



YO UR EN ER GY

ČEZ Distribuce, a. s. Annual Report 2013

TH

ANKKY

OU

We thank all our customers and employees for the energy we share with them; for the energy they put into all their activities, vocations, and hobbies, by which they change and create the world around us; for their positive comments confirming that we are on the right course, and for their constructive criticism, which never lets us fall behind the times and which inspires us to innovate and perform better; for the warmth of their homes that makes us go to work each day and light up hundreds of thousands of Czech households so that peace and comfort prevail there; we thank the cooks and the bakers, drivers, technicians, and builders who, like everyone else, every day put their energy into making our world work; we thank the model builders, collectors, fans, and all the others who so enthusiastically build their own small universes that, together, make up the colorful spectrum of human joys; we thank the writers, musicians, sculptors, directors, painters, and architects for the beauty they create and share with us; we thank the philosophers, scientists, teachers, and everyone who strives to ensure every way has its goal... We thank everyone whose energy powers this land and its people.

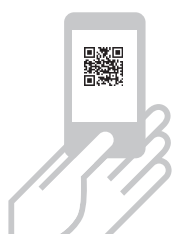
I am 43 years old 43


My name is Adam AN Novotný

I am an editor

Contents

Information on Persons Responsible for the Annual Report	3
Independent Auditor's Report	4
Introduction by the Chairman of the Board of Directors	7
Selected Indicators	8
Important Events of 2013 and 2014 Up to Annual Report Closing Date	10
Directors and Officers	14
Report on Operations	22
Financial Performance	22
Commercial and Financial Outlook for 2014	25
Capital Expenditure	26
Information on the Company's Core Business	30
Safety and Quality Management, Environmental Protection	33
Shares and Shareholders	34
Human Resources	35
Research and Development	36
Donorship and Sponsorship Program	37
Development of the Legislative Framework	38
<hr/>	
Basic Organization Chart of ČEZ Distribuce, a. s. as at April 1, 2014	42
Glossary of Terms and Abbreviations	43
List of Tables and Graphs in the Annual Report	45
<hr/>	
Related Parties Report for the Year 2013	46
Chart Showing Relationships Within the Group	46
Group Structure Chart	separate insert under back cover flap
Controlling Entity and Compiler of the Related Parties Report	46
Alphabetical List of Companies – Group Members	separate insert under back cover flap
Contractual Relationships	47
Other Relationships	49
Other Information	50
Conclusion	50
<hr/>	
Independent Auditor's Report on the Financial Statements of ČEZ Distribuce, a. s.	51
Financial Statements of ČEZ Distribuce, a. s. as at December 31, 2013	52
Balance Sheet	52
Statement of Income	54
Statement of Cash Flows	55
Notes to the Financial Statements	56
<hr/>	
Identification of ČEZ Distribuce, a. s.	68



The 2013 Annual Report of ČEZ Distribuce, a. s. contains QR codes that link to the specific web pages  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 2013 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, 2014



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 2013 presented in the Annual report of the Company on pages 51–67 and our audit report dated 31 January 2014 stated the following:

We have audited the accompanying financial statements of ČEZ Distribuce, a. s., which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of ČEZ Distribuce, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s., as at 31 December 2013, 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 1–45 is consistent with that contained in the audited financial statements as at 31 December 2013. 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 2013 presented in the Annual report of the Company on pages 46–50. 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 2013 is materially misstated.

A handwritten signature in black ink, appearing to read 'Ernst & Young', written in a cursive style.

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

A handwritten signature in black ink, appearing to read 'Martin Skácelík', written in a cursive style.

Martin Skácelík
Auditor, License No. 2119

April 24, 2014
Prague, Czech Republic

A professional portrait of Richard Vidlička, a middle-aged man with a beard, wearing a dark pinstriped suit, a blue and white striped shirt, and a red tie with small blue dots. He is standing in front of a large window, looking directly at the camera with a slight smile. His hands are clasped in front of him, and he is wearing a watch on his left wrist.

Introduction by the Chairman
of the Board of Directors

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

Ladies and gentlemen,

ČEZ Distribution achieved all its plan objectives in 2013, and even surpassed them in certain parameters. The company's net income reached CZK 6,876 million and we exceeded our EBITDA target by 4%.

Thanks to our continual drive to make our operations more efficient and reduce transaction costs, we are seeing growth in the added value we create. In 2013, we added over 12,000 new connection points to the grid, as well as nearly 4,000 new generation installations.

By steadily rolling out new technologies, we are able to integrate more decentralized power sources into the grid without any impact on the quality of electricity supplies to existing customers. We are carefully following developments in the "smart solutions" field, vetting the functionality of individual solutions in a safe manner, and evaluating the benefits for our customers with the objective of further improving the safety and reliability of ČEZ Distribuce's distribution system. One of these initiatives is the smart grids pilot project in the Vrchlabí area – a project of major significance, monitored by the European Commission. Thanks to the professionalism and skill of our employees, this project has been deemed one of the most successful. Another major milestone last year was the commissioning of a new dispatch that unified control of our distribution system. Once again last year, our CAPEX program went forward with the aim of upgrading and increasing the capacity of the distribution grid and creating conditions for further economic growth in the Czech Republic.

Providing reliable services and giving customers flexibility in connecting to the grid will continue to be our priorities in the years to come. Important from this perspective was the completion of several major CAPEX projects: the 110 kV Bezděčín – Šimonovice power line, the overhaul of the TR Řeporyje 110 kV nodal substation, and the construction of a new transformer station in Holýšov.

Traditionally, the company has placed great emphasis on power grid operational safety, corporate social responsibility, and environmental protection. Therefore, at ČEZ Distribuce, a. s. safety and environmental management is an active, integral part of the core process of electricity distribution. In the occupational safety area we complied with the conditions of the Safe Enterprise program, in which we are certified. In the environmental protection field, the company defended its EMS ISO 14001 certificate, and the results of a supervisory audit reaffirmed the company's preparedness to respond, not just to the demands of environmental protection legislation, but also to extraordinary events in the form of natural and environmental disasters. Allow me on behalf of the Board of Directors of ČEZ Distribuce, a. s. to thank the company's employees for their work in the past year and our business partners for their cooperation and sense of fair play. I firmly believe that honest work, high performance, and good cooperation are key factors in the future development of our company.



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

Selected Indicators

Selected Economic Indicators

	Units	2011	2012	2013
Work force head count at December 31	persons	1,213	1,191	1,208
Revenues from sale of finished products and services	CZK millions	52,483	52,365	57,063
of which: revenues from sales of electricity distribution	CZK millions	52,242	52,126	56,839
EBITDA	CZK millions	13,488	12,062	15,487
EBIT	CZK millions	7,346	5,739	8,948
Net income	CZK millions	5,674	4,306	6,876
Total assets	CZK millions	130,906	132,046	139,368
Equity	CZK millions	86,360	86,165	90,042
Net debt	CZK millions	16,447	18,993	13,034
Total debt/Total capital	%	19.73	22.75	20.77
Capital expenditures (CAPEX)	CZK millions	10,224	8,594	7,879
Net cash provided by operating activities	CZK millions	11,777	10,768	16,694

Selected Sector-Specific Indicators

	Units	2011	2012	2013
Supply area	km ²	52,001	52,001	52,001
Number of connection points	number	3,556,514	3,566,175	3,575,188
of which: HV, MV – large end-customers	number	14,482	14,593	14,682
LV – retail-commercial	number	451,107	450,114	443,071
LV – retail-residential	number	3,090,925	3,101,468	3,117,435
Peak load	MW	5,727	6,159	5,583
Grid extended length	km	158,267	159,456	160,915
of which: HV	km	9,720	9,745	9,782
MV	km	49,908	50,217	50,483
LV	km	98,639	99,494	100,650
MV/LV transformer stations	number	56,710	57,423	57,510
of which: owned by the company	number	43,332	43,956	44,547
owned by others	number	13,378	13,467	12,963
HV/HV, HV/MV transformer stations	number	231	233	238

Important Events of 2013 and 2014 Up to Annual Report Closing Date

Important Events of 2013

January

- Act No. 165/2012 Sb. on Supported Energy Sources and amending certain acts takes effect; under this act, support for generation from renewable sources passes from ČEZ Distribuce, a. s. to OTE, a.s.

February

- The Energy Regulatory Office carries out an on-site inspection at ČEZ Distribuce, a. s. – focusing on the company's compliance with rules set forth in Decree No. 540/2005 Sb. on the Quality of Electricity Supplies and Related Services in the Electrical Power Industry – with a positive result.

April

- company executives meet with employees of ČEZ Distribuce, a. s. at various work sites
- construction completed on Slaný, Kladno 110/22 kV transformer station.

May

- ČEZ Distribuce, a. s. takes over from ČEZ Měření, s.r.o. activities relating to metering management and data analysis, and settlement of identified unauthorized electricity use.

June

- HV 110 kV power line Paskov Hrabová – City of Ostrava completed
- on June 4, 2013 at 2:00 p.m. a state of emergency is declared for the Mělník district in the Central Bohemia region and in the Litoměřice, Ústí nad Labem, and Děčín districts in the Ústí region, due to flooding of portions of the distribution grid.

July

- implementation completed of a unified dispatch system for distribution grid management that replaces the five existing, disparate dispatch systems.

August

- on August 5, 2013 at 6:00 a.m. a state of emergency is declared in the Central Bohemia and Pardubice regions and in the Havlíčkův Brod district, due to a large number of faults on medium- and low-voltage equipment following storms that took place during the previous night; the state of emergency was called off on August 6, 2013 at 2:00 p.m.

September

- construction completed on new Jablonec South 110/22 kV transformer station
- on September 4, 2013, ČEZ Distribuce, a. s. takes part in "Restart 2013", a training exercise simulating a state of emergency and a local, extensive power outage in the Czech Power System, alongside all components of the Czech Republic's Integrated Rescue System.

October

- based on the results of the second oversight audit conducted by the accredited company CQS Praha, ČEZ Distribuce, a. s. defends its certificate of compliance with ISO 14001 – Environmental Management System.

November

- Governor of the Ústí Region officially expresses appreciation for the activities of ČEZ Distribuce, a. s. during the June floods.

December

- December 14, 2013 sees the completion and commissioning of a strategic project, the Bezděčín – Šimonovice 110 kV power line, enabling customers in portions of the Liberec and Frýdlant areas to be connected to the grid
- on December 18, 2013, Tomáš Čejka resigns as member of the Supervisory Board of ČEZ Distribuce, a. s.

