



Annual Report

2012

ČEZ Distribuce, a. s.



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The Smart Region project in Vrchlábí is making the most of the latest distribution grid technologies.

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Because educating students in technical fields is very important, ČEZ Distribuce, a. s. partners with schools to foster students' interest in energy and electricity distribution.

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Customers of ČEZ Distribuce, a. s. can take advantage of on-line services, such as the Geoportal, which give them easier, faster access to information.

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By upgrading substations and renewing other distribution grid infrastructure, ČEZ Distribuce, a. s. is substantially improving the reliability of electricity supplies.

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The Smart Region Vrchlabí pilot project is making it easier to identify faults.

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In the “Power Industry School-Leaving Exams” program, students gain not just theoretical knowledge, but practical experience as well.

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Over 13 months of operation, the on-line Geoportal application chalked up over 200,000 users who come to find information on the existence of grid infrastructure and other technical information for construction projects.

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Distribution grid renewal and development is also a necessary part of handling requests for new connections and increased capacity of existing connections.

**A modern
company
ready for
tomorrow**

Success in the power industry can be achieved only through continual efforts to improve services and roll out new technologies. ČEZ Distribuce, a. s. is working on “SMART” solutions that go with the times and respond to the current needs of the entire power system, including integration of decentralized generation, as well as to customer needs. Its objective is to ensure the reliability of electricity supplies. As a part of CEZ Group, it continually increases customer comfort and meets the stipulated goals of the present, while laying the groundwork for achieving the goals of the future as well. At the same time, it is improving and adapting its services, including on-line services, and contributing to the education of students who have an interest in the energy field.

Contents

Information on Persons Responsible for the Annual Report	003
Independent Auditor's Report	004
Introduction by the Chairman of the Board of Directors	007
Selected Indicators	008
Important Events of 2012 and 2013 Up to Annual Report Closing Date	010
Directors and Officers	014
Report on Operations	024
Financial Performance	024
Commercial and Financial Outlook for 2013	027
Capital Expenditure	028
Information on the Company's Core Business	032
Safety and Quality Management, Environmental Protection	035
Shares and Shareholders	036
Human Resources	037
Research and Development	038
Donorship and Sponsorship Program	039
Development of the Legislative Framework	040

Basic Organization Chart of ČEZ Distribuce, a. s. as at April 1, 2013	044
Glossary of Terms and Abbreviations	045
List of Tables and Graphs in the Annual Report	048

Related Parties Report for the Year 2012	049
Chart Showing Relationships Within the Group	049
Group Structure Chart	separate insert under back cover flap
Controlling Entity and Compiler of the Related Parties Report	050
Alphabetical List of Companies – Group Members	separate insert under back cover flap
Contractual Relationships	051
Other Relationships	053
Other Information	053
Conclusion	054

Independent Auditor's Report on the Financial Statements of ČEZ Distribuce, a. s.	055
Financial Statements of ČEZ Distribuce, a. s. as at December 31, 2012	056
Balance Sheet	056
Statement of Income	058
Statement of Cash Flows	059
Notes to the Financial Statements	060

Identification of ČEZ Distribuce, a. s.	072
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The 2012 Annual Report of ČEZ Distribuce, a. s. contains QR codes that link to the specific web pages [www](#) 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.

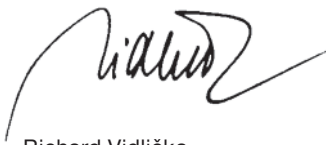
Information on Persons Responsible for the Annual Report

Responsibility for the Annual Report

Statutory Declaration

The information presented in the 2012 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 29, 2013



Richard Vidlička
Chairman of the Board of Directors



Petra Šárová
Vice Chairwoman of the Board of Directors

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 2012 presented in the annual report of the Company on pages 55–71 and our audit report dated 25 January 2013 stated the following:

We have audited the accompanying financial statements of ČEZ Distribuce, a. s., which comprise the balance sheet as at 31 December 2012, 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 2012, 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.

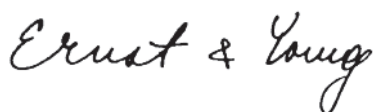
We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented 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 1–48 is consistent with that contained in the audited financial statements as at 31 December 2012. 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.

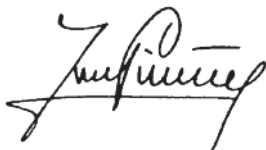
- III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of ČEZ Distribuce, a. s., for the year ended 31 December 2012 presented in the annual report of the Company on pages 49–54. The management of ČEZ Distribuce, a. s., is responsible for the preparation 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 2012 is materially misstated.



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



Josef Pivoňka
Auditor, License No. 1963

29 April 2013
Prague, Czech Republic



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

Introduction by the Chairman of the Board of Directors

Ladies and gentlemen,

The company posted a very favorable income result in 2012, despite unfavorable impacts in the area of mandatory purchasing from renewable energy sources. We achieved 105% of our income target when correction factors are included, and the company posted net income of CZK 4,306 million. The company also met the prescribed quality parameters for electricity supply, as well as operational safety and reliability standards. Streamlining of internal processes was another significant accomplishment.

In early 2012, we took an important step in improving management of distribution assets. The Asset Management project implemented at ČEZ Distribuce had the objective of managing distribution assets more effectively, in both technical and economic terms. A revised management model, supported by a reorganization, went into effect on February 1, 2012. The new model is based on a unified view of capital expenditure and an optimized planning and prioritizing process. At the same time, we introduced active management of internal and external suppliers, and imposed stricter controls on our dealings with them. In our standard line management, we implemented the Design-to-Cost method, which is being used more and more at CEZ Group to optimize the technical aspects of strategic construction projects.

From the moment it became technically possible to connect installations for generation of electricity from renewable sources to the Czech Republic Power System until the end of 2012, ČEZ Distribuce processed 19,365 new applications and approved over 8,000 sets of project documentation. As of the last day of 2012, a total of 6,097 new renewable power sources with an aggregate total of nearly 215 MW of generation capacity had been connected to ČEZ Distribuce's network. Most applications, a large number of which were submitted in the last few weeks of the year, related to roof-top photovoltaic power plants. I would like to take this opportunity to thank all the employees who took on the task of processing the extraordinarily large number of applications for connection of new generation installations.

In 2012 we successfully defended our prestigious "Safe Enterprise" status. By obtaining this certificate, we reaffirmed that we are aware of our responsibility towards all who may be impacted by our activities, as well as of our duty to meet high standards in protecting their health and safety. All companies of CEZ Group have been tasked with finding more room for improvement in their internal processes and procedures. In our case, we will be doing so primarily through the Provision of Services within CEZ Group project, which will bring about a substantial reduction in intra-corporate red tape and reduce costs even further. In years past we demonstrated our ability to deal with complex change. This gives me confidence that our company has everything it takes to successfully meet demanding goals, ensure high quality of electricity supplies, and maintain grid safety.

Dear business partners, dear co-workers,
allow me on behalf of the Board of Directors of ČEZ Distribuce to thank you for your support and cooperation in the past year.



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

Selected Indicators

Selected Economic Indicators

	Units	2010	2011	2012
Work force head count at December 31	persons	1,232	1,213	1,191
Revenues from sale of finished products and services	CZK millions	41,536	52,483	52,365
of which: revenues from sales of electricity distribution	CZK millions	41,294	52,242	52,126
EBITDA	CZK millions	11,247	13,488	12,062
EBIT	CZK millions	5,343	7,346	5,739
Net income	CZK millions	4,043	5,674	4,306
Return on Invested Capital (ROIC)	%	3.96	5.27	4.12
Total assets	CZK millions	129,817	130,906	132,046
Equity	CZK millions	86,586	86,360	86,165
Net debt	CZK millions	12,448	16,447	18,993
Net debt/Equity	%	20.21	19.73	22.75
Capital expenditures (CAPEX)	CZK millions	10,218	10,224	8,594
Net cash provided by operating activities	CZK millions	10,037	11,777	10,768

Selected Sector-Specific Indicators

	Units	2010	2011	2012
Supply area	km ²	52,001	52,001	52,001
Number of connection points	number	3,544,605	3,556,514	3,566,175
of which: HV, MV – large end-customers	number	14,267	14,482	14,593
LV – retail-commercial	number	453,863	451,107	450,114
LV – retail-residential	number	3,076,475	3,090,925	3,101,468
Peak load	MW	5,963	5,727	6,159
Grid extended length	km	157,481	158,267	159,456
of which: HV	km	9,799	9,720	9,745
MV	km	49,697	49,908	50,217
LV	km	97,985	98,639	99,494
MV/LV transformer stations	number	55,314	56,710	57,423
of which: owned by the company	number	42,206	43,332	43,956
owned by others	number	13,108	13,378	13,467
HV/HV, HV/MV transformer stations	number	227	231	233

Important Events of 2012 and 2013 Up to Annual Report Closing Date

Important Events of 2012

January

- Tomáš Pleskač elected Chairman of the Supervisory Board
- Jaroslav Janda elected Vice Chairman of the Supervisory Board.

February

- organization structure of ČEZ Distribuce, a. s. modified in conjunction with the Asset Management project
- sole shareholder, acting with powers of the General Meeting, 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 a member of the Board of Directors effective from March 1, 2012
- Jiří Koptík resigns from the Board of Directors on March 12, 2012.

May

- company executives meet with employees of ČEZ Distribuce, a. s. at various work sites
- decision of the sole shareholder acting with the powers of the General Meeting elects Radim Černý a member of the Board of Directors effective from June 1, 2012.

July

- state of emergency announced for Hradec Králové and Semily districts due to multiple faults on medium- and low-voltage infrastructure associated with unfavorable weather conditions on the days July 6–8, 2012
- construction begins on a new Chýně 110/22 kV transformer station.

August

- work begins on rebuilding Tuchlovice 110/22 kV transformer station to increase its resistance to short circuits.

September

- ČEZ Distribuce, a. s. defends its “Safe Enterprise” title **1**, granted by the Ministry of Labor and Social Affairs of the Czech Republic
- construction begins on a new 22 kV substation, part of the Mladá Boleslav transformer station.



October

- company management meets with employees of Region North.

November

- construction of new Ostrava Poruba 110/22 kV transformer station completed, enabling coverage of growing customer connection demand and development of industrial and commercial parks
- trial operation of new Liberec Jeřmanice 35 kV substation begins
- work begins on rebuild of own consumption equipment in the Bohemia Central transformer station
- construction begins on new Ostrava Hrabová 110 kV substation to provide power to an industrial park.

December

- trial operation begins at Jablonec South 110/22 kV and Turnov 110/35 kV transformer stations, enabling coverage of growing customer connection demand and development of industrial and commercial parks
- construction begins on new Holýšov 110/22 kV transformer station and Paskov – Hrabová 110 kV high voltage power line
- update of agreement on connection to the Czech Republic transmission grid between ČEPS, a.s. and ČEZ Distribuce, a. s.
- Amendment No. 7 to the ČEZ Distribuce, a. s. Collective Agreement signed by company management and representatives of labor organizations.

Important Events of 2013 Up to Annual Report Closing Date

January

- Act No. 165/2012 Sb. on Supported Energy Sources and amending certain acts took effect on January 1, 2013; under this act, support for generation from renewable sources passed from ČEZ Distribuce, a. s. to the electricity market operator.

012

WE'RE ROLLING OUT TECHNOLOGY OF THE FUTURE

The Smart Region pilot project, based on the principle of smart grids, has been ongoing in the Vrchlabí microregion since 2010. We are utilizing new elements and technologies at the medium- and low-voltage levels, to make it easier to identify faults and increase the reliability of electricity supply for customers.



Directors and Officers

In accordance with applicable law and the ČEZ Distribuce, a. s. Articles of Association, the General Meeting and the employees elect and remove members of the Supervisory Board. The General Meeting 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, 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., a member of the Supervisory Board of ČEZ OZ uzavřený investiční fond a.s., Chairman of the Supervisory Board of CEZ Bulgaria EAD, a member of the Supervisory Board of CEZ Razpredelenie Bulgaria AD, Chairman of the Board of Directors of CM European Power International B.V., and Vice Chairman of the Board of Directors of Akenerji Elektrik Üretim 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., ČEZ Měření, s.r.o., and 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 director of the Domestic Asset Management 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 Boards of Directors of ČEZ, a. s. and CM European Power International B.V., 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.



016



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



Karel Kohout

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



018



Pavel Filipi

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



019



Radim Černý
Member of the Board of Directors
and Director, Distribution
Asset Management 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 General Meeting. 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), a member of the Board of Directors of the CZECH FEDERATION OF POWER INDUSTRY EMPLOYERS, and a member of the Board of Trustees of ČSRES.

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 Trustees of ČSRES.

