



**DISTRIBUCE**

**IN**



ČEZ Distribuce, a. s. Annual Report 2015

$$\frac{PL}{h} \times \left( \text{Image of a man holding a brain} \right) + \left( \frac{U}{Q} \right)$$

$$OLT_c \times \frac{22^{kV}}{0.4} \left( \frac{S_s}{P} \right)$$

$$\sqrt{\frac{GRID_4EU}{V_{SR}}} \left( \text{Image of a woman sitting on a chair} \right) \pm$$

Number of  
Connection Points  
3,608,324

Revenue From Sales of  
Electricity Distribution  
CZK 51,788m

$$)^3 + 21_p ( \text{Director} ) +$$

$$)^3 \times ( \text{Ping Pong} ) + E^2 +$$

**5<sup>D</sup> = formula of the future**

EBITDA  
CZK 15,227m

Capital Expenditures  
CZK 7,697m

**N \* VAT<sub>i</sub> () N =**

The word **INNOVATIONS** has another two words in it —**IN + OVATIONS**. For us, being **IN** means going in the right direction, taking part in the long-term global trend of developing and building smart grids, smart buildings, smart technologies.

The word **OVATIONS** (ovatio in Latin) meant honors received by victorious commanders in the Roman Republic. These honors or acknowledgements of gratitude go to all our enthusiastic and smart colleagues who come up with excellent ideas and work hard for them. It is mainly thanks to them that ČEZ Distribuce is what it is today—an energetic leader coming up with new solutions.

And so... if we split **INNOVATIONS** into **IN + OVATIONS**, we get a precise mathematical formula. If we combine the state of the art and a constant flow of new energy that our employees pour into our projects, we get a formula for our future.

# The future of energy

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The ČEZ Distribuce, a. s. 2015 Annual Report contains QR codes that link to specific web pages (**www**) mentioned in the main text or next to the QR code.

To read a QR code, you need a mobile phone with a camera and some “QR code reader” software installed, and to view a web page you 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

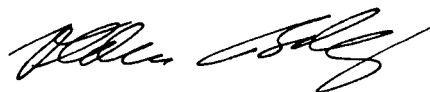
### Statutory Declaration

The information presented in the ČEZ Distribuce, a. s. 2015 Annual Report corresponds to facts and no significant circumstances that could affect the accurate and correct assessment of ČEZ Distribuce, a. s. have been omitted or misrepresented.

Děčín, April 6, 2016



Ing. Richard Vidlička, MBA  
Chairman of the Board of Directors



Ing. Vladimír Budinský, MBA  
Vice-Chairman of the Board of Directors





# INDEPENDENT AUDITOR'S REPORT

(Translation of a report originally issued in Czech –  
see Note 2 to the financial statements.)

## 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 2015, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of ČEZ Distribuce, a. s., see Note 2 to the financial statements.

### Management's Responsibilities for the Financial Statements

Management is responsible for preparation and presentation of financial statements that give a true and fair view 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 Responsibilities

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 of financial statements that give a true and fair view 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 give a true and fair view of the financial position of ČEZ Distribuce, a. s., as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

### Other Information

Other information comprises information included in the annual report other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information included and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and whether the annual report has been prepared in accordance with applicable law or regulation. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young Audit, s.r.o.

License No. 401



Martin Skácelík, Auditor

License No. 2119

11 April 2016

Prague, Czech Republic

# INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Ladies and gentlemen,

Our 2015 results confirmed the ongoing trend of increases in ČEZ Distribuce's value. The value of the Company's property, plant, and equipment grew by almost CZK 3bn; we installed 336 new distribution transformer stations in the distribution system, built 628km of new lines, and connected 19,285 new customers. ČEZ Distribuce generates added value for the shareholder at an almost constant amount and creates the conditions for further Company development.

We caught the trend in both new technologies and legislation changes in time, which allows us now to meet the targets for energy efficiency. A specific example would be our processes and technical procedures now including a simplified procedure for connecting generating facilities with up to 10kW installed capacity.

A major success of the entire Company was the successful completion of the Vrchlabí Smart Region EU project, the results of which are shared across EU countries. In my opinion, this is an example of a responsible deployment of modern technologies to protect the environment, automate operation, and enhance the safety of electricity supplies to clients. We achieve such successes thanks to a long-defined vision. We support the vision by our Strategy for Distribution Assets Development Until 2030, which was prepared with the help of our shareholder and approved in 2015. The Strategy reflects the EU and national targets for the energy sector and defines actions to meet them. Let me thank all those who participated in its preparation. From the perspective of our operations, we highly intensified our cooperation with the operator of the electricity transmission system, which allowed us to connect additional electricity generation facilities in node areas, such as Vítkov in the Karlovy Vary Region or Milín in the Central Bohemian Region. With its activities, the Company efficiently supports the formation of business zones and creates the conditions for major investors coming to the Czech Republic.

Safety, social responsibility, and protection of the environment are inherent parts of our corporate culture. This is documented by our successful recertification as a "Safe Enterprise." ČEZ Distribuce's responsible approach to environmental protection was also evidenced by the results of a surveillance audit, which verified our compliance with the ČSN EN ISO 14001 standard.

What I personally see as highly positive is the increased engagement of both the Company and its employees in public benefit activities. Our business activities respect the pillars of social responsibility and sustainable development. We successfully create the conditions for Company employees' volunteering; we donated more money to charitable and endowment purposes; many of us participate in work for the Jedlička Institute in Liberec.