Important Events of 2014 Up to Annual Report Closing Date

January

- January 15, 2014 sees groundbreaking on a strategic project: renovation of Albrechtice 110 kV substation.

February

- on February 11, 2014, ČEZ Distribuce, a. s. obtained the necessary certificate for access to and manipulation of classified information at the level of "confidential"
- company executives meet with employees of ČEZ Distribuce, a. s. at work sites in the Moravia region.





37
BK
artist

Energy is imaginative

Just one scale, or one figure, is never enough.
Your imagination transforms itself into the energy of colors and forms.
You create a work that has the power to thrill others.



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 exercises its powers and how the Company is run. The Supervisory Board has six members, four of whom are elected and removed by the General Meeting and two are elected by the employees in accordance with the company's Articles of Association, 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., Vice Chairman of the Board of Directors of Akenerji Elektrik Üretim A.S., and a member of the Board of Directors of Akcez Enerji 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 Domestic Equity Holdings Administration Department of ČEZ, a. s.

He is Chairman of the Supervisory Boards of PPC Úžín, a.s. and ČEZ Zákaznické služby, 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., a member of the Supervisory Board of Severočeské doly a.s., and Chairman of the Supervisory Board of ČEZ Nová energetika, 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.

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.

Members of the Board of Directors

47

RV

Chairman of the Board of Directors
and General Manager

Richard Vidlička



46
PŠ

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

Petra Šárová



39
RČ

Member of the Board
of Directors and Director,
Distribution Asset
Management Section

Radim Černý



Pavel Filipi



Karel Kohout

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 of Members of the Board of Directors and Supervisory Board

Remuneration of members of the company's Board of Directors and Supervisory Board for their work in these bodies is carried out on the basis of membership contracts approved by a decision of the sole shareholder acting with the powers of the General Meeting. In 2013, the company did not provide members of the Board of Directors or Supervisory Board any loans, nor did it provide any guarantees, collateral, or consideration on their behalf.

Remuneration of Company Executives

Remuneration of company employees who are also members of the Board of Directors, including conditional tasks and criteria, was approved by a decision of the sole shareholder acting with the powers of the General Meeting. The same applies to the General Manager's tasks linked to the incentive system, which in accordance with the unbundling rules is dependent exclusively on the company's results. Tasks are evaluated annually and also approved by a decision of the sole shareholder acting with the powers of the General Meeting.



52
MH
archeologist

31
VŽ
floorball player



Boundless energy

You discover the principles by which the world around you operates. You pose questions and, with the boundless energy of your own curiosity, you want to know all the answers.

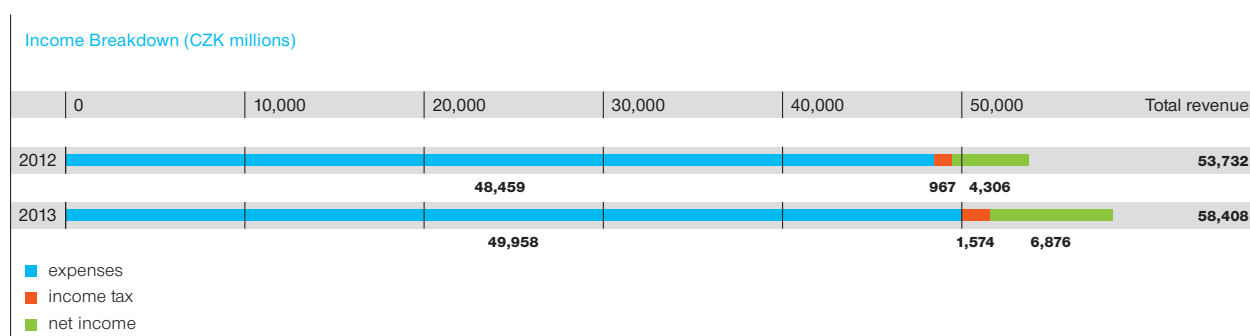
Report on Operations

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, and Income



In 2013, the company's pre-tax income totaled CZK 8,450 million. The net income was CZK 6,876 million, which in comparison with 2012 represents a CZK 2,570 million increase.

The operating result was CZK 8,948 million, up CZK 3,209 million from 2012's figure, particularly on a CZK 3,273 million increase in the gross margin on electricity distribution.

The financial result was a loss of CZK 498 million, which is attributable to interest on borrowings. This loss is CZK 32 million higher than it was in 2012.

Expenses, net of income tax, totaled CZK 49,958 million in 2013, up CZK 1,499 million from the previous year. The biggest expense components were: purchasing of system and distribution services, support for renewable sources, and purchasing of electric power to cover losses (CZK 33,263 million; up CZK 1,440 million from the previous year); other production-related consumption (CZK 8,196 million); amortization and depreciation of intangible and tangible fixed assets (CZK 6,539 million); personnel expenses (CZK 1,017 million); other operating expenses (CZK 441 million); and financing expenses (CZK 502 million). Revenues totaled CZK 58,408 million in 2013 and consisted of revenues from sales of system and distribution services, including related components (CZK 56,839 million); other sales and service revenues (CZK 1,565 million); and financing revenues (CZK 4 million). Compared to 2012, total revenues were up CZK 4,676 million overall, which can be attributed to a CZK 4,713 million increase in electricity distribution revenues.

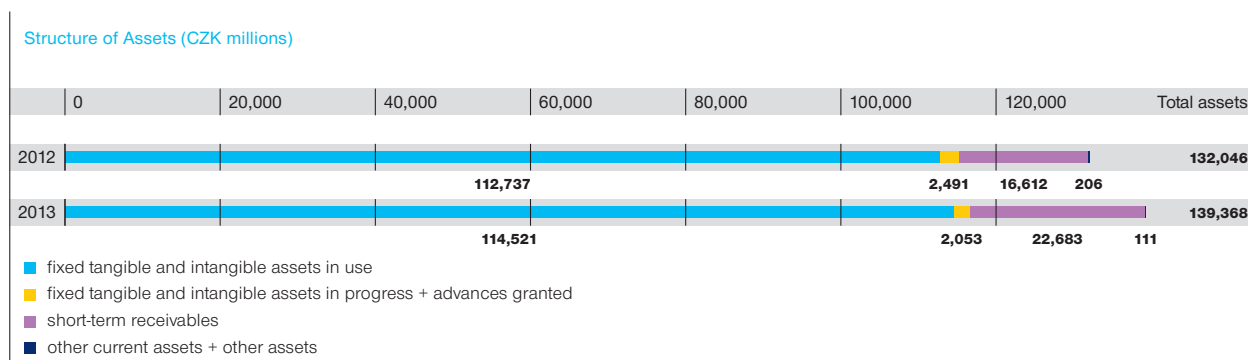
Structure of Assets and Capital

Assets

Total assets reached CZK 139,368 million, up CZK 7,322 million from 2012.

Fixed assets totaled CZK 116,574 million, an increase of CZK 1,346 million compared to 2012. The largest components in fixed assets were constructions (CZK 87,221 million), separate movable items (CZK 26,293 million), tangible assets in progress (CZK 1,896 million), land (CZK 734 million), and intangible assets (CZK 271 million).

Current assets were up CZK 5,986 million in 2013, reaching CZK 22,760 million. The items with the highest values comprised unbilled revenue (CZK 12,358 million, mainly from services related to electricity distribution), amounts owed by the controlling entity relating to Group cash pooling (CZK 7,535 million), short-term trade receivables (CZK 2,212 million), short-term advances granted (CZK 577 million), and work in progress (CZK 77 million).

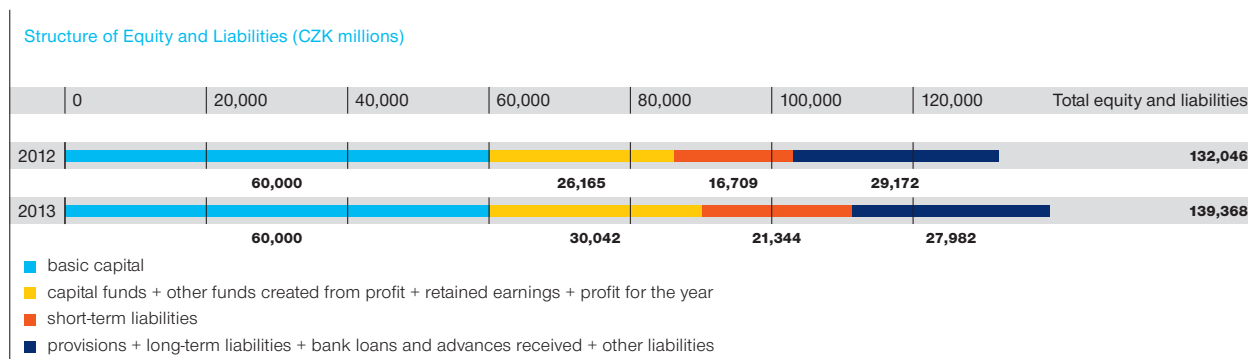


Equity and Liabilities

Equity totaled CZK 90,042 million, which is up CZK 3,877 million from 2012'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 6,876), and the profit for the year (CZK 6,876 million).

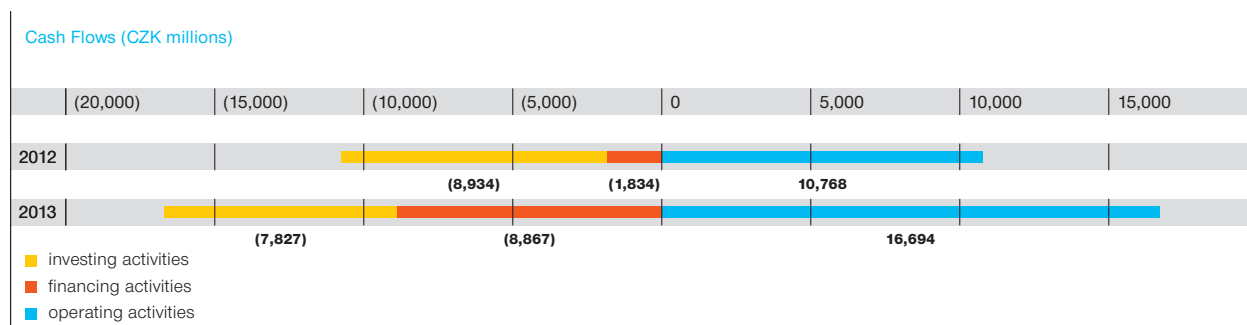
Liabilities reached CZK 41,267 million, up CZK 3,578 million from the previous year. The largest items were short-term advances received (CZK 12,733 million), deferred tax liability (CZK 11,557 million), long-term liabilities to group companies with majority control (CZK 7,724 million), unbilled deliveries (CZK 4,286 million), and current trade payables (CZK 2,480 million).