Karel Kohout (* 1953)

Member since March 1, 2012

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

Radim Černý (* 1974)

Member since June 1, 2012

A graduate of the University of West Bohemia in Pilsen.

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.

Radim Černý (* 1974)

Director, Distribution Asset Management Section

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

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 2012, 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.

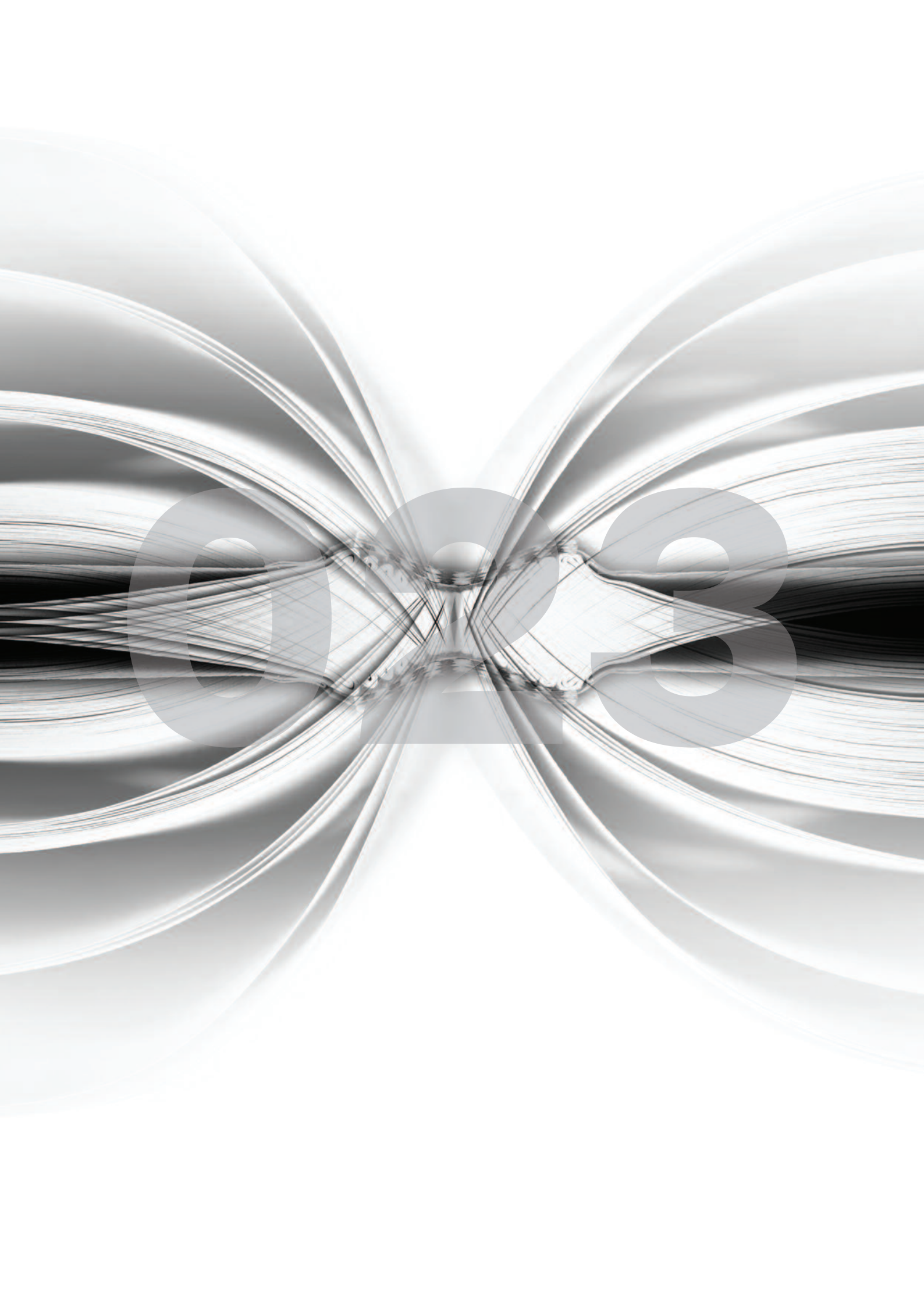
Remuneration Principles – Senior Management

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 determined exclusively by 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. Each executive's task assignments are evaluated once per year.

0222

WE SUPPORT EDUCATION IN TECHNICAL FIELDS

In the framework of our wider collaboration with schools, for the past several years we have been organizing the Power Industry School-Leaving Exams, an education event for second- and third-year students at partner schools. During a three-day internship, participants get a detailed introduction to electricity distribution through lectures and panel discussions. Educational events of this kind are a practical, useful, and effective way to recruit future high-quality employees.



Report on Operations

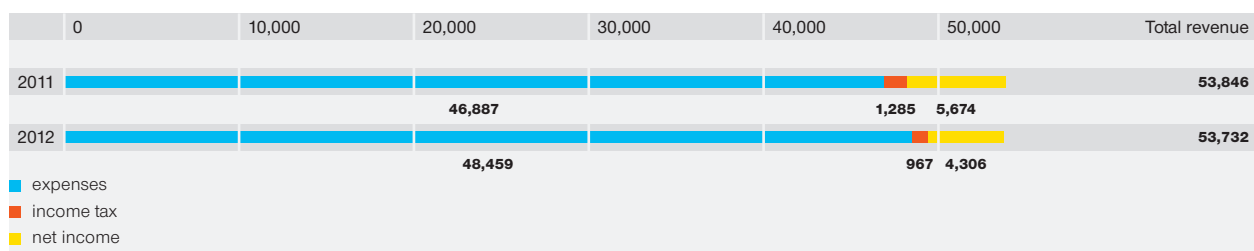
Financial Performance

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 2012, the company's pre-tax income totaled CZK 5,273 million. The net income was CZK 4,306 million, which in comparison with 2011 represents a CZK 1,368 million decrease.

The operating result was CZK 5,739 million, down CZK 1,607 million from 2011's figure, particularly on a CZK 1,667 million drop in the gross margin on electricity distribution.

The financial result was a loss of CZK 466 million, which is attributable to interest on borrowings. The loss is CZK 79 million higher than it was in 2011.

Expenses, net of income tax, totaled CZK 48,459 million in 2012, up CZK 1,572 million from the previous year. The biggest expense components were: purchasing of system and distribution services, support for renewable sources, purchasing of electric power to cover losses (CZK 31,822 million; up CZK 1,552 million from the previous year), other production-related consumption (CZK 8,324 million), amortization and depreciation of intangible and tangible fixed assets (CZK 6,323 million), personnel expenses (CZK 1,015 million), other operating expenses (CZK 499 million), and financing expenses (CZK 476 million). Revenues totaled CZK 53,732 million in 2012 and consisted of revenues from sales of system and distribution services (CZK 52,126 million), other sales and service revenues (CZK 1,597 million), and financing revenues (CZK 9 million). Compared to 2011, total revenues were down CZK 114 million overall, which can be attributed to a CZK 116 million drop in electricity revenues.

Structure of Assets and Capital

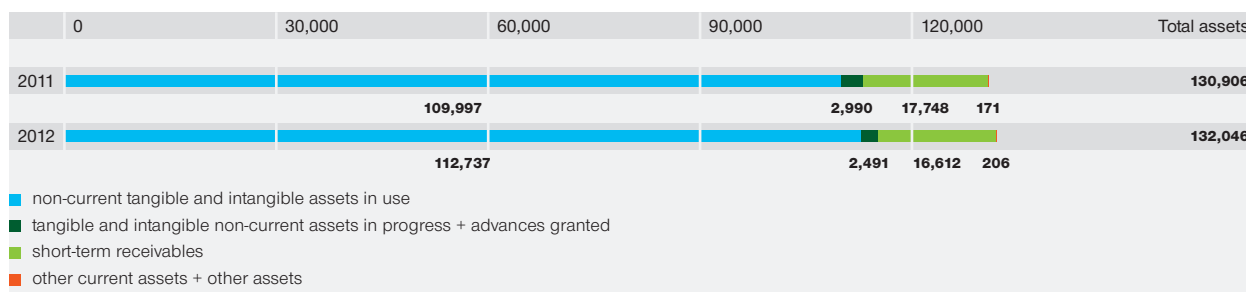
Assets

Total assets reached CZK 132,046 million, up CZK 1,140 million from 2011.

Non-current assets totaled CZK 115,228 million, an increase of CZK 2,241 million compared to 2011. The largest components in non-current assets were constructions (CZK 85,985 million), separate movable items (CZK 25,792 million), tangible assets in progress (CZK 2,349 million), land (CZK 713 million), and non-current intangible assets (CZK 244 million).

Current assets were down CZK 1,135 million in 2012, to reach CZK 16,774 million. The items with the highest values comprised unbilled revenue (CZK 11,462 million, mainly from services related to electricity distribution), amounts owed by the controlling entity relating to Group cash pooling (CZK 2,996 million), short-term trade receivables (CZK 1,716 million), short-term advances granted (CZK 385 million), work in progress (CZK 162 million), and tax refunds owed by the State (CZK 92 million).

Structure of Assets (CZK millions)



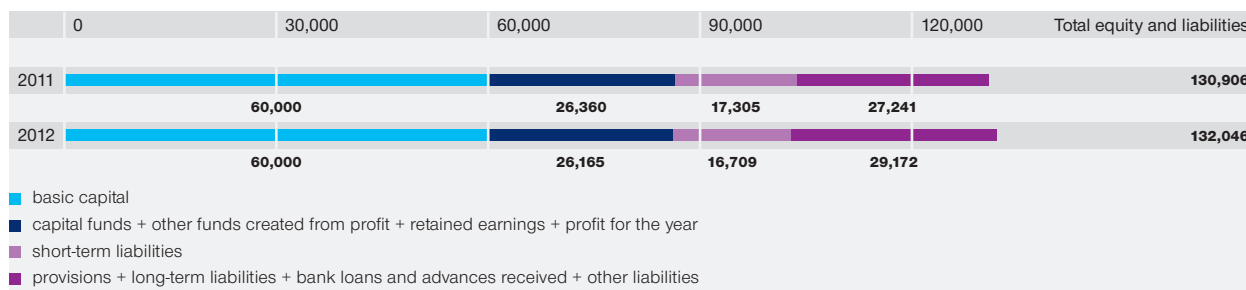
Equity and Liabilities

Equity totaled CZK 86,165 million, which is down CZK 195 million from 2011'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 9,859), and the profit for the year (CZK 4,306 million).

Liabilities reached CZK 37,689 million, up CZK 1,501 million from the previous year. The largest items were deferred tax liability (CZK 11,649 million), short-term advances received (CZK 10,502 million), long-term liabilities to group companies with majority control (CZK 9,012 million), current trade payables (CZK 3,001 million), and unbilled deliveries (CZK 1,761 million).

Other liabilities, consisting primarily of deferred income from connection fees, reached CZK 8,192 million, an increase of CZK 166 million from the previous year.

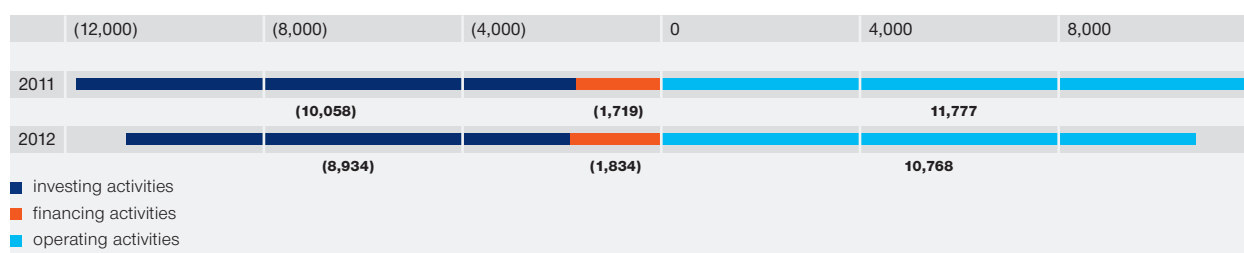
Structure of Equity and Liabilities (CZK millions)



Company Financing

Cash Flows

Cash Flows (CZK millions)



Short-term financial assets as at December 31, 2012 totaled CZK 0.03 million.

Cash provided by operating activities (CZK 10,768 million) consisted of the following items:

■ profit or loss on ordinary activities before taxation	CZK 5,273 million
■ corporate income tax paid	CZK (1,510) million
■ depreciation and amortization of fixed assets, write-off of receivables	CZK 6,335 million
■ change in working capital	CZK 1,491 million
■ other operating activity	CZK (821) million.

Cash used in investing activities totaled CZK 8,934 million, and the biggest component therein was purchase of fixed assets, at CZK 8,952 million.