On behalf of the Board of Directors of ČEZ Distribuce, I thank our employees for the good work and for their approach to their own development and perception of social responsibility. I also thank our partners for their collaboration and high performance. I believe that keeping on the path we have embarked on will lead to successful development of our Company.



**Richard Vidlička**  
Chairman of the Board of Directors  
and Chief Executive Officer of  
ČEZ Distribuce, a. s.

# SELECTED INDICATORS

## Selected Financial Indicators

	Unit	2012	2013	2014	2015
Workforce headcount as at December 31	Number	1,191	1,208	1,228	1,470
Revenues from sales of own products and services	CZK millions	52,365	57,063	50,260	52,008
of which: revenue from sales of electricity distribution	CZK millions	52,126	56,839	50,038	51,788
EBITDA	CZK millions	12,062	15,487	15,489	15,227
EBIT	CZK millions	5,739	8,948	8,742	8,421
Net income	CZK millions	4,306	6,876	6,769	6,613
Total assets	CZK millions	132,046	139,368	136,150	139,132
Equity	CZK millions	86,165	90,042	91,095	92,766
Net debt	CZK millions	18,993	13,034	13,269	13,197
Total debt to total capital	%	22.75	20.77	19.43	20.27
Capital expenditures	CZK millions	8,594	7,879	7,953	7,697
Operational cash flow	CZK millions	10,768	16,694	13,334	12,777

Selected Sector-Specific Indicators

	Unit	2012	2013	2014	2015
Service area	km <sup>2</sup>	52,001	52,001	52,001	52,001
Number of connection points	Number	3,566,175	3,575,188	3,589,039	3,608,324
of which: HV, MV—large end customers	Number	14,593	14,682	14,706	14,829
LV—commercial retail	Number	450,114	443,071	440,380	437,762
LV—residential retail	Number	3,101,468	3,117,435	3,133,953	3,155,733
Peak load	MW	6,159	5,583	5,461	5,393
Installed line length	km	159,456	160,915	162,583	163,211
of which: HV	km	9,745	9,782	9,808	9,834
MV	km	50,217	50,483	50,579	50,651
LV	km	99,494	100,650	102,196	102,726
MV/LV transformer stations	Number	57,423	57,510	57,918	58,259
of which: owned by the Company	Number	43,956	44,547	45,076	45,412
owned by a third party	Number	13,467	12,963	12,842	12,847
HV/HV, HV/MV transformer stations	Number	233	238	239	239

**D** 15

# The LODIS Project Validated Smart Technologies for Local Optimization of Energy Flows

# 20%

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In 2014 and 2015, we undertook a pilot project named LODIS to validate our hypothesis of flow optimization in a low-voltage grid.

# )

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At one time, conventional electric meters were the state of the art. They are now being replaced with smart meters that are capable of not only monitoring but also regulating electricity consumption. [IN](#) In our pilot project for balancing local consumption and generation control (LODIS) undertaken in the past two years, we verified that we can use AMM smart technologies to ensure local optimization of energy flows—switching on the low tariff for individual connection points based on expected consumption and generation. [OVATIONS](#) According to our measurements, the success rate of optimization at the times of generation was about 20% higher with all digital meters than with fixed meters fitted with a switch. Thus, we confirmed that we are capable of regulating electricity consumption using our technology, saving customers' money as well as the environment. [INNOVATIONS](#)



**PL**

**h**

**X**

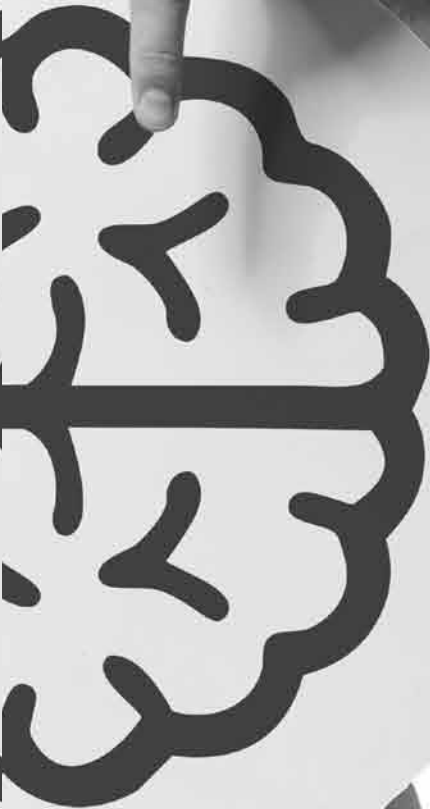
**(AMM)**

**LV**

**3**

**AIR  
CONDITIONING**

**HEATING**



# KEY EVENTS OF 2015 AND 2016 UNTIL THE ANNUAL REPORT CLOSING DATE



## Key Events of 2015

### January

- The effectiveness of our Geoportal (visit <https://geoportal.cezdistribuce.cz/geoportal/> <sup>1</sup> for more information) was evaluated after three years of operation (officially launched on January 1, 2012); in 2014, it served more than 128,000 reports on existing utility lines, which is 38% of all requests received during the Geoportal's three-year lifetime (a year-on-year growth of 22%), and more than 31,000 digital data sets for ČEZ Distribuce's in-house and third-party projects; customers especially appreciate the speed at which they can get the information they need, which is illustrated by 93% of reports on existing utility lines being processed automatically in 2014;
- On January 9 through 11, severe weather (strong gusty winds) caused a substantial increase in the number of faults in distribution system infrastructure; there were 1,496 faults in total (985 LV, 510 MV, 1 HV);
- A pilot laser scanning project was implemented in selected areas of eastern Bohemia and eastern Moravia by MDP GEO, s.r.o.; the project aimed to obtain more precise data and records concerning the location of overhead MV and HV lines (for more information, visit <http://www.mdpggeo.cz/25772n-laserscanning-dpz-3d-mapovani> <sup>2</sup>).