Other liabilities, consisting primarily of deferred income from connection fees, reached CZK 8,059 million, an decrease of CZK 133 million compared to the previous year.



Company Financing

Cash Flows



Short-term financial assets as at December 31, 2013 totaled CZK 0.02 million.

Cash provided by operating activities (CZK 16,694 million) consisted of the following items:

profit or loss on ordinary activities before taxation	CZK 8,450 million
corporate income tax paid	CZK (1,376) million
depreciation and amortization of fixed assets, write-off of receivables	CZK 6,646 million
change in working capital	CZK 3,726 million
other operating activity	CZK (752) million

Cash used in investing activities totaled CZK 7,827 million, and the biggest component therein was purchase of fixed assets, at CZK 7,855 million.

Financing activities used CZK 8,867 million in cash. Components of this figure include CZK 3,000 million in dividend pay-outs, a CZK 4,579 million change in receivables/payables related to Group cash pooling, and a CZK 1,288 million change in the balance of a loan.

Borrowings and Their Maturity

As at December 31, 2013 the company had outstanding loans totaling CZK 9,012 million. Of this figure, the non-current portion accounted for CZK 7,724 million and the current portion was CZK 1,288 million.

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

Key Performance Indicators

	Units	2012	2013
Return on Equity (ROE), net	%	4.99	7.80
Return on Assets (ROA), net	%	3.27	5.07
EBIT margin	%	10.68	15.32
Financial debt/Equity	%	11.94	10.23
Net debt/EBITDA	%	157.46	84.16
Current ratio	%	67.54	77.52
Operating cash flow-to-liabilities ratio	%	55.39	86.58
Assets turnover	1	0.41	0.43
Fixed assets coverage	%	92.71	93.78
Extent of depreciation	%	52.08	52.68

Commercial and Financial Outlook for 2014

2014 is the fifth 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 2014 and on the Energy Regulatory Office's pricing regulations for 2014, 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, including generation of funds for renewing and developing the distribution grid and ensuring returns for shareholders.

The company's plan for 2014 envisions revenues of CZK 50,290 million, pre-tax income of CZK 7,819 million, and capital expenditure of CZK 7,916 million.

Capital Expenditure

Capital Projects

In 2013, the company invested CZK 7,879 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. Ongoing development initiatives include the Smart Region project, in which "Smart Grids" will make it possible to effectively combine electricity from conventional and alternative sources. These grids are capable of responding to impending overloads by redirecting the flow of electricity to prevent possible outages, leading to increased end customer satisfaction.

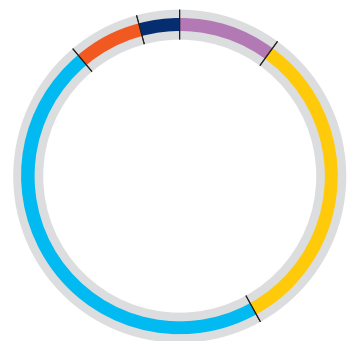
Overview of Capital Expenditure in 2012 and 2013, Plan for 2014

Capital Expenditure (CZK millions)

	2012	2013	Plan for 2014
HV plant and equipment	1,065	820	1,394
MV plant and equipment	2,637	2,547	2,314
LV plant and equipment	3,899	3,658	2,961
Electric meters	705	549	604
Ancillary projects	288	305	643
Total	8,594	7,879	7,916

CAPEX Distribution

	%
HV plant and equipment	10
MV plant and equipment	32
LV plant and equipment	47
electric meters	7
ancillary projects	4
Total	100



Distribution Grid CAPEX

Capital expenditure in 2013 focused primarily on MV and LV projects. A total of CZK 6,205 million was invested in MV and LV plant and equipment in 2013. The projects included, in particular, upgrades and renovations 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 820 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 2,788 million.

Most Significant Projects

Internal projects:

- Bezděčín – Šimonovice, construction of new 2x110 kV power line
- Holýšov, construction of new 110/22 kV transformer station
- Chýně, construction of new 110/22 kV transformer station
- Pečky, construction of new 110/22 kV transformer station
- Mladá Boleslav, 110/22 kV transformer station, construction of new 22 kV substation
- Řeporyje, complete rebuild of 110 kV substation and I&C system
- Studénka – Třebovice branch, rebuild of 2x110 kV power line
- Babylon, rebuild of 110 kV substation, own consumption and distributed remote control
- Jablonec South, new 110/22 kV transformer station
- Mírovka, 400/110 kV transformer station, rebuild of 110 kV substation
- Liberec Power-Heating Plant substation, unification from 10 kV to 22 kV
- Přeštice, complete rebuild of 110 kV substation and I&C system

Projects to meet customer requirements:

- Tuchlovice Transformer Station, increase resistance to short circuits

Other

Other investment in capital projects, totaling CZK 854 million, went on activities that are ancillary to the core business of electricity distribution, such as metering and I&C systems.



28
EL
programmer

44
RM
gardener

53
DB
wardrobe
supervisor

32
AZ
receptionist

48
JZ
mechanic

Energy leaves footprints

With your energy, you give direction. You want to leave something for those who will come after – so they will see it's worth a try.

47
BČ
archivist



Information on the Company's Core Business

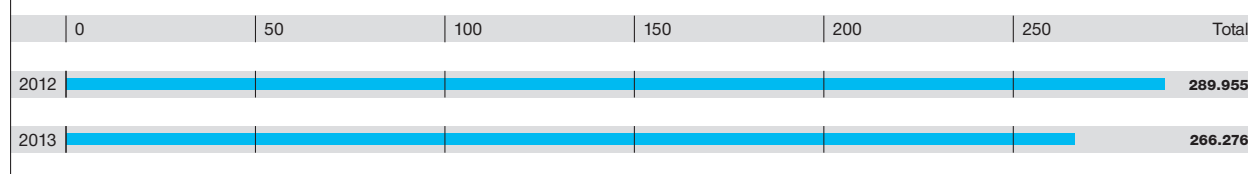
The company's main mission is to distribute electricity to private individuals and legal entities and to continually improve the quality and reliability of supplies to all customers. The company administers the assets comprising the distribution grid, the operation of which it controls through a technical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

In 2013, 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 36 faults in the HV system, 6,994 faults in the MV system, and 28,276 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 7,032 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.

Total Duration of Electricity Supply Interruptions Per Customer (minutes)



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	2012	2013
Grid extended length	km	159,456	160,915
of which: HV	km	9,745	9,782
MV	km	50,217	50,483
LV	km	99,494	100,650
Number of MV/LV transformer stations	number	57,423	57,510
of which: owned by the company	number	43,956	44,547
owned by other entities	number	13,467	12,963
Number of HV/HV, HV/MV transformer stations	number	233	238

The company's distribution grid was used to distribute a total of 43,353 GWh of electricity in 2013.



www.cezdistribuce.cz



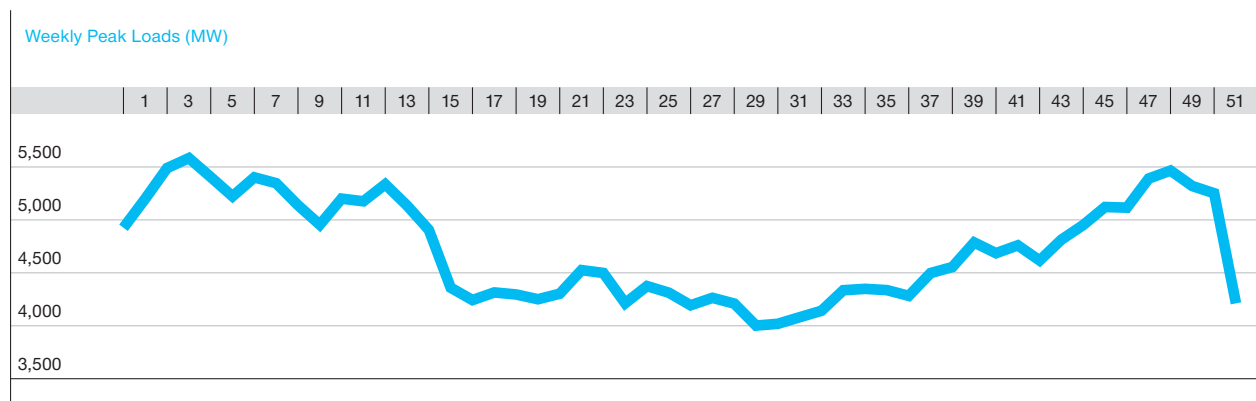
Analysis of Electricity Distribution (GWh)		
	2012	2013
Input to the distribution grid		
From transmission grid operators	22,042	22,148
From ČEZ, a. s. power plants	7,712	7,455
From neighboring distribution service providers	991	890
From other producers, including private power plants	9,436	9,835
From other sources	329	131
Import (from other countries) at the distribution services level	395	405
Distribution license holders (local distribution grid)	2,439	2,489
Input to the distribution grid, total	43,344	43,353
Output from the distribution grid		
End customers at HV, MV levels	12,765	12,541
End customers at LV level	14,087	14,168
Offtake by producers from grids operated by distribution service providers	1,636	1,721
Offtake by other generating facilities	329	131
Supplied to neighboring distribution service providers	5,505	5,493
Supplied to grids operated by transmission service providers	1,461	1,832
Export (to other countries) at distribution services level	15	11
Distribution license holders (local distribution grid)	5,292	5,194
Other consumption by distribution service providers	55	56
Losses	2,199	2,206
Output from the distribution grid, total	43,344	43,353

The total volume of electricity that flowed into the grid in 2013 was 43,353 GWh. In terms of overall volume, 2013 was comparable to 2012. There was an increase of 0.02%, or 9 GWh. The biggest component, at 51.09%, was the volume of electricity originating from the ČEPS, a.s. grid totaling 22,148 GWh (up 106 GWh from 2012). Electricity procured directly from ČEZ, a. s. sources totaled 7,455 GWh (down 257 GWh from 2012). Supplies from other sources and from local distribution service providers were down 198 GWh and 101 GWh, respectively. On the other hand, supplies from other generating facilities including in-house producers increased by 399 GWh, while imports from abroad grew 10 GWh. Supplies from neighboring distribution services providers were up 50 GWh.