Financing activities used CZK 1,834 million in cash. Components of this figure include CZK 4,500 million in dividend pay-outs, and a CZK 1,065 million change in receivables/payables related to Group cash pooling. On the other hand, a change in the balance of a loan generated CZK 3,731 million in cash.

Borrowings and Their Maturity

At December 31, 2012 the company had outstanding loans totaling CZK 10,300 million. Of this figure, the non-current portion accounted for CZK 9,012 million and the current portion was CZK 1,288 million.

The loans mature on December 27, 2019 and June 7, 2022 and were provided to finance reconstruction and development of the Czech Republic distribution grid at the medium- and low-voltage levels.

Key Performance Indicators

	Units	2011	2012
Return on Equity (ROE), net	%	6.56	4.99
Return on Assets (ROA), net	%	4.35	3.27
EBIT margin	%	13.65	10.68
Net debt/Equity	%	7.60	11.94
Net debt/EBITDA	%	121.94	157.46
Current ratio	%	69.82	67.54
Operating cash flow-to-liabilities ratio	%	68.55	55.39
Assets turnover	1	0.41	0.41
Fixed assets coverage	%	91.64	92.71
Extent of depreciation	%	51.64	52.08

Commercial and Financial Outlook for 2013

2013 is the fourth year of the third regulation period. The electricity distribution services purchasing and sales plan is based on estimated electricity consumption in the ČEZ Distribuce, a. s. region for 2013 and on the Energy Regulatory Office's price decrees for 2013, 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 2013 envisions revenues of CZK 57,046 million, pre-tax income of CZK 7,871 million, and capital expenditures of CZK 8,258 million.

Capital Expenditure

Capital Projects

In 2012, the company invested CZK 8,594 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

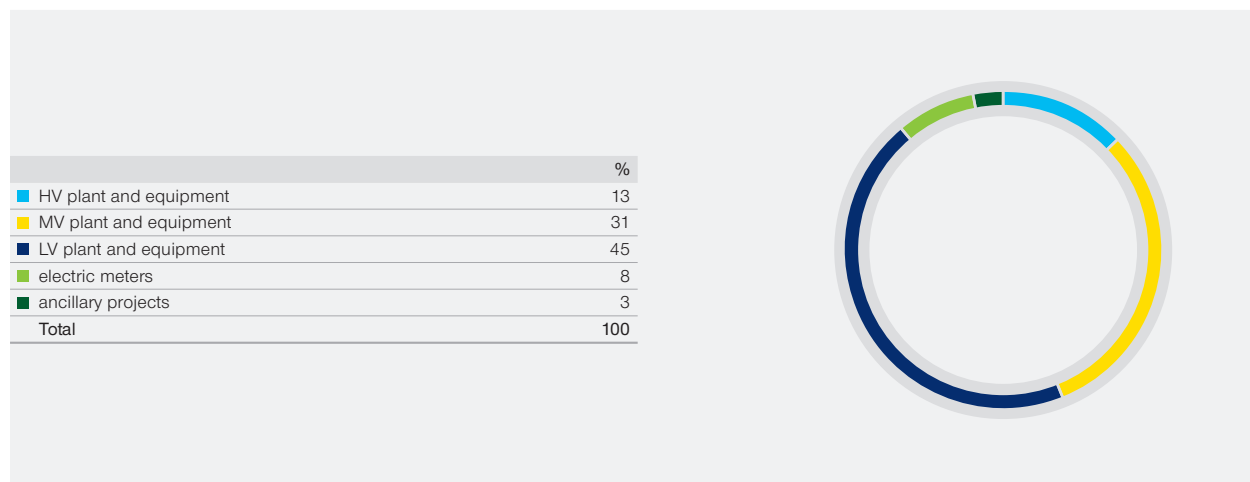
Capital projects focused primarily on renewing distribution grid plant and equipment, with the objective of improving the quality, reliability, and safety of grid operation. Development projects were prepared and implemented in accordance with applicable laws and regulations, in particular Decree of 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 2011 and 2012, Plan for 2013 (CZK millions)

Capital Expenditure

	2011	2012	Plan for 2013
HV plant and equipment	1,151	1,065	902
MV plant and equipment	3,396	2,637	2,857
LV plant and equipment	4,668	3,899	3,623
Electric meters	718	705	596
Ancillary projects	291	288	280
Total	10,224	8,594	8,258

CAPEX Distribution



Distribution Grid CAPEX

Capital expenditure in 2012 focused primarily on MV and LV projects. A total of CZK 6,536 million was invested in MV and LV plant and equipment in 2012. The projects included, in particular, rebuilds and upgrades of medium- and low-voltage underground cables and overhead power lines and construction of new MV/LV distribution transformer stations. A substantial portion of 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 1,065 million. These consisted mostly of transmission/distribution substations, overhead HV lines (rebuilds and new construction), and projects undertaken to meet customer demand. Capital expenditures on customer-initiated projects totaled CZK 3,666 million.

Most Significant Projects

Internal projects:

- Ostrava Poruba, rebuild of 110/22 kV transformer station
- Babylon, rebuild of 110 kV substation, own consumption and mass remote control
- Turnov, construction of new 110/35 kV transformer station
- Jablonec nad Nisou South, construction of new 110/22 kV transformer station
- Přeštice, rebuild of 110 kV substation
- Řeporyje, complete rebuild of 110 kV substation and I&C system
- Mírovka, 400/110 kV transformer station, substation rebuild, phase two

Projects to meet customer requirements:

- Tuchlovice Transformer Station, increase resistance to short circuits
- Kladno West – Tuchlovice, reinforce 110 kV power line

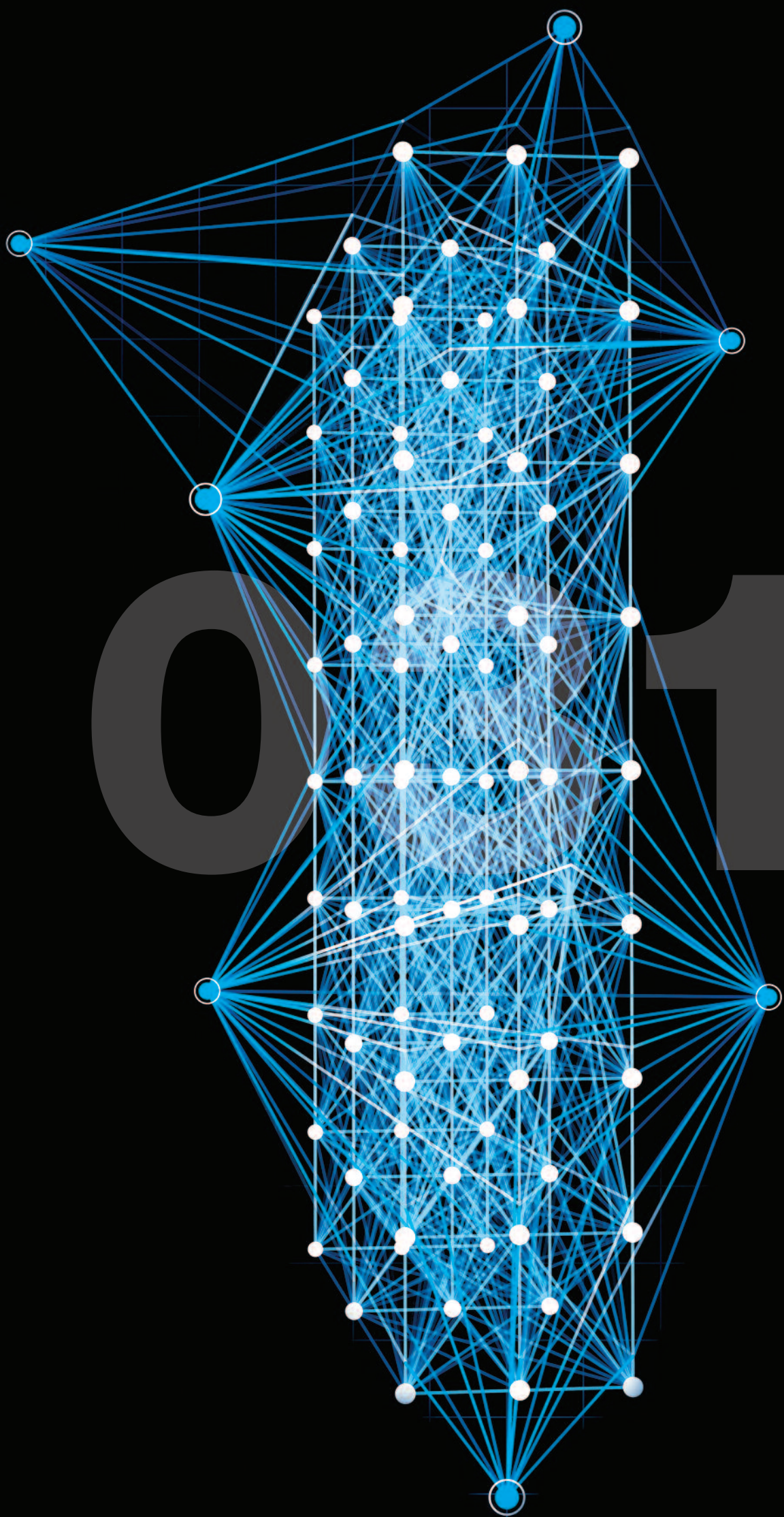
Other

Other investment in capital projects, totaling CZK 993 million, went on activities that are ancillary to the core business of electricity distribution, upgrades of operational and control systems in particular. During the year a new unified dispatch system was rolled out for ČEZ Distribuce, a. s.

030

WE ISSUE STATEMENTS ON EXISTENCE OF GRID INFRASTRUCTURE ELECTRONICALLY

The Geoportal application enables customers of ČEZ Distribuce, a. s. to obtain statements on the existence of grid infrastructure via the Internet. The portal also provides digital technical information for use in project preparation, as well as analytical materials for use in zoning and other urban planning processes, and users can monitor the status of their requests on-line. Already, over 200,000 users have taken advantage of the Geoportal. Most of all, they appreciate the speed with which their requests are processed and the comfort of Internet access.



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 technical dispatch (grid control center).



In 2012, 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 eight extraordinary grid failures brought about by unfavorable weather conditions. During the failures, 485 extraordinary interruptions in electricity distribution lasting longer than three minutes and affecting at least one customer occurred. Aside from the extraordinary failures, technical dispatch recorded 50 faults in the HV system, 7,438 faults in the MV system, and 30,514 faults in the LV system, all lasting longer than three minutes and affecting at least one customer.

Damaged circuit breakers in customer breaker or cable boxes were replaced in 6,686 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.

032

Total Duration of Electricity Supply Interruptions Per Customer (minutes)

	0	50	100	150	200	250	Total
2011							282.172
2012							289.955

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. Outages caused by unfavorable weather conditions are considered an exception and are not included in the calculation.



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

Distribution Grid Plant and Equipment

	Units	2011	2012
Grid extended length	km	158,267	159,456
of which: HV	km	9,720	9,745
MV	km	49,908	50,217
LV	km	98,639	99,494
MV/LV transformer stations	number	56,710	57,423
of which: owned by the company	number	43,332	43,956
owned by other entities	number	13,378	13,467
HV/HV, HV/MV transformer stations	number	231	233

The company's distribution grid was used to distribute a total of 43,344 GWh of electricity in 2012.