### February

- Following the implementation of technical and organizational measures by ČEZ Distribuce, a. s. and ČEPS, a.s., the Vítkov node area in the West region was conditionally opened for the connection of generating facilities;
- A pilot project for "Reliability Centered Maintenance at Selected DS Elements" was launched;
- Zdeněk Pavlovič was nominated to the Board of the CIRED Czech National Committee.



<sup>1</sup> www



<sup>2</sup> www



## March

- On March 10, 2015, a decision to amend the Company's bylaws was made by the sole shareholder exercising the powers of the General Meeting; in Article 14(1), the number of members of the Board of Directors was changed from five to six;
- On March 16 and 17, 2015, members of the Board of Directors held workplace meetings with employees in the West region;
- On March 31, 2015, Petra Šárová and Karel Kohout finished their service on the Board of Directors.

## April

- Based on the sole shareholder's decision, Tomáš Murtinger and Jiří Kudrnáč became members of the Board of Directors with effect from April 1, 2015;
- Members of the Board of Directors held workplace meetings with employees in the Moravia, East, and Center regions;
- On April 16, 2015, the Board of Directors of ČEZ Distribuce, a. s. approved the "Annual Report on Measures Adopted to Implement the Distribution System Operator's Equal Treatment Program in 2014";
- On April 21, 2015, Company representatives presented examples of new technologies deployed under the Vrchlabí Smart Region project to Deputy Prime Minister Pavel Bělobrádek (visit <http://www.cezdistribuce.cz/cs/pro-media/tiskove-zpravy/243.html> for more information <sup>1</sup>);
- Substation reconstruction was started at the 110/22kV Litoměřice South TS, following the implementation of flood protection measures resulting from the 2013 floods.

## May

- Members of the Board of Directors held workplace meetings with employees in the West and North regions;
- ČEPS, a.s. started reconstruction of the 110kV Nošovice substation, resulting from the replacement of transformers T401 and T402 with new 350MVA transformers;
- On May 12 and 13, 2015, a seminar on LV & MV structures and communication with customers was held in Nymburk; the seminar was attended by 193 contractual design engineers and 148 contractors;
- On May 29, 2015, the Amazon Fulfillment Center in Dobrovíz was connected to the distribution grid of ČEZ Distribuce, a. s.

## June

- On June 18, 2015, tests carried out under the Vrchlabí Smart Region project verified functionality of a great deal of newly commissioned equipment (for more information, visit <http://www.cezdistribuce.cz/cs/pro-media/smart-region.html> <sup>2</sup>);
- On June 22 and 23, 2015, a regular meeting of the Board of Directors and the General Assembly of the European Distribution System Operators' Association (EDSO) for Smart Grids was held in Milan; representatives from the individual committees (Policy Committee, Project Committee, and Technology Committee) presented working groups' outputs from the past period and discussed the future strategy and main topics to be addressed by the committees;
- On June 24, 2015, employees of ČEZ Distribuce, a. s. and clients of the Jedlička Institute in Liberec had their traditional meeting;
- Since our existing "Safe Enterprise (SE)" certificate was expiring on October 23, 2015, the Regional Labor Inspectorate for the Ústí nad Labem Region and Liberec Region initiated a standard review of compliance with SE requirements for periodic recertification;
- Our future strategy for data circuits was approved.



## July

- In the night of July 7–8, 2015, the entire distribution area of ČEZ Distribuce, a. s. was hit by Storm Edgar; a state of disaster was declared in the Ústí nad Orlicí area and in northern Moravia.

## August

- The extension of the reconstruction of the 110kV Kolín-Ovčáry substation was completed; it will allow connecting additional consumers in the distribution area supplied by the substation, including the Kolín-Ovčáry industrial zone;
- ČEZ Distribuce, a. s. underwent an external audit under the SE program, conducted by Regional Labor Inspectorates, and was recertified as a “Safe Enterprise”;
- By the sole shareholder’s decision of August 25, 2015, Vladimír Budinský was elected as a member of the Company’s Board of Directors with effect from October 1, 2015.

## September

- The strategic Vrchlabí–Nová Paka building project—reconstruction of a HV line and optical ground wire—was completed; it will improve the reliability of electricity supply in the region;
- Collective bargaining started on amendment No. 10 to the effective collective agreement, with expected effect from January 1, 2016;
- On September 23–24, 2015, ČEZ Distribuce, a. s. co-organized the Energy School-Leaving Exam in Kladno, aimed at familiarizing the participants, 2nd- and 3rd-year electrical trades students, with the workings of electricity distribution (for more information, visit <http://www.cez.cz/cs/pro-media/tiskove-zpravy/5020.html> <sup>1</sup>);
- A framework contract was made with the Czech Road and Motorway Directorate for building construction, repair, construction work, and line relocation for the Company’s distribution system infrastructure;
- By the sole shareholder’s decision of September 29, 2015, Richard Vidlička and Pavel Filipi were elected as members of the Company’s Board of Directors with effect from October 2, 2015.

