	22,270
Net book value of intangible and tangible fixed assets and materials sold	31,089	45,332
Net book value of intangible and tangible fixed assets sold	31,089	44,645
Materials sold	0	687
Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	75,397	102,807
Other operating revenues	1,135,426	956,473
Other operating expenses	387,678	349,974
Transfer of operating revenues	0	0
Transfer of operating expenses	0	0
Profit or loss on operating activities	7,346,343	5,343,368
Revenue from sale of securities and interests	0	0
Securities and interests sold	0	0
Income from financial investments	0	0
Income from subsidiaries and associates	0	0
Income from other long-term securities and interests	0	0
Income from other financial investments	0	0
Income from short-term financial assets	0	0
Expenses related to financial assets	0	0
Gain on revaluation of securities and derivatives	0	0
Loss on revaluation of securities and derivatives	0	0
Change in reserves and provisions relating to financial activities	0	0
Interest income	13,849	36,679
Interest expense	399,679	435,231
Other finance income	0	320
Other finance cost	1,214	1,588
Transfer of finance income	0	0
Transfer of finance cost	0	0
Profit or loss on financial activities	(387,044)	(399,820)
Tax on profit or loss on ordinary activities	1,285,502	900,642
– due	1,467,394	1,142,409
– deferred	(181,892)	(241,767)
Profit or loss on ordinary activities after taxation	5,673,797	4,042,906
Extraordinary gains	0	0
Extraordinary losses	0	0
Tax on extraordinary profit or loss	0	0
– due	0	0
– deferred	0	0
Extraordinary profit or loss	0	0
Transfer of share of profit or loss to partners (+/-)	0	0
Profit or loss for the year (+/-)	5,673,797	4,042,906
Profit or loss before taxation (+/-)	6,959,299	4,943,548

ČEZ DISTRIBUCE, A. S.

STATEMENT OF CASH FLOWS

AS OF DECEMBER 31, 2011

(in CZK thousands)

	2011	Accounting period 2010
Cash and cash equivalents at beginning of year	31	1,590
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss on ordinary activities before taxation (+/-)	6,959,299	4,943,548
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	5,934,983	5,785,446
Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	6,147,678	5,907,763
Change in provisions and reserves	(594,527)	(542,437)
Change in provisions	64,817	99,883
Change in reserves	10,580	2,925
Change in accrued and deferred assets and liabilities	(669,924)	(645,245)
Gain/Loss on disposal of fixed assets	(3,998)	21,339
Interest expense and interest income	385,830	398,552
Interest expense	399,679	435,231
Interest income	(13,849)	(36,679)
Other non-cash movements	0	229
Income from dividends and profit sharing	0	0
Net cash from operating activities before taxation, changes in working capital and extraordinary items	12,894,282	10,728,994
Change in non-cash components of working capital	300,640	297,680
Change in trade receivables	(1,668,915)	(2,086,049)
Change in trade payables	1,914,337	2,391,992
Change in inventory	55,218	(8,263)
Net cash from operating activities before taxation, interest paid and extraordinary items	13,194,922	11,026,674
Interest paid	(203,493)	(435,231)
Interest received	13,849	36,679
Tax paid	(1,228,470)	(591,014)
Gains and losses on extraordinary items	0	0
Dividends received	0	0
Net cash provided by (used in) operating activities	11,776,808	10,037,108
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(10,088,218)	(10,332,999)
Proceeds from sale of fixed assets	30,098	33,024
Net cash provided by (used in) investing activities	(10,058,120)	(10,299,975)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in long-term liabilities and long-term, resp. short-term, loans	(386,435)	1,853,665
Change in receivables/payables related to group cashpooling	4,567,768	(1,592,359)
Effect of changes in equity on cash	0	2
Effect of changes in basic capital on cash	0	0
Cash donations recorded in equity	0	0
Cash payments from equity funds	0	0
Dividends or profit sharing paid	(5,900,000)	0
Acquisition/sale of own shares	0	0
Net cash provided by (used in) financing activities	(1,718,667)	261,308
Net increase (decrease) in cash and cash equivalents	21	(1,559)
Cash and cash equivalents at end of year	52	31

ČEZ DISTRIBUCE, A. S. NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011

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 statutory bodies as at 31 December 2011

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

On 12 September 2011, the Board of Directors of ČEZ, a. s., as the sole shareholder executing the powers of the general meeting, removed JUDr. Michaela Chaloupková, MBA, from the position of the Supervisory Board member of ČEZ Distribuce, a. s., and appointed Ing. Pavel Cyrani, MBA, the new Supervisory Board member with effect from 1 October 2011.