Analysis of Electricity Distribution (GWh)

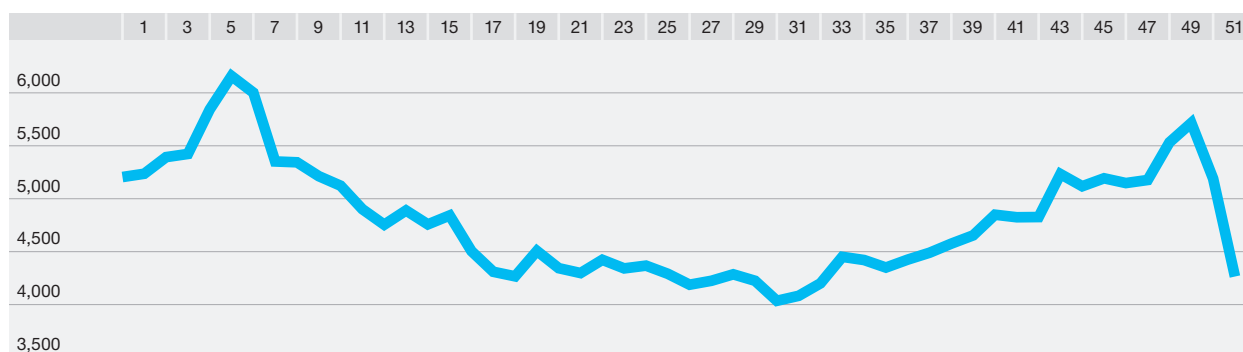
	2011	2012
Input to the distribution grid		
From transmission grid operators	21,905	22,042
From ČEZ, a. s. power plants	8,437	7,712
From neighboring distribution service providers	1,087	991
From other producers, including private power plants	9,506	9,436
From other sources	229	329
Import (from other countries) at the distribution services level	268	395
Distribution license holders (local distribution grid)	2,432	2,439
Input to the distribution grid, total	43,864	43,344
Output from the distribution grid		
End customers at HV, MV levels	13,116	12,765
End customers at LV level	13,850	14,087
Used by producers from grids operated by distribution service providers	1,713	1,635
Used by other generating facilities	229	329
Supplied to neighboring distribution service providers	5,505	5,505
Supplied to grids operated by transmission service providers	1,678	1,461
Export (to other countries) at distribution services level	342	15
Distribution license holders (local distribution grid)	4,923	5,292
Other consumption by distribution service providers	52	55
Losses	2,456	2,199
Output from the distribution grid, total	43,864	43,344

The total volume of electricity that flowed into the grid in 2012 was 43,344 GWh. Compared to 2011, this was down 1.19%, or 520 GWh. The biggest component, at 50.85%, was the volume of electricity originating from the ČEPS, a.s. grid totaling 22,042 GWh (up 138 GWh from 2011). Electricity procured directly from ČEZ, a. s. sources totaled 7,712 GWh (down 725 GWh from 2011). On the other hand, supplies from other sources and from local distribution service providers were up 100 GWh and 6 GWh, respectively. Supplies from other generating facilities including in-house producers fell 69 GWh, while imports from abroad grew 127 GWh and supplies from neighboring distribution services providers were down 96 GWh. The volume of electricity distributed to customers at the HV and MV levels was down 352 GWh in year-on-year terms, and the volume of electricity distributed at these voltage levels accounted for 29.45% of total supplies. On the other hand, electricity distribution at the LV level rose (by 237 GWh), and it accounted for 32.50% of total supply volume.

Power used by producers was down 77 GWh, while the volume of electricity used by other generating facilities grew 100 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 dipped 217 GWh, while 15 GWh of electricity was exported. Supplies to local distribution service providers were up 370 GWh year-on-year. The volume of losses declined by 257 GWh.

The highest one-hour peak, 6,159 MW, was achieved on February 7, 2012 at 4:00 p.m.

Weekly Peak Loads (MW)



034

ČEZ Distribuce, a. s. sells electricity distribution services to customers through electricity dealers as well as directly. In 2012 the company had framework agreements with 69 active dealers.

Number of Connection Points

	Unit	2011	2012
HV, MV – large end-customers	number	14,482	14,593
LV – retail-commercial customers	number	451,107	450,114
LV – retail-residential customers	number	3,090,925	3,101,468
Total		3,556,514	3,566,175

In 2012, 10,000 new connection points were added to the grid and reserved capacity was increased for another 26,000 connection points. At the same time, 2012 saw 6,097 new generating facilities connected to the grid, representing total output of nearly 215 MW. CZK 559 million in connection fees was collected from customers in 2012 pursuant to Decree No. 51/2006 Sb. on conditions for connection to the power system, and CZK 3,577 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 (MW)
HV	242	13	65
MV	568	116	152
LV	2,767	430	511
Total	3,577	559	728

Safety and Quality Management, Environmental Protection

Occupational Safety and Health

In 2012, 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. Once again in 2012, the OSH management system in accordance with the “Safe Enterprise” program was vetted by the State Labor Inspection Office through the relevant local labor inspectorates. As a result, the company obtained certification of compliance of its occupational safety and health management system with the requirements of the ILO – OSH 2001 and OHSAS 18001:2007 standards. The certification is valid until October 23, 2015.

On the basis of, and in accordance with, the established conceptual guidance for safety management within CEZ Group, our company also conducted substantive safety management in companies in the Distribution Segment. Within the segment, a new safety management model was implemented and management documentation in the OSH, fire safety, and EMS areas was unified in companies that have been included in the Distribution Segment.

035

Fire Safety

Creating conditions for safe operation of the distribution grid, protection of employees and property, and continuous fire prevention were the company’s principal goals in the past year.

A fundamental task was the defense of our “Safe Enterprise” certification, which includes a fire safety component. Within this defense, we demonstrated that our fire safety system is fully functional, compliant with Czech Republic fire protection legislation, and that we have all the necessary internal guidelines and documentation in place.

Other fire protection areas to which continual efforts are dedicated are: employee training, ensuring good fire protection practices are followed, and regular inspections of the company’s plant and equipment.

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. At December 31, 2012, clean-up work had been completed at 46 sites, while follow-up monitoring, supplemental studies, and updating of documentation were ongoing at another 32 sites.

Protecting birds from electric shock is an ever-current topic in the nature protection area. Since our company is under a statutory obligation to secure all MV power lines against bird injury by 2024, we are already preparing to undertake an overall audit of the safety status of MV lines from this perspective.

In late 2012 we successfully underwent the first supervisory audit of our EMS, which reaffirmed the validity of the company’s certification of ČSN EN ISO 14001 compliance obtained in December 2011.

Expenditures for waste and wastewater disposal, dealing with environmental accidents, and other services relating to environmental protection exceeded CZK 10.5 million in 2012.

Shares and Shareholders

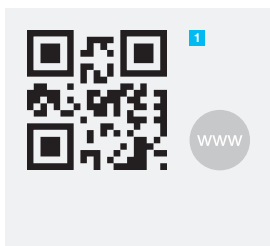
The total basic capital of ČEZ Distribuce, a. s. recorded in the Commercial Register as of the Annual Report closing date was CZK 60,000 million. The company's sole shareholder is ČEZ, a. s.  with its seat at Duhová 2/1444, Prague 4, postcode 140 53, Czech Republic, ID number 452 74 649, which owns a 100% stake in the basic capital of ČEZ Distribuce, a. s.

Types and Volumes of Securities Issued

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

The registered shares have limited transferability in that they can only be transferred with the consent of the Board of Directors, which can only be given only after the Supervisory Board considers the matter and issues a statement.

036



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 2012

	Number of employees
Newly hired	74
Left the company	108

The work force head count at December 31, 2012 was 1,191 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 work. Emphasis is placed on professional training in the field of electric power.

In 2012, the ČEZ Leader program was commenced with the objective of providing for the individual development of senior executives and other key employees. The program includes an employee development plan encompassing personal and professional growth. In all cases, the scope and specific timelines of employee development programs are determined in cooperation with company management. The program is long-term.

A new element in 2012 is a program for selected employees designed to reinforce their customer communication skills. In 2012, ČEZ Distribuce, a. s. invested a total of nearly CZK 6 million to develop its employees.

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 CZK 62.7 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 recreation.

Labor Relations

A total of 30 basic labor organizations operate at ČEZ Distribuce, a. s. in 2012, and 51.2% of the overall work force was unionized.

In the autumn of 2012, collective bargaining took place on an amendment to the current Collective Agreement, relating primarily to wage growth in 2013. The collective bargaining process culminated in December with the signing of Amendment No. 7.

Regular meetings between the employer and labor representatives took place every 14 days in 2012. At the meetings, information was provided to the labor representatives and topics stipulated by the Labor Code and the Collective Agreement were discussed.

Research and Development

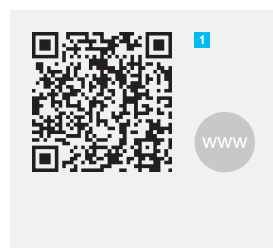
During the year, the company engaged in several studies, analyses and consultations on putting proposals into practice in cooperation with the specialized laboratories of EGÚ Brno,a.s., EGC - EnerGoConsult ČB s.r.o., and the Technical University of Ostrava.

These studies and analyses included:

- in the R&D area, the company focused predominantly on the practical application of studies conducted in years past as we implemented 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)
- behavior of photovoltaic sources and other material renewable sources in the Czech Republic Power System at higher grid frequency deviations
- 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.

038



Donorship and Sponsorship Program

Projects implemented through the Nadace CEZ foundation in 2012 reached a total of CZK 66 million. The Nadace CEZ foundation supported leisure-time activities for children and youth, quality-of-life improvements for disadvantaged persons, and infrastructure improvements in cities and villages in regions throughout the entire region where ČEZ Distribuce, a. s. operates. Direct donations by ČEZ Distribuce totaled CZK 0.98 million in 2012. This sum was distributed amongst eight selected projects. Through these projects, the company helped to improve education of children and young people and provide leisure-time activities for the physically and mentally handicapped. The company also donated to projects focused on supporting the operation of non-profit organizations.

ČEZ Distribuce, a. s. contributed CZK 1.04 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. 165/2012 Sb. on Supported Energy Sources and amending certain acts (the Act on Supported Energy Sources)
- Act No. 406/2000 Sb. on Energy Management.

A new act was adopted in 2012:

- Act No. 165/2012 Sb. on Supported Energy Sources, adopted May 30, 2012.

During 2012 the above acts were directly amended as follows:

- Act No. 458/2000 Sb. (the Energy Act) was amended by Act No. 165/2012 Sb. on Supported Energy Sources
- Act No. 406/2000 Sb. on Energy Management was amended by Act No. 165/2012 Sb. on Supported Energy Sources.

The principal reasons and objectives for adopting the new Act No. 165/2012 Sb. on Supported Energy Sources were the following:

- a new model for supporting electricity from supported sources, decentralized electricity generation, and biomethane; and a new method by which the market operator pays support for electricity from these sources
- support in the form of purchase price in mandatory purchasing of electricity from supported sources through a mandatory purchaser
- support in the form of a green bonus in market purchasing of electricity from renewable sources through the market operator
- funds for supporting the aforementioned sources of electricity, decentralized generation of electricity, and biomethane will be obtained from a contribution in support of electricity, decentralized generation, and biomethane included in the price of electricity for electricity consumers, and from subsidies approved by the Government of the Czech Republic.

The principal reasons and objectives for amending Act No. 458/2000 Sb. (the Energy Act) through Act No. 165/2012 Sb. on Supported Energy Sources were to:

- enable consumers who enter into contracts on supplies of electricity and/or gas outside of the license holder's usual business premises to withdraw from the contract at any time up to five days prior to commencement of supplies under the signed contract
- expand the powers and responsibilities of the Ministry of Industry and Trade in conjunction with the implementation of Act No. 165/2012 Sb. on Supported Energy Sources
- treat the rights and obligations of the market operator in conjunction with the implementation of Act No. 165/2012 Sb. on Supported Energy Sources
- treat the rights and obligations of transmission and distribution grid operators in dispatch (grid control) in conjunction with the implementation of Act No. 165/2012 Sb. on Supported Energy Sources
- expand the authorities of the State Energy Inspection in conducting inspection activities.

The principal reason and objective for amending Act No. 406/2000 Sb. on Energy Management through Act No. 165/2012 Sb. on Supported Energy Sources was to:

- bring the language of the act into accordance with Act No. 165/2012 Sb. on Supported Energy Sources.

Other Changes to Legislation in 2012

The following regulations were promulgated in 2012 that implement the above acts and/or implementing regulations:

- Decree No. 348/2012 Sb. of October 12, 2012 amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures

The reason for promulgating this decree was to change the method for setting prices to cover costs associated with supporting electricity generation from supported sources, decentralized electricity generation, and biomethane in conjunction with the new Act No. 165/2012 Sb. on Supported Energy Sources.