## October

- At the meeting of the Company’s Board of Directors held on October 2, 2015, Richard Vidlička and Vladimír Budinský were elected Chairman and Vice-Chairman of the Board of Directors, respectively;
- On October 12, 2015, a new logo of ČEZ Distribuce, a. s. was approved (for more information, visit <http://www.cezdistribuce.cz/cs/pro-media/loga.html> <sup>2</sup>);
- The reconstruction of the Pečky–Nymburk HV line was completed, increasing its transmission capacity.

## November

- On November 5 and November 19, 2015, employer representatives and labor unions held new rounds of collective bargaining concerning amendment No. 10 to the effective collective agreement;
- On November 10–11, 2015, the 19th conference of the CIRED Czech National Committee, with the active involvement of Company employees, took place in Tábor;
- On November 18, 2015, Company management held workplace meetings with employees in northern Bohemia;
- On November 18–19, 2015, ČEZ Distribuce, a. s. underwent a periodic Surveillance Audit of environmental protection conducted by CQS - Association for Quality System Certification, with the result that it fully complies with the requirements of ČSN EN ISO 14001;
- Ivo Hlaváč, Chief External Relations and Regulation Officer at ČEZ, a. s., held meetings with managers of ČEZ Distribuce, a. s. in the West, North, and Center regions;
- Extension and reconstruction of the existing 110kV substation at Plzeň Škoda Central Power Station III were completed; this will allow connecting a new 100MW unit and a 23MW peaking unit;
- Reconstruction of the 110/22kV Milovice transformer station was completed.



<sup>1</sup> www



<sup>2</sup> www

## December

- The Supervisory Board of ČEZ Distribuce, a. s. approved the Company's strategy for 2030;
- On December 10, 2015, the new website of ČEZ Distribuce, a. s. was launched (for more information, visit <http://www.cezdistribuce.cz/cs/pro-media/tiskove-zpravy/159.html> **1**);
- Reconstruction of the existing 110kV Albrechtice substation was completed; it will raise the substation's short-circuit strength from 20kA to 40kA, allowing for the connection of additional generating facilities;
- A donation was provided to the Institute for Clinical and Experimental Medicine (IKEM) to purchase additional equipment for the Preventive Cardiology Department (for more information, visit <http://www.cezdistribuce.cz/cs/pro-media/tiskove-zpravy/263.html> **2**);
- Employees of ČEZ Distribuce, a. s. granted the Christmas wishes of clients of the Jedlička Institute in Liberec during their traditional visit;
- In late 2015, there was a meeting of the authors of the Engineering Information Portal (EIP), which has the benefit of quickly sharing information that is currently stored on various storage media or in hard copy form;
- Construction of a new 110/22kV Bavoryně transformer station was completed.

## Key Events of 2016 Until the Annual Report Closing Date

### January

- On January 1, 2016, the Albrechtice node area was opened for the connection of electricity generation facilities;
- On January 19, 2016, the final conference of the European Union's GRID4EU project ([www.grid4eu.eu](http://www.grid4eu.eu) **3**) was held in Paris; ČEZ Distribuce, a. s. participates in GRID4EU through the Vrchlabí Smart Region project;
- ČEZ Distribuce, a. s. is publishing information on a new tariff system for its clients on its website [www.cezdistribuce.cz](http://www.cezdistribuce.cz) **4**;
- A strategic construction project was started: reconstruction of the Bohemia Center–Pečky 110kV line to increase line transmission capacity;
- At the request of the Federation of Electric Power Companies of Japan, we held discussions concerning renewable energy sources, smart technologies, cybersecurity, and improvements in operational efficiency.

## February

- ČEZ Distribuce, a. s. was the general partner of an international science fair for electrical trades students, held at the end of the month in Chomutov;
- Reconstruction of the 110kV Bohemia Center–Pečky and Pečky–Kolín West lines, Stage III, started;
- On February 22, the Karlovy Vary Region hosted a meeting at which ČEZ Distribuce, a. s. and ČEPS, a.s. jointly informed the leaders of the Karlovy Vary Region about additional capacities available for connecting new generating facilities in the Vítkov node area;
- On February 29, 2016, Jaroslav Janda finished his service on the Supervisory Board.

## March

- Snowstorm Bedřich hit the Central Bohemia region in the distribution area of ČEZ Distribuce, a. s.; the Company declared a state of disaster on Tuesday, March 1, at 6.00 a.m. due to multiple concurrent faults; the state of disaster was terminated the next day;
- Based on the sole shareholder's decision, Vladimír Říha became a member of the Supervisory Board with effect from March 1, 2016;
- On March 31, 2016, Pavel Filipi finished his service on the Board of Directors.

## April

- Based on the sole shareholder's decision, Pavel Šolc became a member of the Board of Directors with effect from April 1, 2016.



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



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



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



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

In accordance with applicable legislation and the bylaws of ČEZ Distribuce, a. s., the General Meeting elects and removes members of the Board of Directors, Supervisory Board, and Personnel Committee. Employees elect employee candidates for the Supervisory Board.