As at 1 October 2011, the positions of ČEZ Distribuce, a. s., Supervisory Board members appointed in 2010 expired.

On 21 November 2011, the Board of Directors of ČEZ, a. s., as the sole shareholder executing the powers of the general meeting, appointed Ing. Tomáš Pleskač, MBA, and Ing. Tomáš Čejka the new members of the Supervisory Board and reappointed Ing. Jaroslav Janda as the Supervisory Board member with effect from 1 January 2012.

On 16 December 2011, Irena Klůsová and Karel Čech were reappointed the Supervisory Board members of ČEZ Distribuce, a. s., by the employees.

As at 24 January 2012, Ing. Tomáš Pleskač, MBA, and Ing. Jaroslav Janda were appointed the Chair and the Vice-chair, respectively of the Supervisory Board by the Supervisory Board.

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 2011 and 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 2011 and 2010 financial statements are as follows:

a) Intangible Fixed Assets

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

In 2010, intangible fixed assets with a cost exceeding CZK 60 thousand were amortized over their useful economic lives (3 years to 6 years).

Since 2011, intangible fixed assets include software provided that it has been developed internally for trading purposes, or it has been acquired from other parties, irrespective of its cost. The above also applies to software licenses, if such licenses are not part of the valuation of the acquired software, or part of the technical improvement of the existing software.

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.

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.

k) Subsidy

In accordance with the government regulation dated 22 December 2010 and the Energy Regulatory Office notice dated 23 December 2010, the Company is recipient of subsidies to cover extra costs incurred in support of electricity from renewable sources. The Company recognizes the subsidy into income for the year to which it relates (see Note 16).

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	–	(1,171)	–	5,646
Software	150,267	–	(1,447)	12,537	161,357
Patents, royalties and similar rights	51,561	–	(12,109)	2,106	41,558
Other intangibles	48,407	–	–	29,557	77,964
Intangibles in progress	4,291	146,516	–	(44,200)	106,607
2011 Total	261,429	146,516	(14,727)	–	393,218
2010 Total	226,509	37,601	(2,681)	–	261,429

Accumulated Amortization

	At beginning of year	Amortization during year	Disposals	At end of year	Net book value
Foundation and organization expenses	(26)	(17)	–	(43)	43
Research and development	(4,642)	(862)	1,171	(4,333)	1,313
Software	(105,764)	(23,016)	1,447	(127,333)	34,024
Patents, royalties and similar rights	(26,630)	(6,210)	12,109	(20,731)	20,827
Other intangibles	(12,426)	(10,885)	–	(23,311)	54,653
Intangibles in progress	–	–	–	–	106,607
2011 Total	(149,488)	(40,990)	14,727	(175,751)	217,467
2010 Total	(114,776)	(37,393)	2,681	(149,488)	111,941

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

As at 31 December 2011 and 2010, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 2,422 thousand and CZK 1,666 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	604,648	–	(224)	61,917	666,341
Constructions	162,797,060	–	(1,068,039)	7,625,067	169,354,088
Separate movable items	54,179,531	–	(719,809)	3,013,199	56,472,921
Art works and collections	348	–	(1)	–	347
Other tangibles	9,199	–	–	–	9,199
Tangibles in progress	3,168,603	10,377,215	(27,128)	(10,700,183)	2,818,507
Advances for tangibles	83,265	305,293	(269,881)	–	118,677
2011 Total	220,842,654	10,682,508	(2,085,082)	–	229,440,080
2010 Total	212,900,405	10,585,114	(2,642,865)	–	220,842,654

Accumulated Depreciation

	At beginning	Depreciation during year	Cost of sales	Disposals	Disposals due to new investments, transfers, reclassification, other	At end of year	Allowances	Net book value
Land	–	–	–	–	–	–	–	666,341
Constructions	(82,035,423)	(3,893,983)	(1,959)	1,068,039	(368,085)	(85,232,011)	–	84,122,077
Separate movable items	(29,911,185)	(2,206,207)	(2,002)	719,809	17,783	(31,381,945)	–	25,090,976
Art works and collections	–	–	–	–	–	–	–	347
Other tangibles	(2,502)	(304)	–	1	–	(2,805)	–	6,394
Tangibles in progress	–	–	–	–	–	–	(53,474)	2,765,033
Advances for tangibles	–	–	–	–	–	–	–	118,677
2011 Total	(111,949,110)	(6,100,494)	(3,961)	1,787,849	(350,902)	(116,616,761)	(53,474)	112,769,845
2010 Total	(108,269,457)	(5,866,392)	(32,902)	2,219,478	163	(111,949,110)	(53,474)	108,840,070

The total value of small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 24,152 thousand and CZK 23,274 thousand at acquisition cost as at 31 December 2011 and 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 2011 and 2010 (see Note 6).