The volume of electricity distributed to customers at the HV and MV levels was down 224 GWh in year-on-year terms, and the volume of electricity distributed at these voltage levels accounted for 28.93% of total supplies. On the other hand, electricity distribution at the LV level rose (by 81 GWh), and it accounted for 32.68% of total supply volume.

Offtake by producers was up 85 GWh from 2012's figure, while offtake by other generating facilities fell by 198 GWh. Supplies to neighboring distribution service providers were down 12 GWh year-on-year, and their share in the overall electricity distribution volume was 12.67%. Supplies back to the ČEPS, a.s. grid grew 371 GWh, while 11 GWh of electricity was exported (down 4 GWh year-on-year). Supplies to local distribution service providers were down 98 GWh year-on-year. The volume of losses increased by 7 GWh.

The highest one-hour peak, 5,583 MW, was achieved on January 22, 2013 at 6:00 p.m.



ČEZ Distribuce, a. s. sells electricity distribution services to customers through electricity dealers as well as directly. In 2013 the company had framework agreements with 77 active dealers.

Number of Connection Points

	Unit	2012	2013
HV, MV – large end-customers	number	14,593	14,682
LV – retail-commercial customers	number	450,114	443,071
LV – retail-residential customers	number	3,101,468	3,117,435
Total		3,566,175	3,575,188

In 2013, 12,000 new connection points were added to the grid and reserved capacity was increased for another 16,000 connection points. At the same time, 2013 saw 3,735 new generating facilities connected to the grid, representing total output of nearly 147 MW. CZK 467 million in connection fees was collected from customers in 2013 pursuant to Decree No. 51/2006 Sb. on conditions for connection to the power system, and CZK 2,646 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	7	3	18
MV	505	97	124
LV	2,134	367	406
Total	2,646	467	548

Safety and Quality Management, Environmental Protection

Occupational Safety and Health

In 2013, 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. 2013 saw a regular internal OSH management audit take place at ČEZ Distribuce, a. s., vetting the OSH management system's compliance with the "Safe Enterprise" program. No discrepancies were found by the audit.

In the course of continual safety improvement, the company focused on closer cooperation with major suppliers of the CAPEX program in the area of work organization, aiming to minimize extraordinary events and work-related injuries ensuing from them. A regular expert seminar with representatives of all supplier companies focused, among other areas, on upholding OSH principles on construction sites, including technical safety and standardization.

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. No fires resulting in damages of over CZK 1 million were recorded at the company during the year.

A functional system of fire protection, compliance with Czech Republic fire protection legislation, and completion of internal directives and related documentation were also demonstrated in a comprehensive fire protection audit conducted by ČEZ, a. s. The company continuously increases employee awareness through training sessions and expert presentations, as well as providing for regular inspections of fire protection-related equipment and supplies at company facilities.

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.

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 early 2013 we completed a basic environmental damage risk assessment pursuant to Act No. 167/2008 Sb. on Environmental Damage Prevention. The assessment concluded that the company is in compliance with the aforementioned act, and imposed no additional obligations.

A total of 78 sites with legacy environmental burdens have been identified within the ČEZ Distribuce, a. s. service area. As at December 31, 2013, clean-up work had been completed at 46 sites, while follow-up monitoring, supplemental studies, and updating of documentation were in progress at another 32 sites.

In November 2013 the company successfully underwent its second EMS oversight audit, which reaffirmed the validity of the ČSN EN ISO 14001 compliance certificate obtained by the company in December 2011.

Expenditures for waste and wastewater disposal, dealing with environmental accidents, and other services relating to environmental protection reached CZK 12.4 million in 2013.

Shares and Shareholders

The total basic capital of ČEZ Distribuce, a. s. recorded in the Commercial Register as of the Annual Report closing date was CZK 60,000 million. The company's sole shareholder is ČEZ, a. s. [1](#) with its seat at Duhová 2/1444, Prague 4, postcode 140 53, Czech Republic, ID number 452 74 649, which owns a 100% stake in the basic capital of ČEZ Distribuce, a. s.

Types and Volumes of Securities Issued

The basic capital is divided into 600 shares of stock, registered and in documentary form, each with a face value of CZK 100 million. The shares themselves are replaced by a Multiple-Share Certificate with a total face value of CZK 60,000 million issued to ČEZ, a. s. with its seat at Duhová 2/1444, Prague 4, postcode 140 53, Czech Republic, ID number 452 74 649.

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



Human Resources

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 of ČEZ Distribuce, a. s.

Hires and Terminations in 2013

	Number of employees
Newly hired	78
Left the company	61

The work force head count at December 31, 2013 was 1,208 persons.

Training

ČEZ Distribuce, a. s. 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.

2013 saw the launch of an executive growth program for the company's senior management. Also, educational activities were conducted for key employees. In 2013, ČEZ Distribuce, a. s. invested a total of nearly CZK 5.6 million in employee development.

Social Policy

The company's social policy includes providing employees monetary and non-monetary benefits. Non-monetary benefits are provided in the form of reduced work hours and one extra week of paid vacation above the statutory requirement; furthermore, for increased protection employees in selected positions received inoculations against tick-borne encephalitis. Monetary benefits provided by the company totaled CZK 64.6 million. Most importantly, the employer contributed to employees' pension and life insurance plans, the meal plan, and employee healthcare. Also, all full-time employees have personal accounts that can be used to pay for benefits such as recreation, and which can be drawn using Flexi Pass vouchers.

Labor Relations

A total of 30 basic labor organizations operate at ČEZ Distribuce, a. s. in 2013, and 49% of the overall work force was unionized. In the autumn of 2013, collective bargaining took place on an amendment to the current Collective Agreement, relating primarily to wage growth in 2014. The collective bargaining process culminated in December with the signing of Amendment No. 8 to the Collective Agreement. The current Collective Agreement expires on December 31, 2014. During 2013, a total of 25 regular meetings between the employer and labor representatives took place, at which 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., EGE, spol. s r.o., and the Technical University of Ostrava.

The company focused predominantly on the practical application of design studies developed in previous years. These studies and analyses included:

- implementation of pilot projects for new medium- and low-voltage grid technologies, with most of the work being dedicated to the “Smart Grids” project [1](#)
- practical testing of BPL communication on a 35 kV overhead power line
- preparation for implementation of a pilot project for a detector of faults in medium-voltage insulated conductors
- gathering of basic data and developing a calculation methodology for evaluating the reliability of individual distribution grid components (component reliability)
- stabilization of voltage in MV and LV distribution systems with high presence of renewables and decentralized generation. The objective of the study is to assess the effects and impacts of a high presence of decentralized generation on voltage quality in MV and LV networks
- assessment of renewable sources operation and viability, and the impact of these sources on the Czech Republic Power System.

ČEZ Distribuce, a. s. participated in the committees that decide which university applicants will receive grants from the Czech Science Foundation, as well as the State examination committees. In addition, we played a role in assigning master’s and bachelor’s thesis topics to university students studying electrical engineering.



1

www

Donorship and Sponsorship Program

Donorship

ČEZ Distribuce, a. s. contributed CZK 66 million to projects implemented by the Nadace CEZ foundation in 2013 – the same amount as in the previous year. 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 1.355 million in 2013. This sum was distributed amongst seven selected projects. Through these projects, ČEZ Distribuce, a. s. contributed to the development of education and science awareness among children and young people, improvements of municipal and healthcare infrastructure, the protection of heritage sites, and clean-up efforts following natural disasters. The company also provided financial support to projects focused on supporting the operation of non-profit organizations.

ČEZ Distribuce, a. s. contributed CZK 1.089 million to the CEZ GROUP SENIORS Foundation Fund in 2013.

Development of the Legislative Framework

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

- 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. [1](#) on Supported Energy Sources and amending certain acts (the Act on Supported Energy Sources)
- Act No. 406/2000 Sb. on Energy Management
- Decree No. 541/2005 Sb. on electricity market rules, principles for setting prices for activities of the electricity market operator, and implementing certain other provisions of the Energy Act
- Decree No. 436/2013 Sb. on price regulation methods and procedures in the power and heat industries and amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures, as amended
- Decree No. 59/2012 Sb. on regulatory reporting
- Decree No. 540/2005 Sb. on the quality of electricity supplies and related services in the electricity industry.

During 2013 the following direct amendments were passed:

- Act No. 165/2012 Sb. on Supported Sources was amended by Act No. 310/2013 Sb.
- Act No. 406/2000 Sb. on Energy Management was amended by Act No. 310/2013 Sb.

The principal reasons and objectives for amending Act No. 165/2012 Sb. on Supported Sources by Act No. 310/2013 Sb. were:

- to withdraw support of electricity from renewable sources and support for decentralized generation of electricity from producers that are joint-stock companies in cases when the company's shares are not issued exclusively in booked form and in cases when the company is a foreign entity and fails to submit a sworn statement disclosing which persons are owners of shares whose aggregate nominal value exceeds 10% of the producer's stated capital
- to stipulate the subject matter of the levy on electricity generated from sunlight in the period from January 1, 2014 throughout the entire duration of the right to support on electricity only for installations commissioned in 2010
- to change the rate of the levy for purchasing price to 10% and for the green bonus to 11%
- to establish support from renewable sources only for sources utilizing wind energy, geothermal energy, hydro energy, and/or biomass energy commissioned on or before December 31, 2015
- to set the maximum price for financing support-related costs at CZK 495/MWh
- to define the entities and amounts to which the price for financing support-related costs is to be applied.

The principal reasons and objectives for amending Act No. 406/2000 Sb. on Energy Management by Act No. 310/2013 Sb. were:

- to treat the matter of entities eligible to install equipment for generating electricity from renewable sources and the matter of obtaining professional qualification for these entities.



Other legislative changes in 2013

The following regulations were promulgated in 2013 that implement the above acts or amend the above implementing regulations:

- Act No. 310/2013 Sb. dated October 2, 2013, also amending certain acts as amended by Act no. 407/2012 Sb.
- Decree No. 350/2013 Sb. dated November 8, 2013 amending 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
- Decree No. 436/2013 Sb. on price regulation methods and procedures in the power and heat industries and amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures, dated December 16, 2013.