### Supervisory Board

The Supervisory Board is the Company's control body; it supervises the exercising of the Board of Directors' powers and the conducting of the Company's business activities. In compliance with the current bylaws, the General Meeting elects six members of the Supervisory Board, including two members elected from candidates elected by employees according to the Company's Election Rules. Details of the Supervisory Board's sessions, approval procedure, meetings, and decision making are specified by the Rules of Procedure in accordance with the bylaws.

#### Members of the Supervisory Board

##### Ivo Hlaváč (b. 1976)

**Member of the Supervisory Board since March 1, 2014**

**Chairman of the Supervisory Board since May 28, 2014**

A graduate of the Faculty of Arts, Palacký University, Olomouc, majoring in sociology.

He currently holds the position of Chief External Relations and Regulation Officer at ČEZ, a. s.

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

##### Tomáš Pleskač (b. 1966)

**Member of the Supervisory Board since January 1, 2012**

**Vice-Chairman of the Supervisory Board since March 9, 2016**

A graduate of the Faculty of Business and Economics, University of Agriculture (today Mendel University) in Brno; MBA from Prague International Business School.

He currently holds the position of Chief Renewables Officer at ČEZ, a. s.

He is a member of the Board of Directors of ČEZ, a. s., Vice-Chairman of the Board of Directors of Akenerji Elektrik Üretim A.Ş. (Turkey), Vice-Chairman of the Board of Directors of Akcez Enerji Yatırımları Sanayi ve Ticaret A.S. (Turkey), Chairman of the Board of Directors of CM European Power International B.V. (Netherlands), member of the Supervisory Board of CEZ Razpredelenie Bulgaria AD, Chairman of the Supervisory Board of CEZ Bulgaria EAD, member of the Supervisory Board of CEZ Romania S.A.

##### Vladimír Říha (b. 1962)

**Member of the Supervisory Board since March 1, 2016**

A graduate of the College of Electrical Engineering in Wiesbaden, Germany.

He currently holds the position of Director of Ownership Interest Administration at ČEZ, a. s.

He is a member of the Supervisory Boards of ČEZ Korporátní služby, s.r.o.; ČEZ Zákaznické služby, s.r.o.; ČEZ Elektro Bulgaria AD; and Eco-Wind Construction S.A.

##### Petr Štulc (b. 1968)

**Member of the Supervisory Board since June 1, 2014**

A graduate of the Faculty of Natural Sciences and Faculty of Mathematics and Physics of Charles University in Prague.

He currently holds the position of Director of Business Development at ČEZ, a. s.

He is the Vice-Chairman of the OECD BIAC Energy Committee and a member of Eurelectric's Energy Policy & Generation Committee. He is also a member of the Supervisory Boards of Veolia Energie ČR, a.s.; Jadrová energetická společnost Slovenska, a. s.; and Akenerji Elektrik Üretim A.Ş.

##### Karel Čech (b. 1958)

**Member of the Supervisory Board elected by employees**

**since January 1, 2012**

A graduate of an industrial school of electrical engineering.

He works as a senior supplier management engineer in the Grid Renovation and Maintenance section of ČEZ Distribuce, a. s.

##### Irena Klůsová (b. 1953)

**Member of the Supervisory Board elected by employees**

**since January 1, 2012**

A graduate of an industrial school of civil engineering.

She works as an assistant/coordinator in the CEO's section of ČEZ Distribuce, a. s.

She is a member of the Board of Trustees of the CEZ GROUP SENIORS Endowment Fund.

#### Members of the Supervisory Board Whose Membership Terminated in 2015 or Before the Annual Report Closing Date

##### Jaroslav Janda (b. 1945)

**Vice-Chairman of the Supervisory Board from January 24, 2012 to February 29, 2016**

## Board of Directors

The Board of Directors is the Company's statutory governing body, which manages its activities and acts on its behalf. Members of the Board of Directors are elected and removed by the General Meeting. The powers of the Board of Directors are defined by the Company's bylaws approved by the General Meeting. The Board of Directors makes decisions on all Company matters unless they are reserved for another company body by law or the Company's bylaws.

Details of the Board of Directors' sessions, approval procedure, meetings, and decision making are specified by the Rules of Procedure of the Board of Directors of ČEZ Distribuce, a. s. The Board of Directors has six members; members elect and remove their Chairperson and Vice-Chairperson.

Pursuant to law and the Company's bylaws, the Supervisory Board is notified of selected matters or asked for an opinion or prior authorization of the Board of Directors' decision.

### Members of the Board of Directors

#### Richard Vidlička (b. 1966)

Chairman of the Board of Directors since October 2, 2015

A graduate of the Faculty of Commerce, University of Economics, Prague. MBA from the University of Pittsburgh, Joseph M. Katz Graduate School of Business.

He is a member of the Board of Directors of EDSO for Smart Grids (Brussels), Vice-Chairman of Eurelectric's DSO Committee, and member of the Board of Trustees of the Czech Association of Regulated Power Supply Companies (CARPSC).

#### Vladimír Budinský (b. 1959)

Vice-Chairman of the Board of Directors since October 1, 2015

A graduate of the Faculty of Civil Engineering, Czech Technical University, Prague. MBA from the Masaryk Institute, Czech Technical University in Prague / Sheffield Hallam University. He is the Vice-President of Euracoal and Vice-Chairman of UNECE's Group of Experts for Cleaner Electricity Production.