As at 31 December 2011 and 2010, receivables overdue for more than 30 days totaled CZK 340,314 thousand and CZK 251,781 thousand, respectively.

Receivables from related parties (see Note 18).

Unbilled revenue represents, in particular, unbilled distribution services.

Changes in unbilled distribution services were as follows in 2011 and 2010 (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
Closing balance as at 31/12/2010	10,601,703	3,457,881	7,143,822
Changes in 2011	613,741	326,516	287,225
Closing balance as at 31/12/2011	11,215,444	3,784,397	7,431,047

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 1/1/2010	Additions	Deductions	Balance as at 31/12/2010	Additions	Deductions	Balance as at 31/12/2011
Allowances against							
fixed assets in progress	53,474	–	–	53,474	–	–	53,474
receivables	131,747	151,569	(51,686)	231,630	119,453	(54,636)	296,447
of which: legal	106,661	33,321	(7,888)	132,094	50,572	(13,132)	169,534
accounting	25,086	118,248	(43,798)	99,536	68,881	(41,504)	126,913

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

7. Short-term Financial Assets

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

Cash in CZK provided to the parent company ČEZ, a. s., within the cash pooling bears an interest rate of PRIBID O/N -0.15% 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 1,891,156 thousand and CZK 6,458,924 thousand as at 31 December 2011 and 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 2011 and 2010.

8. Other Assets

Prepaid expenses include in particular damage liability insurance and payment of lease for land in Hladké Žitovice 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 were as follows (in CZK thousands)

	Balance as at 1/1/2010	Increase	Decrease	Balance as at 31/12/2010	Increase	Decrease	Balance as at 31/12/2011
Number of shares	600	–	–	600	–	–	600
Basic capital	60,000,000	–	–	60,000,000	–	–	60,000,000
Other capital funds	–	617	–	617	–	–	617
Legal reserve fund	11,853,223	146,777	–	12,000,000	–	–	12,000,000
Retained earnings	10,689,035	–	(146,777)	10,542,258	–	(1,857,094)	8,685,164

The Annual General Meeting held on 20 June 2011 approved the following profit distribution for 2010 (in CZK thousands):

Profit for 2010	4,042,906
Dividend distribution	(4,042,906)
Undistributed profits added to retained earnings	–
Retained earnings as at 31/12/2010	10,542,258
Dividend distribution	(1,857,094)
Retained earnings as at 31/12/2011	8,685,164

On 13 July 2011, the Company paid dividends to the sole shareholder, ČEZ, a. s., in the amount of CZK 5,900,000 thousand.

10. Provisions

The movements in the provision accounts (in CZK thousands)

Provisions	Balance as at 1/1/2010	Additions	Deductions	Balance as at 31/12/2010	Additions	Deductions	Balance as at 31/12/2011
Income tax	751,488	1,148,800	(751,488)	1,148,800	1,462,444	(1,148,800)	1,462,444
Other provisions	227,460	5,305	(2,380)	230,385	19,107	(8,527)	240,965

In 2011 and 2010, other provisions in the amount of CZK 206,703 thousand and CZK 230,385 thousand, respectively were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement and for organizational changes planned in 2012.

11. Long-term Liabilities

As at 31 December 2011 and 2010, the Company had the following long-term liabilities (in CZK thousands):

	Due date	31/12/2011	31/12/2010
1st credit line	27/12/2019	4,336,700	4,591,800
2nd credit line	27/12/2019	2,232,525	2,363,850
Total		6,569,225	6,955,650
Current portion		(1,159,275)	(386,425)
Long-term portion		5,409,950	6,569,225

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 of the dissolving companies, ČEZ Distribuce, a. s., and ČEZ Distribuční zařízení, a. s., 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 2011 and 2010 was CZK 399,679 thousand and CZK 435,231 thousand, respectively.

The aggregate maturities of loans (in CZK thousands)

	Loans
2012	1,159,275
2013	772,850
2014	772,850
2015 and thereafter	3,864,250
Total	6,569,225

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

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

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

The Company was in compliance with these terms and conditions as at 31 December 2011 and 2010.

12. Current Liabilities

As at 31 December 2011 and 2010, the Company had overdue current payables for more than 30 days totaling CZK 1,723 thousand and CZK 6,633 thousand, respectively.