- Decree No. 59/2012 Sb. on regulatory reporting, dated February 22, 2012

This new decree stipulates the content and structure of regulatory reports including samples, depreciation rates for regulation purposes, rules for compiling regulatory reports, and deadlines for their submission. The decree repeals Decree No. 408/2009 Sb., which had treated regulatory reporting previously.
- Decree No. 445/2012 Sb. on details of granting licenses to do business in the energy sectors, dated December 6, 2012, amending Decree No. 426/2005 Sb. with the same name

The amendment was promulgated to implement Act No. 165/2012 Sb. on Supported Energy Sources.
- Decree No. 346/2012 Sb. on times and procedures for selecting form of support, procedures for registration of support with the market operator, times and procedures for selecting and changing regimes of the green bonus for electricity, and the time for offering electricity mandatorily to the purchaser (registration decree), dated October 12, 2012

This decree was promulgated in implementation of Act No. 165/2012 Sb. on Supported Energy Sources. It stipulates deadlines and procedures for selecting the form of support and procedures for registration of electricity support, operational support for heat, biomethane support, and support for decentralized electricity generation, as well as deadlines and procedures for selecting and changing regimes applying to the green bonus for electricity and the deadline by which producers of electricity from supported energy sources must offer the electricity to the mandatory buyer.
- Decree No. 438/2012 Sb. of December 6, 2012 amending Decree No. 541/2005 Sb., Electricity Market Rules
- Decree No. 439/2012 Sb. stipulating the manner of and times for accounting and paying for components of the prices of electricity transmission, gas conveyance, and distribution of electricity and gas for covering costs connected with support for electricity, distributed generation, and biomethane and implementing certain other provisions of the Act on Supported Energy Sources (clearing decree), dated December 6, 2012

This decree stipulates clearing procedures and deadlines in conjunction with the new Act on Supported Energy Sources.
- Decree No. 440/2012 Sb. on guarantees of origin of electricity from renewable sources of energy, dated December 5, 2012

This decree stipulates conditions for issuing guarantees of origin of electricity from renewable sources of energy.
- Decree No. 441/2012 Sb. stipulating the minimum efficiency of energy use in the generation of electricity and heat, dated December 5, 2012

This decree stipulates the minimum efficiency of energy use for new electricity and heat generation installations.
- Decree No. 347/2012 Sb. stipulating technical and economic parameters of renewable sources for generation of electricity and the useful lifetime of facilities for generating electricity from renewable sources, dated October 12, 2012

This decree was promulgated in implementation of Act No. 165/2012 Sb. on Supported Energy Sources. It replaces Decree No. 475/2005 Sb., which dealt with parameters and lifetime in the context of Act No. 180/2005 Sb. on Promotion of Electricity Produced from Renewable Sources.
- Decree No. 453/2012 Sb. on electricity from high-efficiency combined heat and power generation and electricity from secondary sources, dated December 13, 2012

This decree stipulates the procedure for determining the amount of electricity from high-efficiency combined heat and power generation and conditions for issuing certification of origin of electricity from secondary sources.
- Decree No. 476/2012 Sb. of December 19, 2012 amending Decree No. 82/2011 Sb. on electricity metering and on the method for determining damages in the event of unjustified use, unjustified supply, unjustified transmission, or unjustified distribution of electricity

This decree was promulgated in implementation of Act No. 165/2012 Sb. on Supported Energy Sources.
- Decree No. 477/2012 Sb. stipulating types and parameters of supported renewable sources, dated December 20, 2012

This decree stipulates the types and parameters of supported renewable sources, as well as procedures for storing documents concerning fuels used.
- Decree No. 478/2012 Sb. on reporting and keeping records on electricity and heat from supported sources and biomethane, the quantity and quality of actually acquired and used sources, and on the implementation of certain other provisions of the Act on Supported Energy Sources, dated December 20, 2012

This decree stipulates procedures for measuring and calculating the amount of electricity generated from renewable energy sources, as well as for reporting it, keeping records of and submitting measured electricity values, and the manner and procedure for commissioning electricity generation installations.
- Decree No. 388/2012 Sb. of November 23, 2012 amending Decree No. 79/2010 Sb. on power system dispatch management and handing-over of data for dispatch management

This decree was promulgated in implementation of Act No. 458/2000 Sb. (the Energy Act) and Act No. 165/2012 Sb. on Supported Energy Sources

The decree stipulates technical equipment requirements for electricity generation installations and the method for determining compensation for electricity not taken delivery of, at installations that generate electricity from renewable energy sources, in the course of dispatch management.

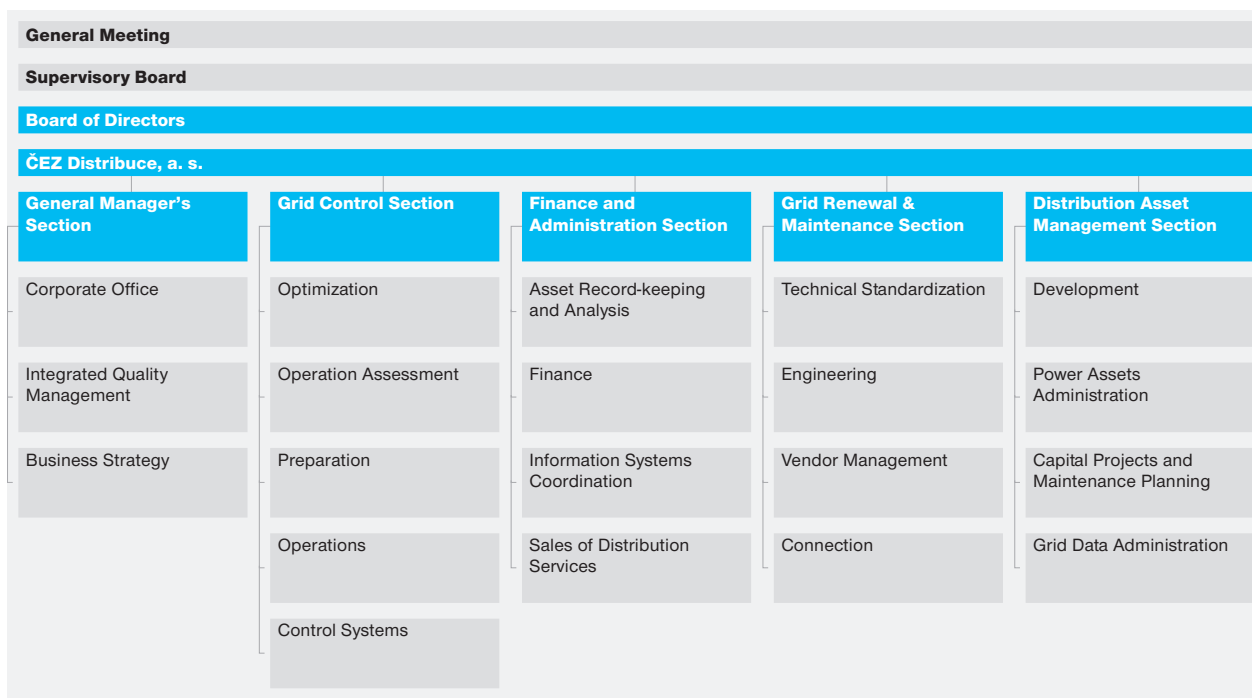
042

WE'RE MODERNIZING DISTRIBUTION PLANT AND EQUIPMENT

In addition to necessary upgrades of instrumentation, control, and power equipment, comprehensive rebuilds of substations also bring substantial increases in the reliability of electricity supplies. Distribution grid renewal and development is also a necessary part of dealing with requests for new and increased electricity connections.



Basic Organization Chart of ČEZ Distribuce, a. s. as at April 1, 2013



Glossary of Terms and Abbreviations

Glossary of Terms and Abbreviations

Term	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.
Distribution grid	A mutually interconnected set of 110 kV power lines and equipment – with the exception of selected 110 kV power lines and equipment that are part of the transmission grid – and 0.4/0.23 kV, 3 kV, 6 kV, 10 kV, 22 kV and 35 kV power lines and equipment that serves purposes of distributing electricity in a designated area of the Czech Republic, including metering, protective, control, security, information and telecommunications systems and technologies.
EBIT	Earnings Before Income Tax.
EBITDA	Earnings Before Income Tax, Depreciation, and Amortization.
EMS	Environmental Management System.
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.

Term	Commentary
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.
OTE (Operátor trhu s elektřinou)	Electricity Market Operator A State-established joint-stock company charged with organizing the Czech Republic electricity market, drawing up the reconciliation of agreed and actual amounts of electricity supplied and purchased by market participants, seeing to the settlement of deviations of actual supply amounts from contracted-for amounts, and organizing the electricity spot market.
Renewable sources of energy	Sources of energy that renew themselves naturally. These include hydro, geothermal, solar, and wind energy, as well as energy obtained from the combustion of biomass.
Retail customer	A type of electricity customer defined as a customer connected to the low-voltage grid (up to 1 kV). This category is further subdivided into residential and commercial.
ROA	Return On Assets.
ROE	Return On Equity.
ROIC	Return On Invested Capital.
SAIDI	System Average Interruption Duration Index. The aggregate total duration of all electricity distribution interruptions in the calendar year; expressed as minutes/year/customer.
Smart Grids	Power grids with integrated communication network enabling real-time regulation of electricity generation and consumption – both locally and grid-wide. The principal is one of interactive, bi-directional communication between power sources and appliances/consumers concerning the current states/capacities of electricity generation and consumption.
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
km	kilometer
kV	kilovolt, 1 kV = 10 ³ V, V = a unit of electrical potential (voltage)
MW	megawatt, 1 MW = 10 ⁶ W = 10 ³ kW, W = a unit of power (load)
MWh	megawatt-hour, 1 MWh = 10 ⁶ Wh = 10 ³ kWh, Wh = a unit of work (energy)
GWh	gigawatt-hour, 1 GWh = 10 ⁹ Wh = 10 ⁶ kWh, Wh = a unit of work (energy)

Method Used to Calculate Financial Indicators

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

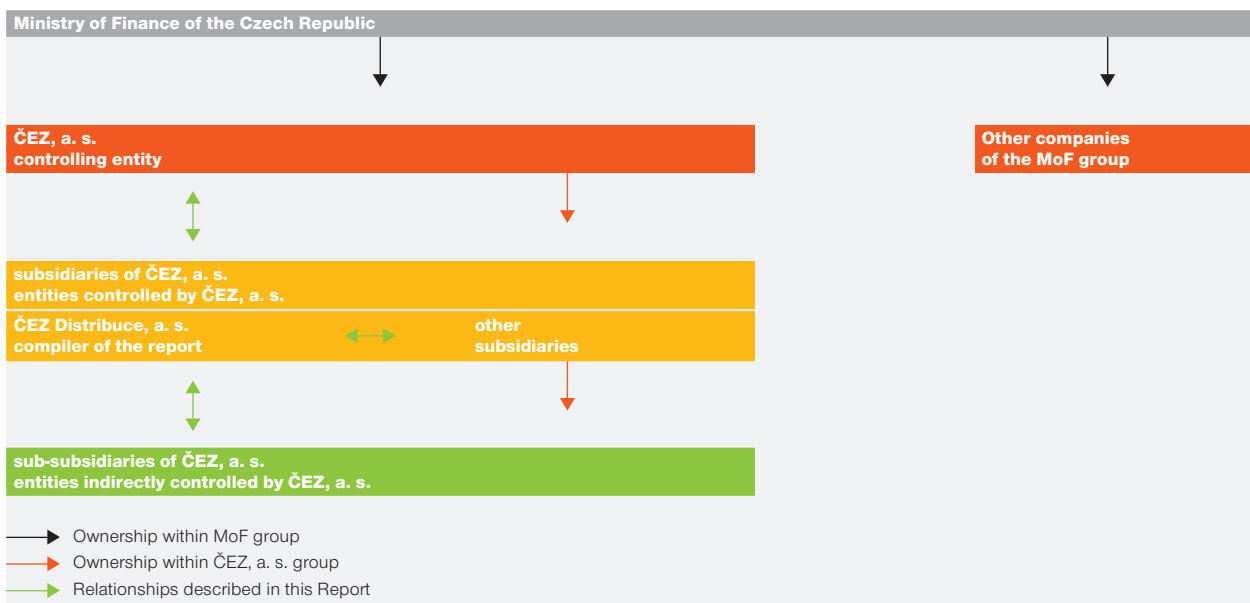
List of Tables and Graphs in the Annual Report

Tables Used	Page
Selected Economic Indicators	008
Selected Sector-Specific Indicators	009
Key Performance Indicators	026
Capital Expenditure	028
CAPEX Distribution	028
Distribution Grid Plant and Equipment	033
Analysis of Electricity Distribution (GWh)	033
Number of Connection Points	034
New Connections, Connection Capacity Increases	034
Hires and Terminations in 2012	037

Graphs Used	Page
Income Breakdown (CZK millions)	024
Structure of Assets (CZK millions)	025
Structure of Equity and Liabilities (CZK millions)	025
Cash Flows (CZK millions)	026
CAPEX Distribution	028
Total Duration of Electricity Supply Interruptions Per Customer (minutes)	032
Weekly Peak Loads (MW)	034

Related Parties Report for the Year 2012

1. Chart Showing Relationships Within the Group



2. Group Structure Chart

See separate insert under back cover flap.

3. Controlling Entity and Compiler of the 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 No.	452 74 649
Incorporated in Commercial Register maintained by	Municipal Court in Prague (part B, insert 1581)
Manner of control	The controlling entity, ČEZ, a. s., owns a 100% equity stake in ČEZ Distribuce, a. s.

Controlled Entity – Subject of Report

Company name	ČEZ Distribuce, a. s.
With its seat at (address)	Děčín, Děčín IV-Podmokly, Teplická 874/8, postcode 405 02
ID No.	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, 2012.

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. 3 L invest a.s.

One production support contract.