#### Radim Černý (b. 1974)

Member of the Board of Directors since June 1, 2012

A graduate of the Faculty of Electrical Engineering, University of West Bohemia, Plzeň.

#### Jiří Kudrnáč (b. 1965)

Member of the Board of Directors since April 1, 2015

A graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague.

#### Tomáš Murtinger (b. 1978)

Member of the Board of Directors since April 1, 2015

A graduate of a bachelor's program of the Faculty of Informatics and Statistics, University of Economics, Prague.

#### Pavel Šolc (b. 1962)

Member of the Board of Directors since April 1, 2016

A graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague.

### Members of the Board of Directors Whose Membership Terminated in 2015 or Before the Annual Report Closing Date

#### Pavel Filipi (b. 1953)

Member of the Board of Directors from October 2, 2015 to March 31, 2016

#### Petra Šárová (b. 1968)

Vice-Chairwoman of the Board of Directors from October 1, 2010 to March 31, 2015

#### Karel Kohout (b. 1953)

Member of the Board of Directors from March 1, 2012 to March 31, 2015

### Principles of Remuneration of Members of the Board of Directors and Supervisory Board

The principles of remuneration of members of the Board of Directors and the Supervisory Board are governed by rules approved by the Company's General Meeting and incorporated in service contracts with members of the Board of Directors and the Supervisory Board, as approved by a decision of the sole shareholder exercising the powers of the General Meeting. Specific tasks for individual members of the Board of Directors are also approved by a decision of the sole shareholder exercising the powers of the General Meeting, as is the evaluation of their fulfillment, which, in accordance with the rules of unbundling, is dependent solely on the Company's performance. Such specific tasks are evaluated annually. ČEZ Distribuce, a. s. did not grant any credit or loan to members of the Board of Directors or the Supervisory Board and did not assume any liability or guaranty or performance on their behalf in 2015.

## Members of the Board of Directors



**Richard Vidlička**  
Chairman of the Board  
of Directors



**Vladimír Budinský**  
Vice-Chairman of the Board  
of Directors





**Pavel Šolc**  
Member of the Board  
of Directors



**Radim Černý**  
Member of the Board  
of Directors



**Tomáš Murtinger**  
Member of the Board  
of Directors



**Jiří Kudrnáč**  
Member of the Board  
of Directors



$$\left( \frac{S_s}{P} \right) + 3$$



# Smart System for Safe and Reliable Electricity Supplies to an Area Protects Prague's Critical Infrastructure

A long-term blackout is a modern threat that greatly affects people's everyday lives and the economy of many companies. The Capital City of Prague therefore made a call for tenders in order to select a proposal for tackling such a blackout. [IN](#) We prepared the winning tender together with the Czech Technical University in Prague, PREdi, and Alpiq Generation, proposing an architecture and technical solution for managing a defined portion of the distribution system and coming up with algorithms for fault detection and the selection of optimum interventions to maintain safe system operation and ensure electricity supply to the territory of the Czech Republic's capital in case of emergency. [OVATIONS](#) The project will be completed during 2018. Through its application, we will participate in tackling a potential blackout in the capital of the Czech Republic. [INNOVATIONS](#)



We started to implement a project named Smart System for Safe and Reliable Electricity Supplies to an Area in 2015.

**E<sup>2</sup>**

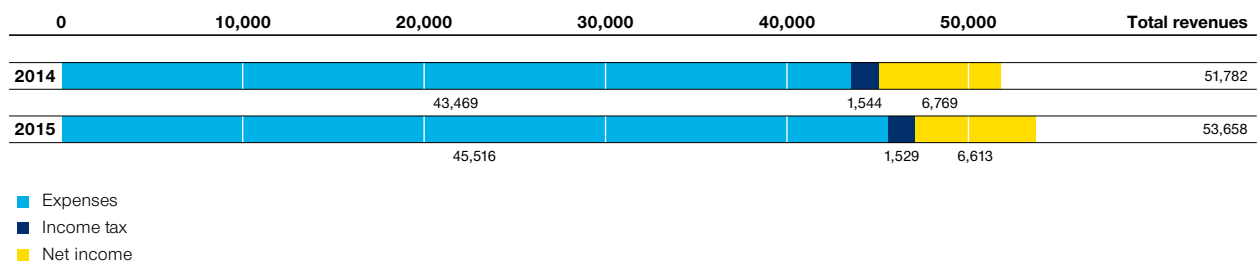
# REPORT ON OPERATIONS FINANCIAL PERFORMANCE

The joint stock company ČEZ Distribuce was formed under the Draft Terms of Domestic Merger by the Formation of a New Company with the merger record date of January 1, 2010 and came into existence by registration in the Commercial Register kept by the Regional Court in Ústí nad Labem, Section B, File 2145 on October 1, 2010.

Its core business is providing electricity distribution system services to individuals and legal entities.

## Revenues, Expenses, and Income

Income Structure (CZK Millions)



The Company's income before taxes was CZK 8,142m in 2015. The net income of CZK 6,613m means a decrease of CZK 156m in comparison with 2014.

Operating income was CZK 8,421m, which is CZK 321m less than in 2014, primarily due to a CZK 867m decrease in gross margin on electricity distribution.