As at 31 December 2011 and 2010, the Company had liabilities of CZK 22,222 thousand and CZK 28,584 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 2011.

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 2011 and 2010 (in CZK thousands)

Balance as at 1/1/2010	7,858,482
Additions in 2010	1,049,538
Released to revenues in 2010	(638,482)
Balance as at 31/12/2010	8,269,538
Additions in 2011	562,594
Released to revenues in 2011	(670,739)
Balance as at 31/12/2011	8,161,393

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 Office (Energetický regulační úřad). These fees are credited to income by the Company in compliance with its internal regulations in the amount of 1/20 of collected fees per annum.

14. Income Taxes

	2011 (in CZK thousands)	2010 (in CZK thousands)
Profit before taxes	6,959,299	4,943,548
Difference between book and tax depreciation	541,177	812,281
Difference between net book value of fixed assets for accounting and tax purposes	55,603	102,783
Non-deductible expenses		
Creation of provisions	10,580	2,925
Creation of allowances	27,377	74,449
Other (e.g. entertainment expenses, shortages and losses)	104,167	111,771
Taxable income	7,698,203	6,047,757
Current income tax rate	19%	19%
Tax	1,462,658	1,149,074
Tax allowance	(214)	(274)
Provision for income tax	1,462,444	1,148,800
Adjustment of the tax paid in previous years	4,950	(6,391)
Current tax expense	1,467,394	1,142,409

The calculation of the 2011 and 2010 corporate income tax liability is preliminary. The Company submits regular tax return prior to 30 June of the following accounting period.

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

Deferred tax items	31/12/2011		31/12/2010	
	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	–	(11,855,979)	–	(12,012,167)
Other temporary differences				
Allowance against receivables	24,116	–	12,728	–
Provisions	45,783	–	43,773	–
Other	16,699	–	4,393	–
Total	86,598	(11,855,979)	60,894	(12,012,167)
Net		(11,769,381)		(11,951,273)

15. Commitments and Contingencies

The Company has effected 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 2011 and 2010, the Company had concluded contracts for future supplies of fixed assets (capital expenditures and repairs) in the amount of approx. CZK 5,457,370 thousand and CZK 4,846,746 thousand, respectively. As at 31 December 2011 and 2010, an amount of contractual liabilities for next years comprises a contractual fee totaling CZK 5,190,620 thousand and CZK 4,613,293 thousand, respectively for investments, CZK 189,178 thousand and CZK 181,286 thousand, respectively for repairs and CZK 77,571 thousand and CZK 52,167 thousand, respectively for relaying.

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

16. Revenues

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

	2011	2010
Use of grids	34,945,607	26,766,286
Provided reserved capacity	8,532,931	7,973,575
Provision of system services	5,410,381	5,469,860
Subsidy for extra costs incurred in support of electricity from renewable sources	3,183,491	–
Other energy services	169,432	1,084,077
Other non-energy services	240,912	242,318
Total revenues	52,482,754	41,536,116

In 2011 and 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 the Energy Regulatory Office and were determined by the Energy Regulatory Office's price decision for 2011 and 2010, respectively.

17. Personnel and Related Expenses

The breakdown of personnel expenses (in CZK thousands)

	2011		2010	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	1,227	25	1,224	25
Wages and salaries	676,811	49,865	687,896	42,331
Bonuses to members of statutory bodies	2,136	–	3,510	–
Social security and health insurance	229,440	13,806	235,605	14,390
Social cost	77,565	3,084	82,234	1,786
Total personnel expenses	985,952	66,754	1,009,245	58,507

In 2011 and 2010, bonuses to members of statutory and supervisory bodies amounted to CZK 2,136 thousand and CZK 3,510 thousand, respectively.

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 2011 and 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 2011 and 2010, advances granted to related parties amounted to a total of CZK 232,197 thousand and CZK 441,976 thousand, respectively.

As at 31 December 2011 and 2010, receivables from group companies with majority control in the amount of CZK 1,891,156 thousand and CZK 6,458,924 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 2011 and 2010, sales were as follows (in CZK thousands):