The principal reasons and objectives for promulgating Decree No. 436/2013 Sb. on price regulation methods and procedures in the power and heat industries and amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures, as amended, were the following:

- to split off from Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures the entire portion relating to the electricity industry
- to include the investment development factor among the parameters of the regulatory formula for electricity distribution licenses holders, as an incentive to invest
- in relation to the introduction of the incentive investment factor in the electricity and heat industries, to extend the existing regulatory period by one year, to six years.



28
MF
mountain climber

Energy in motion

You never stop, and you don't linger in places where you've already been. You know that, just around the corner, there awaits something in which you will be thrilled to invest more energy.



STANICE
ČESKÁ LIPA

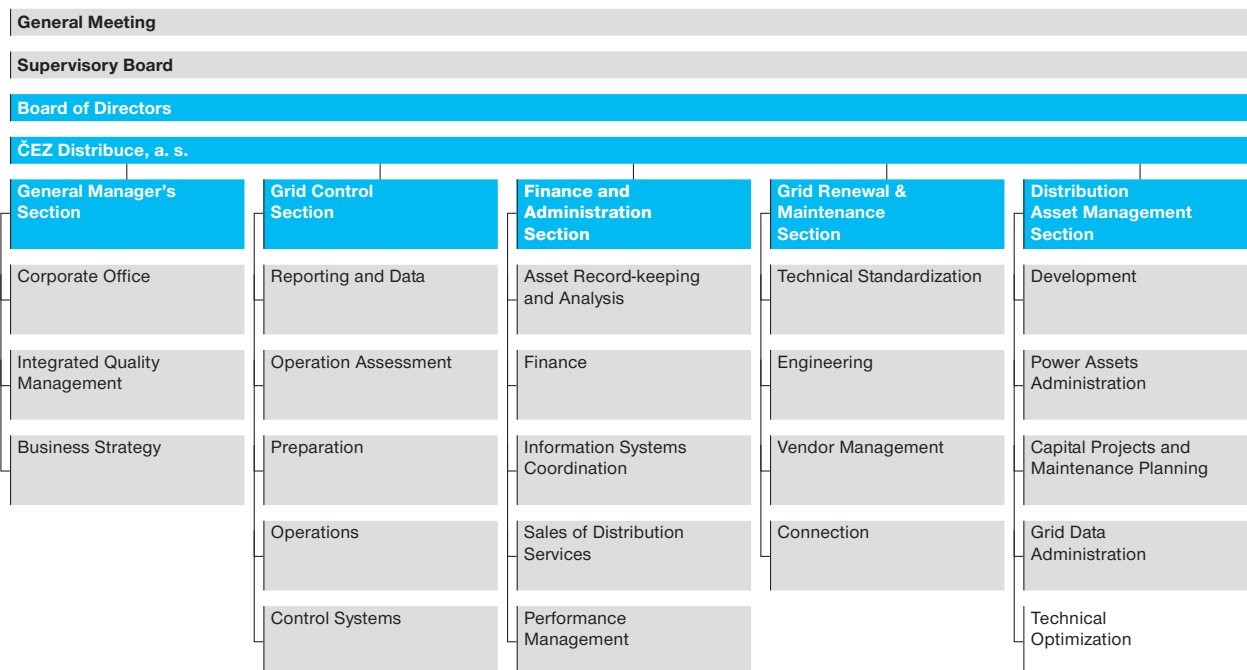


39
IS
amateur
photographer

53
MV
realty
agent



Basic Organization Chart of ČEZ Distribuce, a. s. as at April 1, 2014



Glossary of Terms and Abbreviations

Glossary of Terms and Abbreviations

Term	Commentary
Broadband over Powerline (BPL)	Communication over low- and medium-voltage power lines.
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.
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.

Term	Commentary
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.
TG/DG	Transmission grid/distribution grid.
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
GWh	gigawatt-hour, 1 GWh = 10 ⁹ Wh = 10 ⁶ kWh, Wh = a unit of work (energy)
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)

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) / Fixed assets
Current ratio	(Current assets + Accrued assets and deferred liabilities) / (Current liabilities + Short-term bank loans + Accrued liabilities and deferred assets)
EBIT	Profit before taxes and other expenses and revenues
EBIT margin	EBIT / Operating revenues
EBITDA	Profit before taxes and other expenses and revenues + Depreciation and amortization
Extent of depreciation	-1 * (Accumulated depreciation and allowances on tangible assets) / Tangible assets subject to depreciation 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) / Profit before taxes and other expenses and revenues + Depreciation and amortization
Net income	Profit before taxes (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
Total debt/Total capital	(Long-term bank loans including current portion + Short-term loans) / (Long-term loans including current portion + Short-term loans + Equity)

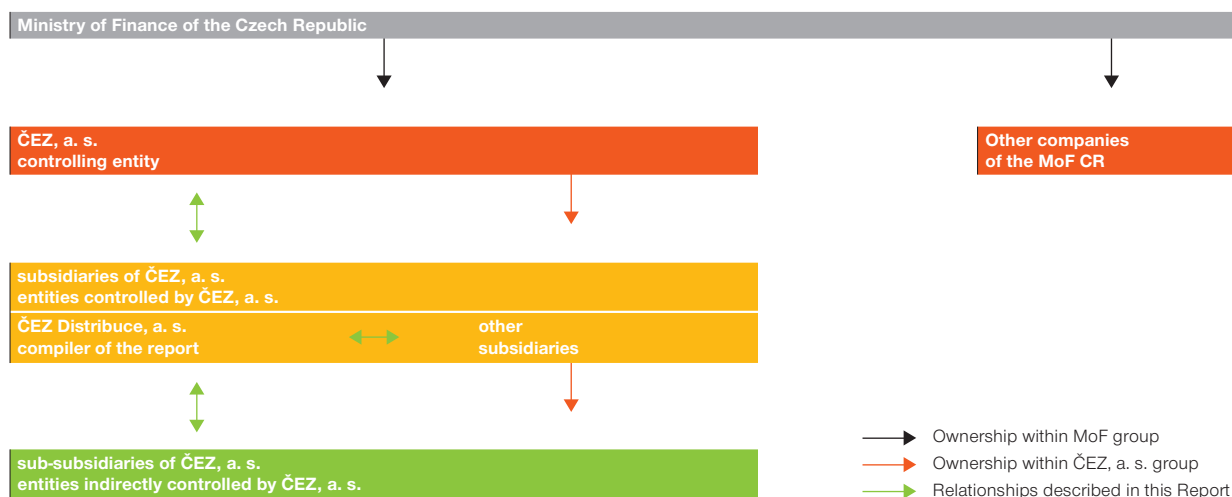
List of Tables and Graphs in the Annual Report

Tables Used	Page
Selected Economic Indicators	8
Selected Sector-Specific Indicators	9
Key Performance Indicators	24
Capital Expenditure (CZK millions)	26
CAPEX Distribution	26
Distribution Grid Plant and Equipment	30
Analysis of Electricity Distribution (GWh)	31
Number of Connection Points	32
New Connections, Connection Capacity Increases	32
Hires and Terminations in 2013	35

Graphs Used	Page
Income Breakdown (CZK millions)	22
Structure of Assets (CZK millions)	23
Structure of Equity and Liabilities (CZK millions)	23
Cash Flows (CZK millions)	24
CAPEX Distribution	26
Total Duration of Electricity Supply Interruptions Per Customer (minutes)	30
Weekly Peak Loads (MW)	32

Related Parties Report for the Year 2013

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. is the business company 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 – Compiler 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 electricity distribution and other activities and services related to the aforementioned 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, 2013.

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. CITELUM, a.s.

35 construction contracts.

2. ČEZ, a. s.

15 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, two agreements on provision of services, one implementation agreement on joint action in the public tender "GC 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 agreement on provision of the ancillary service regulation of voltage and reactive current, 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 lease agreements.

3. ČEZ Distribuční služby, s.r.o. (including, but not limited to, agreements for activities taken over from ČEZ Měření, s.r.o. and ČEZ Logistika, s.r.o. in the framework of legal successorship ensuing from merger)

19,637 contracts: one framework agreement on provision of services, four lease agreements, one agreement on provision of voltage regulation service, three framework agreements on assignment of receivables within CEZ Group, four agreements on provision of services, 7,802 service contracts, eleven amendments to lease agreements, five amendments to an agreement on provision of services, one agreement on transfer of a portion of the employer's activities, one purchase agreement, one agreement on supply of goods and provision of services, one agreement on securing of accident-response supplies, 11,818 materials supply contracts, one amendment to the agreement on securing of accident-response supplies.

4. ČEZ Energo, s.r.o.

One agreement on location and operation of a construction.

5. ČEZ Energetické služby, s.r.o.

13 contracts: one framework agreement on assignment of receivables within CEZ Group, one lease agreement, one agreement on offtake of water, one agreement on wastewater disposal, eight agreements on implementation of construction projects, one agreement on servicing of metering equipment, one amendment to a lease agreement.

6. ČEZ ICT Services, a. s.

21 contracts: one framework agreement on assignment of receivables within CEZ Group, one SLA on provision of ICT services, two amendments to the SLA on provision of ICT services, 12 agreements to agree, one service contract, one agreement for a TPS, one amendment to the agreement for a technical protection system, one partial agreement on provision of services, one amendment to the agreement on provision of services, two lease agreements, two amendments to lease agreements, one agreement on payment for electricity, one amendment to the agreement on payment for electricity, one amendment to an agreement on maintenance of fiber-optic lines in CEFOCs, one amendment to the agreement on maintenance of fiber-optic lines in CEFOCs.

7. ČEZ Obnovitelné zdroje, s.r.o.

Eight contracts: one framework agreement on assignment of receivables within CEZ Group, one agreement on lease of non-residential space, three agreements on establishment of rights in rem, one purchase agreement for purchase of land, two agreements on location and operation of a construction.

8. ČEZ OZ uzavřený investiční fond a.s.

Six contracts: two purchase agreements (purchase and sale of immovable property), one agreement on establishment of a right in rem, one lease agreement, one agreement on location and operation of a construction.

9. ČEZ Prodej, s.r.o.

Six contracts: one agreement on supply of electricity and coverage of 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.

10. ČEZ Korporátní služby, s.r.o.