2. ČEZ, a. s.

13 contracts: one license agreement on granting of right to use trademark, one agreement on processing of personal data, one framework agreement on assignment of receivables within CEZ Group, one agreement on provision of services, one implementation agreement on joint action in the public tender "RS Renewal and Repair of MRC Control Systems", two lease agreements, two agreements on provision of distribution services, one agreement on location swap and provision of regulation services in supplies of electricity to a separate island, one framework agreement on location swap and provision of regulation services in supplies of electricity to a separate island, one framework agreement on accident response assistance, one agreement on provision of regulation services in supplies of electricity to a separate island, three amendments to an agreement on provision of services, three amendments to lease agreements.

3. ČEZ Distribuční služby, s.r.o.

6,742 contracts: one framework agreement on provision of services, two lease agreements, one agreement on provision of voltage regulation services, one framework agreement on assignment of receivables within CEZ Group, one agreement on provision of services, 6,466 service contracts, one amendment to a framework agreement, four amendments to lease agreements.

4. ČEZ Energo, s.r.o.

22 contracts: 21 agreements on generation support, one agreement on location and operation of a construction.

5. ČEZ Energetické služby, s.r.o.

16 contracts: one framework agreement on assignment of receivables within CEZ Group, one lease agreement, one agreement on use of water, one agreement on wastewater disposal, 11 agreements on implementation of construction projects, one agreement on establishment of a right in rem, and one amendment to a lease agreement.

6. ČEZ ICT Services, a. s.

49 contracts: one SLA on provision of ICT services, ten agreements to agree, one service agreement, 27 agreements for technical protection systems, one SLA for services, three lease agreements, six agreements on establishment of rights in rem, one agreement on payment for electricity, three amendments to lease agreements, one amendment to an agreement on maintenance of fiber-optic lines in CEFOCs, eight amendments to an agreement on provision of technical protection services, one amendment to an agreement on payment for electricity, and one amendment to a service agreement.

7. ČEZ Logistika, s.r.o.

7,845 contracts: one agreement on supply of goods and provision of services, one agreement on securing of emergency supplies, one framework agreement on assignment of receivables within CEZ Group, one agreement on provision of services, 7,676 agreements on supply of materials, 165 agreements on supply of services.

8. ČEZ Měření, s.r.o.

Four contracts: two agreements on provision of services, one framework agreement on assignment of receivables within CEZ Group, one lease agreement, three amendments to an agreement on provision of services, seven amendments to a lease.

9. ČEZ Obnovitelné zdroje, s.r.o.

31 contracts: one framework agreement on assignment of receivables within CEZ Group, four agreements on establishment of rights in rem, four purchase agreements (purchase and sale of movable and immovable property), 21 agreements on production assistance, and one amendment to a lease.

10. ČEZ OZ uzavřený investiční fond a.s.

One purchase agreement (purchase of immovable property).

11. ČEZ Prodej, s.r.o.

Six contracts: one agreement on supply of electricity to cover losses in the distribution grid, one agreement on supply of electricity for in-house consumption, two agreements on provision of services, one framework agreement on assignment of receivables within CEZ Group, one lease agreement, one amendment to an agreement on provision of services, one amendment to a lease agreement.

12. ČEZ Správa majetku, s.r.o.

133 contracts: two sub-lease agreements, one lease agreement, one agreement on confidentiality, one partial agreement on provision of printing and reprographic services, one partial agreement on provision of document archiving and shredding services, one partial agreement on securing work and providing services in inspection of electrical equipment, one partial agreement on full-service leasing, one partial agreement on fleet management, one partial agreement on lease of vehicles, one framework agreement on assignment of receivables within CEZ Group, one lease agreement, one partial agreement on provision of accounting services, one partial agreement on provision of personnel services, one agreement on provision of services, 116 agreements on establishment of rights in rem, nine amendments to a partial agreement on full-service leasing, one amendment to a partial agreement on fleet management, one amendment to a partial agreement on lease of vehicles, one amendment to a partial agreement on provision of printing and reprographic services, one amendment to a partial agreement on provision of document archiving and shredding services, two amendments to a sub-lease agreement, 13 amendments to a lease agreement.

13. ČEZ Teplárenská, a.s.

Three contracts: one framework agreement on assignment of receivables within CEZ Group, one agreement on establishment of right in rem, one lease agreement.

14. ČEZ Zákaznické služby, s.r.o.

Five contracts: one framework agreement on assignment of receivables within CEZ Group, two lease agreements, one agreement on provision of services, one agreement on confidentiality, one amendment to an agreement on provision of services, two amendments to a lease.

15. Elektrárna Chvaletice a.s.

One lease agreement.

16. Energotrans, a.s.

Six contracts: two lease agreements, four production assistance agreements.

17. MARTIA a.s.

433 agreements: one framework agreement on HCR, one framework agreement on HCR II, one framework agreement on Transmission Grid HCR, 430 service agreements for implementation of distribution grid projects and construction projects.

18. OSC, a.s.

Two contracts: one agreement on provision of consulting services, one service agreement for preparation of a study of the impact of distributed generation on ASI, preparation of a functional technical specification of modifications to production installations and the distribution grid necessary to implement an ASI in the Řeporyje nodal area.

19. SD - KOMES, a.s.

One purchase agreement (sale of a land parcel).

20. Severočeské doly a.s.

Four contracts: three agreements on establishment of rights in rem, one agreement on lease of non-residential premises.

21. SINIT,a.s.

30 contracts: 28 agreements on implementation of construction projects, one agreement on provision of services for dealing with grid faults and collaboration in inspection work, repairs, and servicing of equipment, MRC diagnostics in areas Moravia and East, one agreement on securing of repair and maintenance services for selected ARCS equipment in area Moravia, including preventive maintenance and equipment repairs.

22. Teplárna Trmice, a.s.

Three contracts: one agreement on establishment of right in rem, one agreement on supply of heat, and one agreement on production assistance.

23. Ústav jaderného výzkumu Řež a.s.

Two contracts: one agreement on establishment of a right in rem, one agreement on production assistance.

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

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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 2012 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 2012 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
HCR	hourly clearing rate
MoF	Ministry of Finance of the Czech Republic
MRC	mass remote control
SLA	service level agreement

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

8. Conclusion

The Report was compiled with due care, with maximum effort to ensure the disclosure of objective information obtained for the stipulated purpose of this Report, from available documents and materials, with the use of best efforts and with regard to the disclosure of all relevant circumstances that could otherwise influence an accurate and correct assessment of this Report.

The statutory body hereby states that the contracts entered into among related parties in the past accounting period did not cause any damage to ČEZ Distribuce, a. s. in the sense of Commercial Code, Section 66a(9).

The statutory body of ČEZ Distribuce, a. s. approved this Report on March 14, 2013.

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 14, 2013



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 2012, 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.

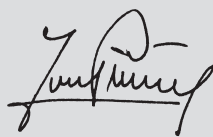
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2012, 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

ČEZ Distribuce, a. s.

Balance Sheet

as of December 31, 2012

(in CZK thousands)

	2012			2011
	Gross	Allowances	Net	Net
TOTAL ASSETS	254,168,261	(122,122,075)	132,046,186	130,905,981
Stock subscription receivable	0	0	0	0
Fixed assets	236,959,094	(121,730,630)	115,228,464	112,987,312
Intangible assets	455,149	(211,501)	243,648	217,467
Foundation and organization expenses	86	(60)	26	43
Research and development	5,646	(5,135)	511	1,313
Software	295,727	144,937	150,790	34,024
Patents, royalties and similar rights	41,099	(22,781)	18,318	20,827
Goodwill	0	0	0	0
Other intangible assets	110,058	(38,588)	71,470	54,653
Intangible assets in progress	2,114	0	2,114	106,607
Advances granted for intangible assets	419	0	419	0
Tangible assets	236,503,945	(121,519,129)	114,984,816	112,769,845
Land	713,122	0	713,122	666,341
Constructions	174,693,425	(88,708,866)	85,984,559	84,122,077
Separate movable items and groups of movable items	58,546,047	(32,753,680)	25,792,367	25,090,976
Perennial crops	0	0	0	0
Livestock	0	0	0	0
Other tangible assets	9,546	(3,109)	6,437	6,741
Tangible assets in progress	2,402,089	(53,474)	2,348,615	2,765,033
Advances granted for tangible assets	139,716	0	139,716	118,677
Gain or loss on revaluation of acquired property	0	0	0	0
Financial investments	0	0	0	0
Subsidiaries	0	0	0	0
Associates	0	0	0	0
Other long-term securities and interests	0	0	0	0
Loans to subsidiaries and associates	0	0	0	0
Other long-term investments	0	0	0	0
Long-term investments in progress	0	0	0	0
Advances granted for long-term investments	0	0	0	0
Current assets	17,165,230	(391,445)	16,773,785	17,908,758
Inventory	161,926	0	161,926	160,430
Materials	0	0	0	0
Work in progress and semi-finished production	161,926	0	161,926	160,430
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	229	0	229	245
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	229	0	229	245
Deferred tax asset	0	0	0	0
Short-term receivables	17,003,047	(391,445)	16,611,602	17,748,031
Trade receivables	2,107,650	(391,185)	1,716,465	1,793,226
Receivables from group companies with majority control	2,955,973	0	2,955,973	1,891,156
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	92,315	0	92,315	1,235,080
Short-term advances granted	384,628	0	384,628	591,242
Unbilled revenue	11,461,724	0	11,461,724	12,237,194
Other receivables	757	(260)	497	133
Short-term financial assets	28	0	28	52
Cash	28	0	28	52
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	43,937	0	43,937	9,911
Prepaid expenses	43,770	0	43,770	9,560
Prepaid expenses (specific-purpose expenses)	0	0	0	0
Unbilled revenue	167	0	167	351

(in CZK thousands)

	2012	2011
TOTAL EQUITY & LIABILITIES	132,046,186	130,905,981
Equity	86,165,457	86,359,578
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	776	617
Share premium (agio)	0	0
Other capital funds	776	617
Gain or loss on revaluation of assets and liabilities	0	0
Gain or loss on revaluation of company transformations	0	0
Gain or loss on company transformations	0	0
Gain or loss on revaluation upon 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	9,858,961	8,685,164
Retained earnings for the previous years	9,858,961	8,685,164
Accumulated loss of previous years	0	0
Profit (loss) for the year (+/-)	4,305,720	5,673,797
Liabilities	37,688,889	36,188,144
Provisions	318,848	1,703,409
Provisions created under special legislation	0	0
Provision for pensions and similar obligations	0	0
Provision for corporate income tax	90,093	1,462,444
Other provisions	228,755	240,965
Long-term liabilities	20,661,282	17,179,331
Trade payables	0	0
Liabilities to group companies with majority control	9,012,050	5,409,950
Liabilities to group companies with control of 20%-50%	0	0
Liabilities to partners, co-operative members and participants in association	0	0
Long-term advances received	0	0
Bonds payable	0	0
Long-term notes payable	0	0
Unbilled deliveries	0	0
Other liabilities	0	0
Deferred tax liability	11,649,232	11,769,381
Current liabilities	16,708,759	17,305,404
Trade payables	3,000,684	2,914,619
Liabilities to group companies with majority control	1,287,550	1,159,280
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	37,318	38,920
Liabilities arising from social security and health insurance	20,649	22,222
Due to government – taxes and subsidies	85,234	89,436
Short-term advances received	10,501,590	11,352,977
Bonds payable	0	0
Unbilled deliveries	1,760,923	1,713,055
Other liabilities	14,811	14,895
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	8,191,840	8,358,259
Accruals	1,408	196,866
Deferred income	8,190,432	8,161,393

ČEZ Distribuce, a. s. Statement of Income as of December 31, 2012

(in CZK thousands)

	2012	2011
Revenue from sale of goods	0	0
Cost of goods sold	0	0
Gross margin	0	0
Production	52,566,490	52,627,846
Revenue from sale of finished products and services	52,365,244	52,482,754
Change in inventory produced internally	1,496	(52,607)
Own work capitalized	199,750	197,699
Production related consumption	40,146,510	38,854,244
Consumption of material and energy	22,981,513	20,796,118
Services	17,164,997	18,058,126
Value added	12,419,980	13,773,602
Personnel expenses	1,014,883	985,952
Wages and salaries	678,616	676,811
Bonuses to members of company or cooperation bodies	2,057	2,136
Social security and health insurance	227,849	229,440
Other social costs	106,361	77,565
Taxes and charges	8,356	9,763
Amortization and depreciation of intangible and tangible fixed assets	6,322,945	6,141,485
Revenue from sale of intangible and tangible fixed assets and materials	46,932	68,679
Revenues from sale of intangible and tangible fixed assets	15,998	35,087
Revenue from sale of materials	30,934	33,592
Net book value of intangible and tangible fixed assets and materials sold	11,086	31,089
Net book value of intangible and tangible fixed assets sold	11,086	31,089
Materials sold	0	0
Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	82,810	75,397
Other operating revenues	1,109,529	1,135,426
Other operating expenses	397,121	387,678
Transfer of operating revenues	0	0
Transfer of operating expenses	0	0
Profit or loss on operating activities	5,739,240	7,346,343
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 provisions and allowances relating to financial activities	0	0
Interest income	9,289	13,849
Interest expense	470,800	399,679
Other finance income	0	0
Other finance cost	4,973	1,214
Transfer of finance income	0	0
Transfer of finance cost	0	0
Profit or loss on financial activities	(466,484)	(387,044)
Tax on profit or loss on ordinary activities	967,036	1,285,502
- due	1,087,185	1,467,394
- deferred	(120,149)	(181,892)
Profit or loss on ordinary activities after taxation	4,305,720	5,673,797
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 (+/-)	4,305,720	5,673,797
Profit or loss before taxation (+/-)	5,272,756	6,959,299

ČEZ Distribuce, a. s.