Related party	2011	2010
ČEZ Prodej, s.r.o.	29,870,292	29,268,435
Severočeské doly a.s.	329,534	214,474
ČEZ, a. s.	144,989	99,514
ČEZ ICT Services, a. s.	79,443	81,729
ČEZ Distribuční služby, s.r.o.	38,515	40,143
Teplárna Trmice, a.s.	3,817	12,637
Ústav jaderného výzkumu Řež a.s.	7,402	2,897
ČEZ Měření, s.r.o.	1,871	1,966
ČEZ Zákaznické služby, s.r.o.	1,598	1,783
ČEZ Logistika, s.r.o.	1,075	694
ČEZ Správa majetku, s.r.o.	828	656
Elektrárna Chvaletice a.s.	(614)	614
ČEZ Obnovitelné zdroje, s.r.o.	987	271
ČEZ Energetické služby, s.r.o.	511	427
Bioplyn technologie s.r.o.	5	-
MARTIA a.s.	68	-
3 L invest a.s.	343	-
AREA-GROUP CL a.s.	117	-
ČEZ Energo, s.r.o.	397	-
ČEZ Teplárenská, a.s.	1	-
Total	30,481,179	29,726,240

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

Related party	2011	2010
ČEZ Prodej, s.r.o.	776,229	1,178,916
ČEZ, a. s.	15,593	34,024
Severočeské doly a.s.	23,642	21,538
ČEZ ICT Services, a. s.	65,945	8,915
ČEZ Distribuční služby, s.r.o.	4,773	4,960
Teplárna Trmice, a.s.	273	900
Elektrárna Chvaletice a.s.	-	736
ČEZ Správa majetku, s.r.o.	87	168
ČEZ Měření, s.r.o.	207	170
ČEZ Zákaznické služby, s.r.o.	366	158
Ústav jaderného výzkumu Řež a.s.	469	125
ČEZ Energetické služby, s.r.o.	45	42
ČEZ Obnovitelné zdroje, s.r.o.	58	35
ČEZ Logistika, s.r.o.	1,173	-
ČEZ Energo, s.r.o.	49	-
Total	888,909	1,250,687

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2011 and 2010 were as follows (in CZK thousands):

Related party	2011	2010
ČEZ Distribuční služby, s.r.o.	4,421,270	4,439,838
ČEZ Logistika, s.r.o.	3,039,049	3,812,763
ČEZ Prodej, s.r.o.	2,346,182	3,118,004
ČEZ Měření, s.r.o.	1,897,392	1,679,412
ČEZ ICT Services, a. s.	1,234,865	1,212,364
ČEZ Zákaznické služby, s.r.o.	637,715	734,303
ČEZ, a. s.	604,500	587,333
ČEZ Obnovitelné zdroje, s.r.o.	222,769	224,469
ČEZ Správa majetku, s.r.o.	224,277	200,607
ČEZ Energetické služby s.r.o.	41,285	46,770
Teplárna Trmice, a.s.	40,101	19,781
MARTIA a.s.	11,296	6,933
Ústav jaderného výzkumu Řež a.s.	2,307	2,343
Elektrárna Chvaletice a.s.	817	286
AREA-GROUP CL a.s.	210,900	-
3 L invest a.s.	478,530	-
SD - Komes, a.s.	-	80
ČEZ Energo, s.r.o.	26,557	-
ČEZ Teplárenská, a.s.	19	18
Severočeské doly a.s.	5	3
Total	15,439,836	16,085,307

As at 31 December 2011 and 2010, advances received from related parties amounted to a total of CZK 12,454,424 thousand and CZK 11,620,818 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 (in CZK thousands)

Related party	2011	2010
ČEZ Distribuční služby, s.r.o.	592,572	472,191
ČEZ Prodej, s.r.o.	419,130	414,617
ČEZ ICT Services, a. s.	134,551	232,356
ČEZ Logistika, s.r.o.	189,056	229,097
ČEZ Měření, s.r.o.	212,454	207,050
ČEZ, a. s.	115,511	139,515
ČEZ Zákaznické služby, s.r.o.	66,247	70,504
ČEZ Správa majetku, s.r.o.	24,026	23,395
ČEZ Obnovitelné zdroje, s.r.o.	32,561	21,875
Teplárna Trmice, a.s.	12,276	1,761
MARTIA a.s.	554	1,196
Ústav jaderného výzkumu Řež a.s.	366	670
Elektrárna Chvaletice a.s.	82	150
ČEZ Energetické služby, s.r.o.	9,839	9
3 L invest a.s.	19,674	-
AREA-GROUP CL a.s.	8,848	-
ČEZ Energo, s.r.o.	6,825	-
ČEZ Teplárenská, a.s.	2	2
Severočeské doly a.s.	2	-
Total	1,844,576	1,814,388

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:	www.cezdistribuce.cz
E-mail:	info@cezdistribuce.cz

License number: 121015583
OTE registration number: 715

Closing date of the 2011 Annual Report: April 27, 2012



www.cezdistribuce.cz

www

Group Structure Chart
Alphabetical List of Companies – Group Members