20 contracts: two sub-lease agreements, two lease agreements, 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 processing of correspondence, one framework agreement on provision and securing of services and leases, one agreement on securing of work and services in the area of electrical equipment inspection, 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 partial agreement on provision of accounting services, one partial agreement on provision of personnel services, one agreement on provision of services, one agreement on establishment of a right in rem, eleven 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, three amendments to sub-lease agreements, 13 amendments to lease agreements, two amendments to a partial agreement on processing of correspondence, one amendment to a framework agreement on provision and securing of services and leases, two purchase contracts, one agreement on pedestrian and vehicle access to a portion of land.

11. ČEZ Teplárenská, a.s.

Two contracts: one framework agreement on assignment of receivables within CEZ Group, one lease agreement.

12. 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, two amendments to an agreement on provision of services, three amendments to a lease.

13. Elektrárna Dětmorovice, a.s.

Three contracts: one agreement on provision of the ancillary service regulation of voltage and reactive current, one agreement on distribution of electricity, one agreement on connection to the distribution grid.

14. Elektrárna Chvaletice a.s.

One lease agreement.

15. Energotrans, a.s.

Four contracts: two lease agreements, one purchase contract, one agreement on provision of the ancillary service regulation of voltage and reactive current.

16. MARTIA a.s.

475 contracts: one framework agreement on HCR, one framework agreement on HCR II, one framework agreement on Transmission Grid HCR, 472 service agreements for implementation of PD and constructions.

17. LOMY MOŘINA spol. s r.o.

Two agreements on establishment of rights in rem.

18. OSC, a.s.

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. PRODECO, a.s.

One agreement on establishment of a right in rem.

20. SD - KOMES, a.s.

One purchase agreement (sale of a land parcel).

21. Severočeské doly a.s.

Two contracts: one agreement on establishment of a right in rem, one agreement on lease of non-residential space.

22. SINIT, a.s.

24 contracts: 21 agreements on implementation of constructions, 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 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.

23. Tepelné hospodářství města Ústí nad Labem s.r.o.

Three contracts: two leases, one agreement on purchase of a land parcel.

24. Teplárna Trmice, a.s.

Three contracts: one agreement on provision of the ancillary service regulation of voltage and reactive current, one agreement on connection to the distribution grid, one agreement on distribution of electricity.

25. ÚJV Řež a. s.

One agreement on re-routing of infrastructure.

All contracts listed in Section 5 of this Report were entered into at arm's length and their content does not exceed this framework.

6. Other Relationships

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

7. Other Information

7.1. Confidentiality

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

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

For the above reasons, the Report for 2013 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 2013 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
GC	grid control
HCR	hourly clearing rate
MoF	Ministry of Finance of the Czech Republic
MRC	mass remote control
PD	project documentation
SLA	service level agreement
TPS	technical protection system

7.4. The Controlled Entity is not involved in any litigation with any of the related parties in matters exceeding 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.

The statutory body of ČEZ Distribuce, a. s. approved this Report on March 13, 2014.

Děčín, March 13, 2014



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 2013, and the income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of ČEZ Distribuce, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ Distribuce, a. s., as at 31 December 2013, 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

Martin Skácelík
Auditor, License No. 2119

January 31, 2014
Prague, Czech Republic

ČEZ Distribuce, a. s.

Balance Sheet

as of December 31, 2013

(in CZK thousands)

	2013			2012
	Gross	Adjustments	Net	Net
TOTAL ASSETS	266,426,683	(127,058,533)	139,368,150	132,046,186
Stock subscriptions receivable	0	0	0	0
Fixed assets	243,231,032	(126,657,156)	116,573,876	115,228,464
Intangible assets	529,899	(258,960)	270,939	243,648
Foundation and organization expenses	86	(78)	8	26
Research and development	2,555	(2,426)	129	511
Software	354,887	(174,055)	180,832	150,790
Patents, royalties and similar rights	46,019	(28,574)	17,445	18,318
Goodwill	0	0	0	0
Other intangibles	122,284	(53,827)	68,457	71,470
Intangible assets in progress	4,068	0	4,068	2,114
Advances granted for intangible assets	0	0	0	419
Tangible assets	242,701,133	(126,398,196)	116,302,937	114,984,816
Land	733,779	0	733,779	713,122
Buildings, halls and constructions	179,549,856	(92,329,164)	87,220,692	85,984,559
Separate movable items and groups of movable items	60,359,022	(34,065,619)	26,293,403	25,792,367
Permanent growth	0	0	0	0
Livestock	0	0	0	0
Other tangible assets	9,546	(3,413)	6,133	6,437
Tangible assets in progress	1,896,458	0	1,896,458	2,348,615
Advances granted for tangible assets	152,472	0	152,472	139,716
Adjustment to acquired property	0	0	0	0
Financial investment	0	0	0	0
Majority shareholdings and participating interests (shareholdings > 50%)	0	0	0	0
Substantial shareholdings and participating interests (shareholdings of 20–50%)	0	0	0	0
Other long-term securities and interests	0	0	0	0
Loans to subsidiary 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 investment	0	0	0	0
Current assets	23,161,146	(401,377)	22,759,769	16,773,785
Inventory	76,811	0	76,811	161,926
Materials	0	0	0	0
Work in progress and semi-finished production	76,811	0	76,811	161,926
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	235	0	235	229
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
Contingencies	0	0	0	0
Other receivables	235	0	235	229
Deferred tax assets	0	0	0	0
Short-term receivables	23,084,082	(401,377)	22,682,705	16,611,602
Trade receivables	2,612,838	(401,135)	2,211,703	1,716,465
Receivables from group companies with majority control	7,535,463	0	7,535,463	2,955,973
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
Receivables from social security	0	0	0	0
Receivables from taxes	0	0	0	92,315
Short-term advances granted	576,689	0	576,689	384,628
Contingencies	12,358,254	0	12,358,254	11,461,724
Other receivables	838	(242)	596	497
Short term financial assets	18	0	18	28
Cash	18	0	18	28
Bank accounts	0	0	0	0
Short-term financial assets	0	0	0	0
Short-term financial assets in progress	0	0	0	0
Temporary accounts of assets	34,505	0	34,505	43,937
Prepaid expenses	34,133	0	34,133	43,770
Complex prepaid expenses	0	0	0	0
Unbilled revenues	372	0	372	167

(in CZK thousands)

	2013	2012
TOTAL EQUITY & LIABILITIES	139,368,150	132,046,186
Equity	90,042,053	86,165,457
Stated capital	60,000,000	60,000,000
Stated capital	60,000,000	60,000,000
Own shares	0	0
Changes in stated capital	0	0
Capital funds	1,314	776
Share premium (agio)	0	0
Other capital funds	1,314	776
Revaluation of assets and liabilities	0	0
Revaluation from 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/indivisible fund	12,000,000	12,000,000
Statutory and other funds	0	0
Profit (loss) for the previous years	11,164,681	9,858,961
Retained earnings for the previous years	11,164,681	9,858,961
Accumulated loss of previous years	0	0
Other retained earnings for previous years	0	0
Profit (loss) for the year (+/-)	6,876,058	4,305,720
Liabilities	41,267,432	37,688,889
Reserves	642,009	318,848
Reserves in accordance with special laws	0	0
Reserves for pensions and similar liabilities	0	0
Reserve for corporate income tax	380,548	90,093
Other reserves	261,461	228,755
Long-term liabilities	19,281,429	20,661,282
Trade payables	0	0
Liabilities to group companies with majority control	7,724,500	9,012,050
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 deposits received	0	0
Bonds payable	0	0
Long-term notes payable	0	0
Contingencies	0	0
Other payables	0	0
Deferred tax liabilities	11,556,929	11,649,232
Short-term liabilities	21,343,994	16,708,759
Trade payables	2,479,904	3,000,684
Liabilities to group companies with majority control	1,287,564	1,287,550
Liabilities to group companies with control of 20–50%	0	0
Liabilities to partners, co-operative members and participants in association	0	0
Liabilities to employees	38,676	37,318
Liabilities arising from social security and health insurance	22,025	20,649
Taxes payable and subsidies	492,006	85,234
Advances received	12,733,120	10,501,590
Bonds payable	0	0
Contingencies	4,286,329	1,760,923
Other liabilities	4,370	14,811
Bank loans and short-term notes	0	0
Long-term bank loans	0	0
Short-term bank loans	0	0
Short-term notes	0	0
Temporary accounts of liabilities	8,058,665	8,191,840
Accruals	1,227	1,408
Deferred income	8,057,438	8,190,432

ČEZ Distribuce, a. s.

Statement of Income

as of December 31, 2013

(in CZK thousands)

	2013	2012
Revenues from sale of goods	0	0
Costs of goods sold	0	0
Gross margin	0	0
Production	57,184,796	52,566,490
Revenue from sale of finished products and services	57,063,345	52,365,244
Changes in inventory produces internally	(85,115)	1,496
Capitalization (of own work)	206,566	199,750
Production related consumption	41,458,962	40,146,510
Consumption of material and energy	4,182,939	22,981,513
Services	37,276,023	17,164,997
Value added	15,725,834	12,419,980
Personnel expenses	1,016,543	1,014,883
Wages and salaries	699,086	678,616
Bonuses to board members	2,132	2,057
Social insurance	237,338	227,849
Other social expenses	77,987	106,361
Taxes and charges	8,184	8,356
Amortization and depreciation of intangible and tangible fixed assets	6,538,843	6,322,945
Revenues from intangibles, tangibles and material sold	56,189	46,932
Revenues from intangibles and tangibles sold	27,896	15,998
Revenues from material sold	28,293	30,934
Net book value of intangibles, tangibles and material sold	24,647	11,086
Net book value of intangibles and tangibles sold	24,647	11,086
Materials sold	0	0
Changes in operational reserves and adjustments	(10,858)	82,810
Other operational revenues	1,163,326	1,109,529
Other operational expenses	419,607	397,121
Transfer of operational revenues	0	0
Transfer of operational expenses	0	0
Net operating results	8,948,383	5,739,240
Revenues from sale of securities and interests	0	0
Sold securities and interests sold	0	0
Revenues from financial investments	0	0
Revenues from subsidiaries and associates	0	0
Revenues from other securities and deposits	0	0
Revenues from other financial investments	0	0
Revenues from short-term financial assets	0	0
Expenses related to financial assets	0	0
Revenues from revaluation of securities and derivatives	0	0
Costs of revaluation of securities and derivatives	0	0
Changes in financial reserves and adjustments	0	0
Interest revenues	3,501	9,289
Interest expenses	496,973	470,800
Other financial revenues	0	0
Other financial expenses	4,727	4,973
Transfer of financial revenues	0	0
Transfer of financial expenses	0	0
Net results from financial activities	(498,199)	(466,484)
Income taxes on normal activity	1,574,126	967,036
- due	1,666,429	1,087,185
- deferred	(92,303)	(120,149)
Net results after taxes from normal activity	6,876,058	4,305,720
Extraordinary revenues	0	0
Extraordinary expenses	0	0
Income tax on extraordinary activity	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 (+/-)	6,876,058	4,305,720
Profit or loss before taxation	8,450,184	5,272,756