Statement of Cash Flows

as of December 31, 2012

(in CZK thousands)

	2012	2011
Cash and cash equivalents at beginning of year	52	31
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss on ordinary activities before taxation (+/-)	5,272,756	6,959,299
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	6,172,514	5,934,983
Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	6,335,455	6,147,678
Change in provisions and reserves	(619,540)	(594,527)
Change in provisions	95,020	64,817
Change in reserves	(12,210)	10,580
Change in accrued and deferred assets and liabilities	(702,350)	(669,924)
Gain/Loss on disposal of fixed assets	(4,912)	(3,998)
Interest expense and interest income	461,511	385,830
Interest expense	470,800	399,679
Interest income	(9,289)	(13,849)
Other non-cash movements	0	0
Income from dividends and profit sharing	0	0
Net cash from operating activities before taxation, changes in working capital and extraordinary items	11,445,270	12,894,282
Change in non-cash components of working capital	1,490,613	300,640
Change in trade receivables	685,642	(1,668,915)
Change in trade payables	806,467	1,914,337
Change in inventory	(1,496)	55,218
Net cash from operating activities before taxation, interest paid and extraordinary items	12,935,883	13,194,922
Interest paid	(666,986)	(203,493)
Interest received	9,289	13,849
Tax paid	(1,510,112)	(1,228,470)
Gains and losses on extraordinary items	0	0
Dividends received	0	0
Net cash provided by (used in) operating activities	10,768,074	11,776,808
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(8,951,617)	(10,088,218)
Proceeds from sale of fixed assets	17,966	30,098
Net cash provided by (used in) investing activities	(8,933,651)	(10,058,120)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in long-term liabilities and long-term, resp. short-term, loans	3,730,370	(386,435)
Change in receivables/payables related to group cashpooling	(1,064,817)	4,567,768
Effect of changes in equity on cash	0	0
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	(4,500,000)	(5,900,000)
Acquisition/sale of own shares	0	0
Net cash provided by (used in) financing activities	(1,834,447)	(1,718,667)
Net increase (decrease) in cash and cash equivalents	(24)	21
Cash and cash equivalents at end of year	28	52

ČEZ Distribuce, a. s.

Notes to the Financial Statements as of December 31, 2012

1. Description of the Company

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

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

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

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

The Company has no foreign branch.

Members of the statutory bodies as at 31 December 2012

Board of Directors		Supervisory Board	
Chair	Ing. Richard Vidlička, MBA	Chair	Ing. Tomáš Pleskač, MBA
Vice-chair	Ing. Petra Šárová	Vice-chair	Ing. Jaroslav Janda
Member	Ing. Karel Kohout	Member	Ing. Pavel Cyrani, MBA
Member	Ing. Pavel Filipi	Member	Karel Čech
Member	Ing. Radim Černý	Member	Irena Klůsová
		Member	Ing. Tomáš Čejka

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.

As at 31 December 2011, the positions of Ing. Jiří Kudrnáč and Ing. Milan Špatenka as ČEZ Distribuce, a. s.' Supervisory Board members expired, with effect from 1 January 2012.

On 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.

On 25 January 2012, the Board of Directors membership of Ing. Václav Purkar was terminated due to his sudden death.

On 21 February 2012, subject to the decision of the sole shareholder executing the powers of the general meeting, Ing. Karel Kohout was appointed the member of the Board of Directors of ČEZ Distribuce, a. s., with effect from 1 March 2012.

On 15 March 2012, the position of Ing. Jiří Koptík as Board of Directors member terminated based on the approval by the Board of Directors of his written request for removal.

On 24 May 2012, subject to the decision of the sole shareholder executing the powers of the general meeting, Ing. Radim Černý was appointed the member of the Board of Directors of ČEZ Distribuce, a. s., with effect from 1 June 2012.

The Company's organizational structure is as follows:

- CEO Office
- Network Management Division
- Finance & Administration Division
- Distribution Grid Renewal & Maintenance Division
- Distribution Assets Management Division.

2. Basis of Presentation of the Financial Statements

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2012 and 2011.

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 2012 and 2011 financial statements are as follows:

a) Intangible Fixed Assets

Intangible fixed assets are recorded at their acquisition cost and related expenses and are 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 as at 1 January 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 Company records an outstanding income tax liability, net of paid tax prepayments, in provisions. If income tax prepayments exceed the estimate of current income tax expense as at the balance sheet date, the difference will be recorded as a short-term receivable.

Deferred tax is recognized for all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognized when it becomes probable that the asset will be realized in the future.

k) Subsidy

In accordance with the government regulation No. 316/2011 Coll. dated 25 October 2011 and the Energy Regulatory Office notice dated 19 December 2011 and the government regulation No. 423/2010 Coll. 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.

l) Subsequent Events

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

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

4. Fixed Assets

a) Intangible Fixed Assets (in CZK thousands)

Cost

	At beginning of year	Additions	Disposals	Transfers	At end of year
Foundation and organization expenses	86	-	-	-	86
Research and development	5,646	-	-	-	5,646
Software	161,357	-	(4,283)	138,653	295,727
Patents, royalties and similar rights	41,558	-	(4,448)	3,989	41,099
Other intangibles	77,964	-	(150)	32,244	110,058
Intangibles in progress	106,607	70,393	-	(174,886)	2,114
Advances for intangibles	-	2,374	(1,955)	-	419
2012 Total	393,218	72,767	(10,836)	-	455,149
2011 Total	261,429	146,516	(14,727)	-	393,218

Accumulated Amortization

	At beginning of year	Amortization during year	Disposals	At end of year	Net book value
Foundation and organization expenses	(43)	(17)	-	(60)	26
Research and development	(4,333)	(802)	-	(5,135)	511
Software	(127,333)	(21,887)	4,283	(144,937)	150,790
Patents, royalties and similar rights	(20,731)	(6,498)	4,448	(22,781)	18,318
Other intangibles	(23,311)	(15,427)	150	(38,588)	71,470
Intangibles in progress	-	-	-	-	2,114
Advances for intangibles	-	-	-	-	419
2012 Total	(175,751)	(44,631)	8,881	(211,501)	243,648
2011 Total	(149,488)	(40,990)	14,727	(175,751)	217,467

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

As at 31 December 2012 and 2011, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 4,558 thousand and CZK 2,422 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	666,341	-	(101)	46,882	713,122
Constructions	169,354,088	-	(552,533)	5,891,870	174,693,425
Separate movable items	56,472,921	-	(880,756)	2,953,882	58,546,047
Art works and collections	347	-	-	-	347
Other tangibles	9,199	-	-	-	9,199
Tangibles in progress	2,818,507	8,483,354	(7,138)	(8,892,634)	2,402,089
Advances for tangibles	118,677	85,467	(64,428)	-	139,716
2012 Total	229,440,080	8,568,821	(1,504,956)	-	236,503,945
2011 Total	220,842,654	10,682,508	(2,085,082)	-	229,440,080

Accumulated Depreciation

	At beginning of year	Depreciation during year	Cost of sales	Disposals	Other movements	At end of year	Allowances	Net book value
Land	-	-	-	-	-	-	-	713,122
Constructions	(85,232,011)	(4,027,340)	(2,048)	552,533	-	(88,708,866)	-	85,984,559
Separate movable items	(31,381,945)	(2,250,670)	(1,799)	880,756	-	(32,753,658)	(22)	25,792,367
Art works and collections	-	-	-	-	-	-	-	347
Other tangibles	(2,805)	(304)	-	-	-	(3,109)	-	6,090
Tangibles in progress	-	-	-	-	-	-	(53,474)	2,348,615
Advances for tangibles	-	-	-	-	-	-	-	139,716
2012 Total	(116,616,761)	(6,278,314)	(3,847)	1,433,289	-	(121,465,633)	(53,496)	114,984,816
2011 Total	(111,949,110)	(6,100,494)	(3,961)	1,787,849	(351,045)	(116,616,761)	(53,474)	112,769,845

The total value of small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 25,086 thousand and CZK 24,152 thousand at acquisition cost as at 31 December 2012 and 2011, 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 2012 and 2011 (see Note 6).

As at 31 December 2012 and 2011, receivables overdue for more than 30 days totaled CZK 425,356 thousand and CZK 340,314 thousand, respectively.

Receivables from related parties (see Note 18).

Unbilled revenue represents, in particular, unbilled distribution services and the estimation of subsidy for the fourth quarter of 2012 for extra costs incurred in support of electricity from renewable sources.

Changes in unbilled distribution services were as follows in 2012 and 2011 (in CZK thousands)

Unbilled distribution services	Total	Retail business customers	Retail household customers
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
Changes in 2012	(374,850)	52,680	(427,530)
Closing balance as at 31/12/2012	10,840,594	3,837,077	7,003,517

Based on a comparison of the balance and controlling methods of unbilled electricity computation, a one-time adjustment of unbilled electricity in an amount of CZK 166,958 thousand and CZK 0 was recognized as revenue as at 31 December 2012 and 2011, respectively.

6. Allowances

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

Changes in the allowance accounts (in CZK thousands)

	Balance as at 31/12/2010	Additions	Deductions	Balance as at 31/12/2011	Additions	Deductions	Balance as at 31/12/2012
Allowances against							
fixed assets in progress	53,474	-	-	53,474	-	-	53,474
fixed assets	-	-	-	-	22	-	22
Receivables	231,630	119,453	(54,636)	296,447	185,459	(90,461)	391,445
of which:							
legal	132,094	50,572	(13,132)	169,534	66,776	(19,221)	217,089
accounting	99,536	68,881	(41,504)	126,913	118,683	(71,240)	174,356

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

7. Short-term Financial Assets

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

The balance of cash transferred to the parent company ČEZ, a. s., within the cash pooling system was CZK 2,955,973 thousand and CZK 1,891,156 thousand as at 31 December 2012 and 2011, 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 2012 and 2011.

8. Other Assets

Prepaid expenses include in particular a fee of CZK 32,426 thousand for arranging a loan and a payment of CZK 7,391 thousand for lease of land in Hladké Životice and are charged to income for the year in which they were incurred.

9. Equity

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

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

	Balance as at 31/12/2010	Increase	Decrease	Balance as at 31/12/2011	Increase	Decrease	Balance as at 31/12/2012
Number of shares	600	-	-	600	-	-	600
Basic capital	60,000,000	-	-	60,000,000	-	-	60,000,000
Other capital funds	617	-	-	617	159	-	776
Legal reserve fund	12,000,000	-	-	12,000,000	-	-	12,000,000
Retained earnings	10,542,258	-	(1,857,094)	8,685,164	1,173,797	-	9,858,961

The Annual General Meetings held on 13 June 2012 and 20 June 2011 approved the following profit distribution for 2011 and 2010 (in CZK thousands):

Profit for 2010	4,042,906	Profit for 2011	5,673,797
Dividend distribution	(4,042,906)	Dividend distribution	(4,500,000)
Undistributed profits added to retained earnings	-	Undistributed profits added to retained earnings	1,173,797
Retained earnings as at 31/12/2010	10,542,258	Retained earnings as at 31/12/2011	8,685,164
Dividend distribution	(1,857,094)	Dividend distribution	-
Retained earnings as at 31/12/2011	8,685,164	Retained earnings as at 31/12/2012	9,858,961

10. Provisions

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

Provisions	Balance as at 31/12/2010	Additions	Deductions	Balance as at 31/12/2011	Additions	Deductions	Balance as at 31/12/2012
Provision for income tax	1,148,800	1,462,444	(1,148,800)	1,462,444	90,093	(1,462,444)	90,093
Other provisions	230,385	19,107	(8,527)	240,965	26,602	(38,812)	228,755

As at 31 December 2012, the provision for corporate income tax was offset against paid prepayments and the resulting liability is recorded in the caption "Provision for income tax". As at 31 December 2011, no offset between the paid prepayments and the income tax provision was done.