Financing activities generated a loss of CZK 279m due to interest on borrowings; the loss is CZK 150m less than in 2014.

Total expenses without income tax were CZK 45,516m in 2015. The highest amounts were expended on covering costs associated with support for renewable electricity, on purchasing system, transmission, and distribution services, and on purchasing electric power to cover losses, totaling CZK 30,076m, followed by other production-related consumption of CZK 6,605m, depreciation and amortization of fixed assets amounting to CZK 6,806m, personnel expenses of CZK 1,154m, other expenses arising from operating activities of CZK 513m, and financial expenses of CZK 362m.

Total revenues amounted to CZK 53,628m in 2015 and consisted of revenue from sales of system and distribution services, including related components, amounting to CZK 51,788m; other revenues of an operating nature amounting to CZK 1,588m; and financial revenue amounting to CZK 82m. In comparison with 2014, total revenues increased by CZK 1,876m, of which revenues related to electricity distribution represent an increase of CZK 1,750m.

## Asset and Capital Structure

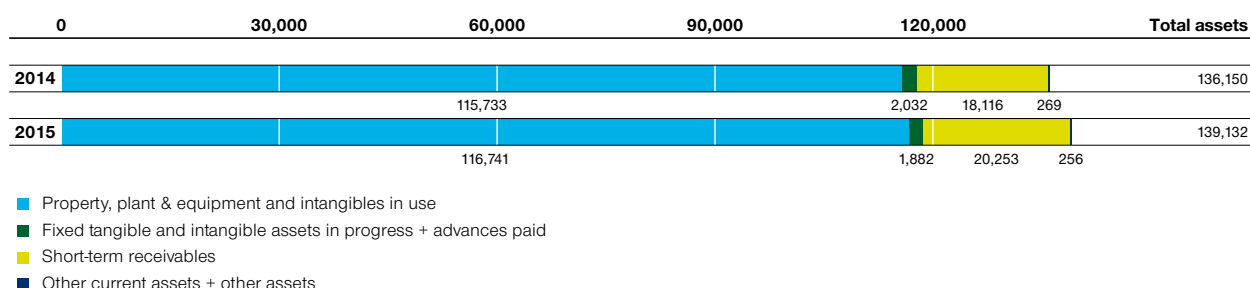
### Assets

Total assets reached CZK 139,132m, decreasing by CZK 2,982m against 2014.

Fixed assets reached CZK 118,623m, increasing by CZK 858m against 2014. The most significant item was buildings, halls, and constructions amounting to CZK 89,417m, followed by separate movable items amounting to CZK 26,091m, construction work in progress amounting to CZK 1,717m, land amounting to CZK 844m, and intangible fixed assets amounting to CZK 391m.

Current assets in 2015 increased by CZK 2,129m on the year before, amounting to CZK 20,473m. The highest amounts were contingencies amounting to CZK 10,548m, which represents mostly unbilled deliveries of services related to electricity distribution; receivables from the controlling and managing entity within Group cash pooling, amounting to CZK 7,473m; short-term trade receivables, amounting to CZK 1,622m; short-term advances paid, amounting to CZK 609m; and materials amounting to CZK 148m. Accruals reached CZK 36m, decreasing by CZK 5m against 2014.

**Structure of Assets (CZK Millions)**

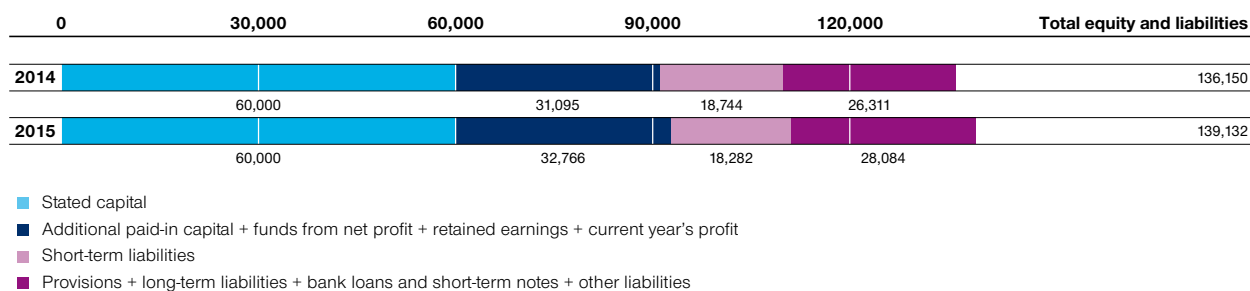


**Equity and Liabilities**

The value of equity reached CZK 92,766m, growing by CZK 1,671m against 2014. The largest items of equity were the stated capital registered in the Commercial Register, amounting to CZK 60,000m; legal reserve of CZK 12,000m; profits of past years amounting to CZK 14,152m; and the current year's profit of CZK 6,613m.

Liabilities totaled CZK 38,578m, increasing by CZK 1,389m on the year before. The largest amounts were deferred taxes, amounting to CZK 11,453m; short-term advances received, amounting to CZK 10,891m; long-term liabilities to group companies with majority interest, amounting to CZK 8,358m; contingencies (estimated liabilities) amounting to CZK 3,707m; short-term trade payables, amounting to CZK 2,308m; and short-term liabilities to group companies with majority interest, amounting to CZK 858m. Other liabilities, consisting primarily of deferred revenue from connection applicants' contributions, were CZK 7,787m, decreasing by CZK 79m on the year before.