ČEZ Distribuce, a. s. Statement of Cash Flows as of December 31, 2013

(in CZK thousands)

	2013	2012
Cash and cash equivalents at beginning of period	28	52
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss on ordinary activities before taxation (+/-)	8,450,184	5,272,756
Adjustments by non-cash transactions	6,387,400	6,172,514
Depreciation and amortization of fixed assets, writing-off	6,645,764	6,335,455
Change in adjustments, reserves and accruals	(748,587)	(619,540)
Change in provisions	(43,564)	95,020
Change in reserves	32,706	(12,210)
Change in accruals	(737,729)	(702,350)
Gain on disposal of fixed assets	(3,249)	(4,912)
Interest expenses and interest income	493,472	461,511
Interest expenses	496,973	470,800
Interest income	(3,501)	(9,289)
Other non-cash movement	0	0
Income from dividends and profit sharing	0	0
Net cash operating activities before taxation, changes in working capital and extraordinary items	14,837,584	11,445,270
Change in non-cash components of working capital	3,725,881	1,490,613
Change in trade receivables	(1,308,553)	685,642
Change in trade payables	4,949,319	806,467
Change in inventory	85,115	(1,496)
Net cash operating activities before taxation, interest paid and extraordinary items	18,563,465	12,935,883
Interest paid	(496,973)	(666,986)
Interest received	3,501	9,289
Tax paid	(1,375,974)	(1,510,112)
Gains and losses on extraordinary items	0	0
Dividends received	0	0
Net cash provided by (used in) operating activities	16,694,019	10,768,074
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchased of fixed assets	(7,854,899)	(8,951,617)
Proceeds from sales of fixed assets	27,896	17,966
Net cash provided by (used in) investing activities	(7,827,003)	(8,933,651)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in long-term liabilities and long-term, resp. short-term loans	(1,287,536)	3,730,370
Change in receivables/payables related to group cashpooling	(4,579,490)	(1,064,817)
Effect of changes in equity on cash	(3,000,000)	(4,500,000)
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	(3,000,000)	(4,500,000)
Acquisition/sale of own shares	0	0
Net cash provided by (used in) financing activities	(8,867,026)	(1,834,447)
Net increase (decrease) in cash and cash equivalents	(10)	(24)
Cash and cash equivalents at end of period	18	28

ČEZ Distribuce, a. s.

Notes to the Financial Statements

as of December 31, 2013

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 2013

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	not occupied

On 18 December 2013, the position of Ing. Tomáš Čejka as Supervisory Board member terminated based on the approval by the Supervisory Board of his written request for removal.

The Company's organizational structure is as follows:

- CEO Office
- Network Management Division
- Finance & Administration Division
- DS Renewal and 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 2013 and 2012.

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 2013 and 2012 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 (see Note 1).

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. Sales revenue is recorded net of value added tax and any discounts.

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, the Company was 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	-	(3,091)	-	2,555
Software	295,727	-	(25,276)	84,436	354,887
Patents, royalties and similar rights	41,099	-	(1,149)	6,069	46,019
Other intangibles	110,058	-	(3,174)	15,400	122,284
Intangibles in progress	2,114	107,859	-	(105,905)	4,068
Advances for intangibles	419	1,345	(1,764)	-	-
2013 Total	455,149	109,204	(34,454)	-	529,899
2012 Total	393,218	72,767	(10,836)	-	455,149

Accumulated Amortization

	At beginning of year	Amortization during year	Disposals	At end of year	Net book value
Foundation and organization expenses	(60)	(18)	-	(78)	8
Research and development	(5,135)	(382)	3,091	(2,426)	129
Software	(144,937)	(54,393)	25,275	(174,055)	180,832
Patents, royalties and similar rights	(22,781)	(6,942)	1,149	(28,574)	17,445
Other intangibles	(38,588)	(18,413)	3,174	(53,827)	68,457
Intangibles in progress	-	-	-	-	4,068
2013 Total	(211,501)	(80,148)	32,689	(258,960)	270,939
2012 Total	(175,751)	(44,631)	8,881	(211,501)	243,648

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

As at 31 December 2013 and 2012, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 5,285 thousand and CZK 4,558 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	713,122	-	(603)	21,260	733,779
Constructions	174,693,425	-	(541,299)	5,397,730	179,549,856
Separate movable items	58,546,047	-	(1,001,642)	2,814,617	60,359,022
Art works and collections	347	-	-	-	347
Other tangibles	9,199	-	-	-	9,199
Tangibles in progress	2,402,089	7,727,976	-	(8,233,607)	1,896,458
Advances for tangibles	139,716	74,572	(61,816)	-	152,472
2013 Total	236,503,945	7,802,548	(1,605,360)	-	242,701,133
2012 Total	229,440,080	8,568,821	(1,504,956)	-	236,503,945

Accumulated Depreciation and Allowances

	At beginning of year	Depreciation during year	Cost of sales	Disposals	Other movements	At end of year	Allowances	Net book value
Land	-	-	-	-	-	-	-	733,779
Constructions	(88,708,866)	(4,146,257)	(3,968)	541,299	(11,372)	(92,329,164)	-	87,220,692
Separate movable items	(32,753,658)	(2,312,134)	(6,082)	1,001,642	4,613	(34,065,619)	-	26,293,403
Art works and collections	-	-	-	-	-	-	-	347
Other tangibles	(3,109)	(304)	-	-	-	(3,413)	-	5,786
Tangibles in progress	-	-	-	-	-	-	-	1,896,458
Advances for tangibles	-	-	-	-	-	-	-	152,472
2013 Total	(121,465,633)	(6,458,695)	(10,050)	1,542,941	(6,759)	(126,398,196)	-	116,302,937
2012 Total	(116,616,761)	(6,278,314)	(3,847)	1,433,289	-	(121,465,633)	(53,496)	114,984,816

The total value of small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 26,690 thousand and CZK 25,086 thousand at acquisition cost as at 31 December 2013 and 2012, respectively.

5. Receivables

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

As at 31 December 2013 and 2012, receivables overdue for more than 30 days totaled CZK 490,479 thousand and CZK 425,356 thousand, respectively.

Receivables from related parties (see Note 18).

Unbilled revenue represents, in particular, unbilled distribution services.

Changes in unbilled distribution services were as follows in 2013 and 2012 (in CZK thousands)

Unbilled distribution services	Total	Retail business customers	Retail household customers
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
Changes in 2013	600,126	3,287	596,839
Closing balance as at 31/12/2013	11,440,720	3,840,364	7,600,356

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 0 and CZK 166,958 thousand was recognized as revenue as at 31 December 2013 and 2012, respectively.

6. Allowances

Allowances reflect a temporary diminution in the value of assets.

Changes in the allowance accounts (in CZK thousands)

	Balance as at 31/12/2011	Additions	Deductions	Balance as at 31/12/2012	Additions	Deductions	Balance as at 31/12/2013
Allowances against							
Fixed assets in progress	53,474	-	-	53,474	-	(53,474)	-
Fixed assets	-	22	-	22	-	(22)	-
Receivables	296,447	185,459	(90,461)	391,445	230,439	(220,507)	401,377
of which:							
- legal	169,534	66,776	(19,221)	217,089	80,946	(105,348)	192,687
- accounting	126,913	118,683	(71,240)	174,356	149,493	(115,159)	208,690

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).

Cash in EUR provided to the parent company ČEZ, a. s., within the cash pooling bears an interest rate of EUR LIBOR O/N -0.19% p.a. with 0.05% p.a. at minimum (receivables); cash in EUR provided by the parent company within the cash pooling bears an interest rate of EUR LIBOR O/N +0.35% p.a. (payables).

The balance of cash transferred to the parent company ČEZ, a. s., within the cash pooling system was CZK 7,535,463 thousand and CZK 2,955,973 thousand as at 31 December 2013 and 2012, respectively. The balance is reported as short-term receivable in the balance sheet caption "Receivables from group companies with majority control" as at 31 December 2013 and 2012.

8. Other Assets

As at 31 December 2013 and 2012, prepaid expenses include in particular a fee of CZK 28,823 thousand and CZK 32,426 thousand, respectively for arranging a loan.

Expenses are charged to income for the year in which they were incurred.

9. Equity

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

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

	Balance as at 31/12/2011	Increase	Decrease	Balance as at 31/12/2012	Increase	Decrease	Balance as at 31/12/2013
Number of shares	600	-	-	600	-	-	600
Basic capital	60,000,000	-	-	60,000,000	-	-	60,000,000
Other capital funds	617	159	-	776	538	-	1,314
Legal reserve fund	12,000,000	-	-	12,000,000	-	-	12,000,000
Retained earnings	8,685,164	1,173,797	-	9,858,961	1,305,720	-	11,164,681

The Annual General Meetings held on 17 June 2013 and 13 June 2012 approved the following profit distribution for 2012 and 2011 (in CZK thousands):

Profit for 2011	5,673,797	Profit for 2012	4,305,720
Dividend distribution	(4,500,000)	Dividend distribution	(3,000,000)
Undistributed profits added to retained earnings	1,173,797	Undistributed profits added to retained earnings	1,305,720
Retained earnings as at 31/12/2011	8,685,164	Retained earnings as at 31/12/2012	9,858,961
Retained earnings as at 31/12/2012	9,858,961	Retained earnings as at 31/12/2013	11,164,681

10. Provisions

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

Provisions	Balance as at 31/12/2011	Additions	Deductions	Balance as at 31/12/2012	Additions	Deductions	Balance as at 31/12/2013
Provision for income tax	1,462,444	90,093	(1,462,444)	90,093	380,548	(90,093)	380,548
Other provisions	240,965	26,602	(38,812)	228,755	40,971	(8,265)	261,461

As at 31 December 2013 and 2012, the provision for corporate income tax was offset against paid prepayments totaling CZK 1,278,503 thousand and CZK 993,407 thousand, respectively and the resulting liability is recorded in the caption "Provision for income tax".