In 2012 and 2011, other provisions in the amount of CZK 228,755 thousand and CZK 206,703 thousand, respectively were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement. In 2011, in addition to provision for employee benefits and bonuses, other provisions included a provision for organizational changes planned in 2012.

11. Long-term Liabilities

As at 31 December 2012 and 2011, the Company had the following long-term liabilities (in CZK thousands):

	Due date	31/12/2012	31/12/2011
1st credit line	27/12/2019	3,571,400	4,336,700
2nd credit line	27/12/2019	1,838,550	2,232,525
3rd credit line	07/06/2022	4,889,650	-
Total		10,299,600	6,569,225
Current portion		(1,287,550)	(1,159,275)
Long-term portion		9,012,050	5,409,950

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

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

A contract for 3rd credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 7 June 2012. The loan was withdrawn on 11 June 2012 and is repayable by 7 June 2022. The interest rate has been set at 3.91% p.a. All the loans were provided to finance the implementation of the Project of reconstruction and development of the power grid in the Czech Republic (the "Project").

The interest expense relating to loans for 2012 and 2011 was CZK 470,800 thousand and CZK 399,679 thousand, respectively.

The aggregate maturities of loans in CZK thousands are as follows:

	Loans
2013	1,287,550
2014	1,287,550
2015	1,287,550
2016 and thereafter	6,436,950
Total	10,299,600

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 2012 and 2011.

12. Current Liabilities

As at 31 December 2012 and 2011, the Company had overdue current payables for more than 30 days totaling CZK 1,656 thousand and CZK 1,723 thousand, respectively.

As at 31 December 2012 and 2011, the Company had liabilities of CZK 20,649 thousand and CZK 22,222 thousand, respectively owing to social security and health insurance premiums.

As at 31 December 2012 and 2011, short-term advances are CZK 10,501,590 thousand and CZK 11,352,977 thousand, respectively and relate in particular to unbilled distribution services.

Unbilled deliveries represent, in particular, unbilled services related to electricity distribution, unbilled deliveries of electricity purchased to cover power grid losses and unpaid vacation claims for 2012.

Payables to related parties (see Note 18).

13. Other Liabilities

Accruals as at 31 December 2012 and 2011 include 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 2012 and 2011 (in CZK thousands)

Balance as at 1/1/2011	8,269,538
Additions in 2011	562,594
Released to revenues in 2011	(670,739)
Balance as at 31/12/2011	8,161,393
Additions in 2012	731,389
Released to revenues in 2012	(702,350)
Balance as at 31/12/2012	8,190,432

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

	2012 (in CZK thousands)	2011 (in CZK thousands)
Profit before taxes	5,272,756	6,959,299
Difference between book and tax depreciation	317,109	541,177
Difference between net book value of fixed assets for accounting and tax purposes	86,624	55,603
Non-deductible expenses		
Creation/release of provisions	(12,210)	10,580
Creation/release of allowances	47,465	27,377
Expenses relating to previous tax period	(42,523)	59,170
Other	34,522	44,997
Taxable income	5,703,743	7,698,203
Current income tax rate	19%	19%
Tax	1,083,711	1,462,658
Tax allowance	(211)	(214)
Provision for income tax	1,083,500	1,462,444
Adjustment of the tax paid in previous years	3,685	4,950
Current tax expense	1,087,185	1,467,394

The calculation of the 2012 and 2011 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	31/12/2012		31/12/2011	
	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	-	(11,742,803)	-	(11,855,979)
Other temporary differences:				
Allowance against receivables	33,128	-	24,116	-
Provisions	43,463	-	45,783	-
Other	17,097	(117)	16,699	-
Total	93,688	(11,742,920)	86,598	(11,855,979)
Net		(11,649,232)		(11,769,381)

15. Commitments and Contingencies

The Company has effected the following types of insurance:

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

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

As at 31 December 2012 and 2011, the Company had concluded contracts for future supplies of fixed assets (capital expenditures and repairs) in the amount of approx. CZK 4,137,725 thousand and CZK 5,457,370 thousand, respectively. As at 31 December 2012 and 2011, an amount of contractual liabilities for next years comprises a contractual fee totaling CZK 3,892,499 thousand and CZK 5,190,620 thousand, respectively for investments, CZK 161,392 thousand and CZK 189,178 thousand, respectively for repairs and CZK 83,834 thousand and CZK 77,572 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)

	2012	2011
Use of grids	36,751,683	34,945,607
Provided reserved capacity	8,326,472	8,532,931
Provision of system services	5,032,398	5,410,381
Subsidy for extra costs incurred in support of electricity from renewable sources	1,691,254	3,183,491
Other energy services	324,419	169,432
Other non-energy services	239,018	240,912
Total revenues	52,365,244	52,482,754

In 2012 and 2011, the revenues of the Company comprised primarily sales from the provision of distribution network services to customers and electricity producers and traders. The prices for services related to providing of distribution network are subject to price regulations of the Energy Regulatory Office and were determined by the Energy Regulatory Office's price decision for 2012 and 2011, respectively.

The revenues were realized in the Czech Republic.

17. Personnel and Related Expenses

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

	2012		2011	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	1,197	25	1,227	25
Wages and salaries	678,616	49,635	676,811	49,865
Bonuses to members of statutory bodies	2,057	–	2,136	–
Social security and health insurance	227,849	11,637	229,440	13,806
Social cost	106,361	3,456	77,565	3,084
Total personnel expenses	1,014,883	64,728	985,952	66,754

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 2012 and 2011 and they do not hold any shares of the Company.

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

Due to the merger by consolidation and the transfer of net assets to ČEZ OZ uzavřený investiční fond a.s., the 12 companies listed below ceased to exist – in 2012, the relationships with the ceased companies for 2011 are reported as relationships with ČEZ OZ uzavřený investiční fond a.s.

The following companies ceased to exist due to the merger: 3 L invest a.s., AREA-GROUP CL a.s., Bioplyn technologie s.r.o., Bohemian Development, a.s., DOMICA FPI s.r.o., eEnergy Hodonín a.s., eEnergy Ralsko - Kuřívody a.s., eEnergy Ralsko a.s., FVE Buštěhrad a.s., FVE Vranovská Ves a.s., GENTLEY a.s. and KEFARIUM, a.s.

As at 31 December 2012 and 2011, advances granted to related parties were CZK 290 thousand and CZK 232,197 thousand, respectively.

As at 31 December 2012 and 2011, receivables from group companies with majority control in the amount of CZK 2,955,973 thousand and CZK 1,891,156 thousand, respectively represent the balance of cash in the cash pooling system (see Note 7).

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

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

In 2012 and 2011, sales were as follows (in CZK thousands):

Related party	2012	2011
ČEZ Prodej, s.r.o.	28,150,103	29,870,292
Severočeské doly a.s.	333,055	329,534
ČEZ, a. s.	115,991	144,989
ČEZ ICT Services, a. s.	79,622	79,443
ČEZ Distribuční služby, s.r.o.	32,003	38,515
Teplárna Trmice, a.s.	4,373	3,817
Ústav jaderného výzkumu Řež a.s.	7,909	7,402
ČEZ Měření, s.r.o.	2,717	1,871
ČEZ Zákaznické služby, s.r.o.	1,833	1,598
ČEZ Logistika, s.r.o.	276	1,075
ČEZ Správa majetku, s.r.o.	800	828
Elektrárna Chvaletice a.s.	-	(614)
ČEZ Obnovitelné zdroje, s.r.o.	1,506	987
ČEZ Energetické služby, s.r.o.	470	511
Bioplyn technologie s.r.o.	-	5
MARTIA a.s.	393	68
3 L invest a.s.	-	343
AREA-GROUP CL a.s.	-	117
ČEZ OZ uzavřený investiční fond a.s.	100	-
ČEZ Energo, s.r.o.	547	397
Energotrans, a.s.	52	-
ČEZ Teplárenská, a.s.	-	1
Total	28,731,750	30,481,179

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

Related party	2012	2011
ČEZ Prodej, s.r.o.	9,528,326	10,690,128
ČEZ, a. s.	21,981	24,190
Severočeské doly a.s.	22,656	23,642
ČEZ ICT Services, a. s.	8,041	65,945
ČEZ Distribuční služby, s.r.o.	89,242	104,773
Teplárna Trmice, a.s.	493	273
Elektrárna Chvaletice a.s.	-	-
ČEZ Správa majetku, s.r.o.	351	87
ČEZ Měření, s.r.o.	49,566	66,106
ČEZ Zákaznické služby, s.r.o.	30,726	41,765
Ústav jaderného výzkumu Řež a.s.	557	469
ČEZ Energetické služby, s.r.o.	43	45
ČEZ Obnovitelné zdroje, s.r.o.	31	58
ČEZ Logistika, s.r.o.	24	1,173
ČEZ Energo, s.r.o.	50	49
MARTIA a.s.	39	-
Energotrans, a.s.	29	-
Total	9,752,155	11,018,703

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2012 and 2011 were as follows (in CZK thousands):

Related party	2012	2011
ČEZ Distribuční služby, s.r.o.	4,294,663	4,421,270
ČEZ Logistika, s.r.o.	2,916,888	3,039,049
ČEZ Prodej, s.r.o.	3,063,805	2,346,182
ČEZ Měření, s.r.o.	1,892,396	1,897,392
ČEZ ICT Services, a. s.	1,112,407	1,234,865
ČEZ Zákaznické služby, s.r.o.	551,413	637,715
ČEZ, a. s.	381,996	604,500
ČEZ Obnovitelné zdroje, s.r.o.	245,577	222,769
ČEZ Správa majetku, s.r.o.	217,599	224,277
ČEZ Energetické služby, s.r.o.	14,299	41,285
Teplárna Trmice, a.s.	62,311	40,101
MARTIA a.s.	28,759	11,296
Ústav jaderného výzkumu Řež a.s.	1,536	2,307
Elektrárna Chvaletice a.s.	817	817
AREA-GROUP CL a.s.	-	210,900
3 L invest a.s.	-	478,530
ČEZ OZ uzavřený investiční fond a.s.	701,200	-
SD - KOMES, a.s.	30	-
ČEZ Energo, s.r.o.	32,582	26,557
Energotrans, a.s.	21,649	-
ČEZ Teplárenská, a.s.	1,280	19
Severočeské doly a.s.	15	5
CITELUM, a.s.	2,167	1,009
OSC, a.s.	560	598
SINIT,a.s.	9,164	2,210
Total	15,553,113	15,443,653

As at 31 December 2012 and 2011, advances received from related parties were CZK 9,406,935 thousand and CZK 10,379,525 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 were as follows (in CZK thousands):

Related party	2012	2011
ČEZ Distribuční služby, s.r.o.	536,363	592,572
ČEZ Prodej, s.r.o.	1,008,992	419,130
ČEZ ICT Services, a. s.	213,119	134,551
ČEZ Logistika, s.r.o.	252,672	189,056
ČEZ Měření, s.r.o.	210,208	212,454
ČEZ, a. s.	74,777	115,511
ČEZ Zákaznické služby, s.r.o.	60,578	66,247
ČEZ Správa majetku, s.r.o.	24,058	24,026
ČEZ Obnovitelné zdroje, s.r.o.	25,877	32,561
Teplárna Trmice, a.s.	20,970	12,276
MARTIA a.s.	1,855	554
Ústav jaderného výzkumu Řež a.s.	122	366
Elektrárna Chvaletice a.s.	82	82
ČEZ Energetické služby, s.r.o.	603	9,839
3 L invest a.s.	-	19,674
AREA-GROUP CL a.s.	-	8,848
ČEZ Energo, s.r.o.	7,348	6,825
Energotrans, a.s.	13,189	-
ČEZ Teplárenská, a.s.	142	2
Severočeské doly a.s.	2	2
CITELUM, a.s.	37	582
OSC, a.s.	482	718
SINIT,a.s.	2,557	913
Total	2,454,033	1,846,789

19. Other Operating Expenses and Revenues

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.

072

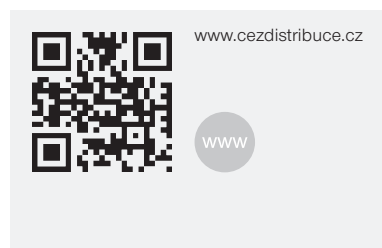
ČEZ Distribuce, a. s.
Teplická 874/8
405 02 Děčín IV-Podmokly
Czech Republic

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 2012 Annual Report: April 27, 2013



Group Structure Chart
Alphabetical List of Companies – Group Members