In 2013 and 2012, other provisions in the amount of CZK 261,461 thousand and CZK 228,755 thousand, respectively were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement.

11. Long-term Liabilities

As at 31 December 2013 and 2012, the Company had the following long-term liabilities (in CZK thousands):

	Due date	31/12/2013	31/12/2012
1st credit line	27/12/2019	3,061,200	3,571,400
2nd credit line	27/12/2019	1,575,900	1,838,550
3rd credit line	07/06/2022	4,374,950	4,889,650
Total		9,012,050	10,299,600
Current portion		1,287,550	1,287,550
Long-term portion		7,724,500	9,012,050

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 interest expense relating to loans for 2013 and 2012 was CZK 496,958 thousand and CZK 470,800 thousand, respectively.

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

	Loans
2014	1,287,550
2015	1,287,550
2016	643,775
2017 and thereafter	5,793,175
Total	9,012,050

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 2013 and 2012.

12. Current Liabilities

As at 31 December 2013 and 2012, the Company had overdue current payables for more than 30 days totaling CZK 1,471 thousand and CZK 1,656 thousand, respectively.

As at 31 December 2013 and 2012, the Company had liabilities of CZK 22,025 thousand and CZK 20,649 thousand, respectively owing to social security and health insurance premiums.

Short-term advances received 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 2013 and 2012.

Payables to related parties (see Note 18).

13. Other Liabilities

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

Movements in deferred income accounts in 2013 and 2012 (in CZK thousands)

Balance as at 01/01/2012	8,161,393
Additions in 2012	731,389
Released to revenues in 2012	(702,350)
Balance as at 31/12/2012	8,190,432
Additions in 2013	604,735
Released to revenues in 2013	(737,729)
Balance as at 31/12/2013	8,057,438

14. Income Taxes

	2013 (in CZK thousands)	2012 (in CZK thousands)
Profit before taxes	8,450,184	5,272,756
Difference between book and tax depreciation	166,490	317,109
Difference between net book value of fixed assets for accounting and tax purposes	69,924	86,624
Non-deductible expenses		
Creation/release of provisions	32,706	(12,210)
Creation/release of allowances	(19,163)	47,465
Expenses relating to previous tax period	(14,403)	(42,523)
Other	46,779	34,522
Taxable income	8,732,517	5,703,743
Current income tax rate	19%	19%
Tax	1,659,178	1,083,711
Tax allowance	(126)	(211)
Provision for income tax	1,659,052	1,083,500
Adjustment of the tax paid in previous years	7,377	3,685
Current tax expense	1,666,429	1,087,185

The calculation of the 2013 and 2012 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	31/12/2013		31/12/2012	
	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	-	(11,663,289)	-	(11,742,803)
Other temporary differences:				
Allowance against receivables	39,651	-	33,128	-
Provisions	49,677	-	43,463	-
Other	17,659	(627)	17,097	(117)
Total	106,987	(11,663,916)	93,688	(11,742,920)
Net		(11,556,929)		(11,649,232)

15. Commitments and Contingencies

The Company has effected the following types of insurance:

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

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

As at 31 December 2013 and 2012, the Company had concluded contracts for future supplies of fixed assets in the amount of approx. CZK 3,879,860 thousand and CZK 4,137,725 thousand, respectively. As at 31 December 2013 and 2012, an amount of contractual liabilities for next years comprises a contractual fee totaling CZK 3,607,036 thousand and CZK 3,892,499 thousand, respectively for investments, CZK 203,047 thousand and CZK 161,392 thousand, respectively for repairs and CZK 69,777 thousand and CZK 83,834 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 on ordinary activities (in CZK thousands)

	2013	2012
Use of grids	21,394,893	20,680,839
Support of electricity from renewable sources	21,940,109	15,816,126
Provided reserved capacity	8,318,585	8,326,472
Provision of system services	4,637,051	5,032,398
OTE charges	284,597	254,718
Subsidy for extra costs incurred in support of electricity from renewable sources	–	1,691,254
Other energy services	263,996	324,419
Other non-energy services	224,114	239,018
Total revenues	57,063,345	52,365,244

In 2013 and 2012, 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 2013 and 2012, 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):

	2013		2012	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	1,200	25	1,197	25
Wages and salaries	699,086	47,216	678,616	49,635
Bonuses to members of statutory bodies	2,132	–	2,057	–
Social security and health insurance	237,338	12,247	227,849	11,637
Social cost	77,987	2,030	106,361	3,456
Total personnel expenses	1,016,543	61,493	1,014,883	64,728

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 2013 and 2012 and they do not hold any shares of the Company.

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

As at 31 December 2013 and 2012, advances granted to related parties were CZK 855 thousand and CZK 290 thousand, respectively.

As at 31 December 2013 and 2012, receivables from group companies with majority control in the amount of CZK 7,535,463 thousand and CZK 2,955,973 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 2013 and 2012, sales were as follows (in CZK thousands):

Related party	2013	2012
ČEZ Prodej, s.r.o.	29,127,809	28,150,103
Severočeské doly a.s.	401,661	333,055
ČEZ, a. s.	135,689	115,991
ČEZ ICT Services, a. s.	88,951	79,622
ČEZ Distribuční služby, s.r.o.	39,120	32,003
ČEZ Měření, s.r.o.	-	2,717
ČEZ Logistika, s.r.o.	-	276
Elektrárna Dětmarovice, a.s.	17,180	-
Teplárna Trmice, a.s.	-	4,373
ÚJV Řež, a. s.	8,875	7,909
ČEZ Zákaznické služby, s.r.o.	2,285	1,833
ČEZ Korporátní služby, s.r.o.	605	800
ČEZ Obnovitelné zdroje, s.r.o.	1,336	1,506
ČEZ Energetické služby, s.r.o.	691	470
MARTIA a.s.	364	393
ČEZ OZ uzavřený investiční fond a.s.	509	100
ČEZ Energo, s.r.o.	399	547
Energotrans, a.s.	430	52
Total	29,825,904	28,731,750

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

Related party	2013	2012
ČEZ Prodej, s.r.o.	9,493,026	9,528,326
ČEZ, a. s.	67,428	21,981
Severočeské doly a.s.	65,219	22,656
ČEZ ICT Services, a. s.	9,415	8,041
ČEZ Distribuční služby, s.r.o.	190,492	89,242
ČEZ Měření, s.r.o.	-	49,566
ČEZ Logistika, s.r.o.	-	24
Teplárna Trmice, a.s.	-	493
ČEZ Korporátní služby, s.r.o.	5,611	351
ČEZ Zákaznické služby, s.r.o.	60,853	30,726
ÚJV Řež, a. s.	722	557
ČEZ Energetické služby, s.r.o.	306	43
ČEZ Obnovitelné zdroje, s.r.o.	139	31
ČEZ Energo, s.r.o.	48	50
MARTIA a.s.	107	39
Energotrans, a.s.	-	29
ČEZ OZ uzavřený investiční fond a.s.	416	-
Elektrárna Dětmarovice, a.s.	5,795	-
Total	9,899,577	9,752,155

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2013 and 2012 were as follows (in CZK thousands):

Related party	2013	2012
ČEZ Distribuční služby, s.r.o.	8,781,032	4,294,663
ČEZ Měření, s.r.o.	-	1,892,396
ČEZ Logistika, s.r.o.	-	2,916,888
ČEZ Prodej, s.r.o.	4,006,342	3,063,805
ČEZ ICT Services, a. s.	1,011,725	1,112,407
ČEZ Zákaznické služby, s.r.o.	465,871	551,413
ČEZ, a. s.	191,624	381,996
ČEZ Obnovitelné zdroje, s.r.o.	1,898	245,577
ČEZ Korporátní služby, s.r.o.	249,798	217,599
ČEZ Energetické služby, s.r.o.	7,662	14,299
Teplárna Trmice, a.s.	-	62,311
MARTIA a.s.	56,065	28,759
ÚJV Řež, a. s.	-	1,536
Elektrárna Chvaletice a.s.	-	817
ČEZ OZ uzavřený investiční fond a.s.	1,600	701,200
SD - KOMES, a.s.	-	30
ČEZ Energo, s.r.o.	177	32,582
Energotrans, a.s.	1,231	21,649
ČEZ Teplárenská, a.s.	1,539	1,280
Severočeské doly a.s.	15	15
PRODECO, a.s.	10	-
Tepelné hospodářství města Ústí nad Labem s.r.o.	2,755	-
Elektrárna Dětmorovice, a.s.	4,043	-
CITELUM, a.s.	1,538	2,167
LOMY MOŘINA spol. s r.o.	2	-
OSC, a.s.	614	560
SINIT,a.s.	8,313	9,164
Total	14,793,854	15,553,113

As at 31 December 2013 and 2012, advances received from related parties were CZK 9,532,947 thousand and CZK 9,406,935 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	2013	2012
ČEZ Distribuční služby, s.r.o.	1,129,703	536,363
ČEZ Měření, s.r.o.	-	210,208
ČEZ Logistika, s.r.o.	-	252,672
ČEZ Prodej, s.r.o.	817,797	1,008,992
ČEZ ICT Services, a. s.	110,662	213,119
ČEZ, a. s.	34,878	74,777
ČEZ Zákaznické služby, s.r.o.	54,443	60,578
ČEZ Korporátní služby, s.r.o.	27,681	24,058
ČEZ Obnovitelné zdroje, s.r.o.	193	25,877
Teplárna Trmice, a.s.	-	20,970
MARTIA a.s.	9,787	1,855
ÚJV Řež, a. s.	-	122
Elektrárna Chvaletice a.s.	-	82
ČEZ Energetické služby, s.r.o.	774	603
ČEZ Energo, s.r.o.	4	7,348
Energotrans, a.s.	20,433	13,189
ČEZ Teplárenská, a.s.	242	142
Severočeské doly a.s.	2	2
Elektrárna Dětmorovice, a.s.	466	-
CITELUM, a.s.	191	37
LOMY MOŘINA spol. s r.o.	2	-
OSC, a.s.	114	482
SINIT,a.s.	624	2,557
Total	2,207,996	2,454,033

19. Other Operating Revenues

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

20. Statement of Cash Flows

The cash flow statement was prepared under the indirect method.

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

Identification of ČEZ Distribuce, a. s.

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

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

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

License number: 121015583
OTE registration number: 715

Closing date of 2013 Annual Report: April 24, 2014



www.cezdistribuce.cz



Group Structure Chart
Alphabetical List of Companies – Group Members