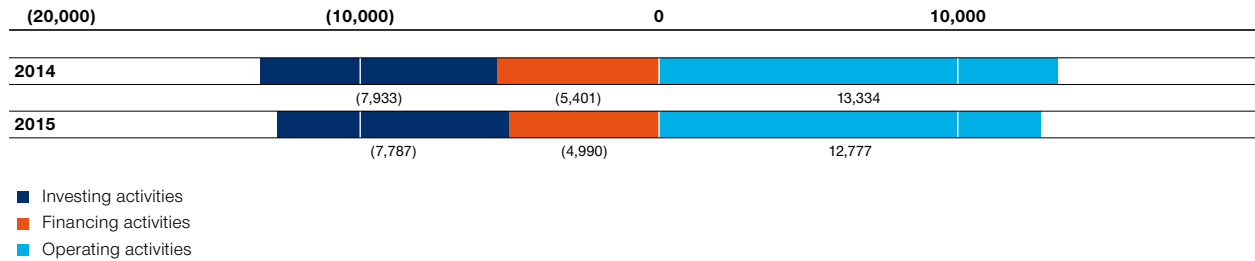
**Structure of Equity and Liabilities (CZK Millions)**



## Company Financing

### Cash Flows

#### Cash Flow Summary (CZK Millions)



Short-term financial assets were CZK 0.05m as at December 31, 2015.

Cash from operating activities, amounting to CZK 12,777m, was generated by the following:

Profit on ordinary activities before taxation	CZK 8,142m
Corporate income tax paid	CZK (1,646m)
Depreciation and amortization of fixed assets, write-offs	CZK 6,827m
Changes in working capital	CZK 199m
Other operating activities	CZK (745m)

Cash used for investing activities totaled CZK 7,787m, with expenditure on the acquisition of fixed assets of CZK 7,877m accounting for the greatest part thereof.

Cash used for financing activities totaled CZK 4,990m; the amount included the payment of dividends amounting to CZK 4,942m, change in cash under Group cash pooling amounting to CZK 1,540m, and change in the balance of loans amounting to CZK (1,492m).

### Borrowings and Their Maturity

The Company had loans amounting to CZK 9,217m as at December 31, 2015. Of that amount, the long-term portion of loans amounted to CZK 8,358m and the current portion amounted to CZK 859m.

The loans mature on June 7, 2022 and December 31, 2025 and were provided to finance renovation and development of the distribution system at the MV and LV levels and for refinancing.

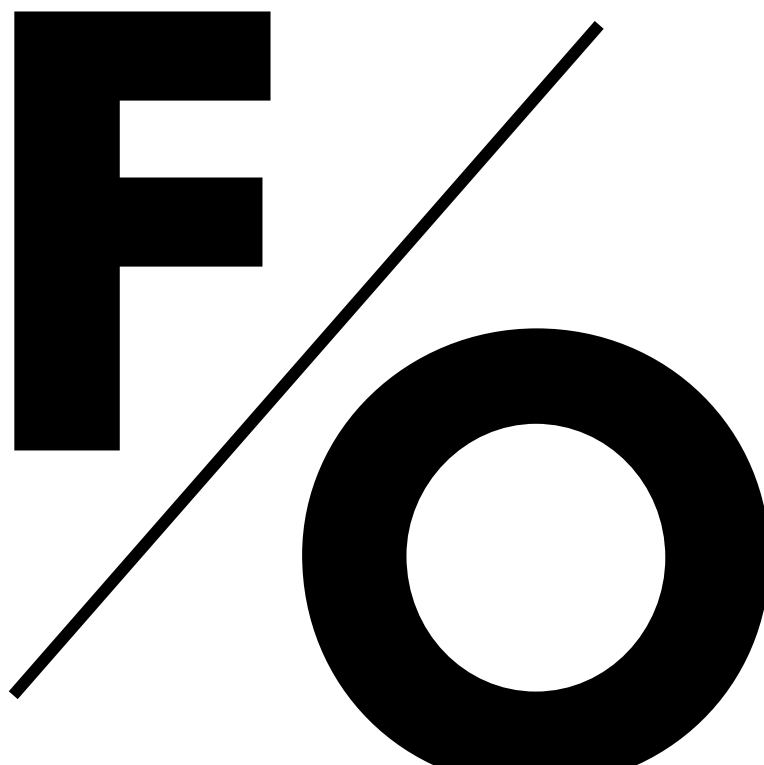
### Key Financial Indicators

	Unit	2014	2015
Return on equity, net (ROE Net)	%	7.47	7.19
Return on assets, net (ROA Net)	%	4.91	4.80
EBIT margin	%	16.94	15.72
Financial debt to equity	%	8.53	10.03
Net debt to EBITDA	%	85.50	86.67
Current ratio	%	69.09	78.67
Operating cash flow-to-debt ratio	%	74.43	64.49
Asset turnover	1	0.38	0.39
Fixed asset coverage	%	92.56	94.90
Depreciation-to-fixed assets ratio	%	53.33	54.02

# ECONOMIC AND FINANCIAL OUTLOOK FOR 2016

The year 2016 is the first year of the fourth regulatory period. The plan for purchases and sales of services related to electricity distribution is based on the anticipated consumption of electricity in the region served by ČEZ Distribuce, a. s. in 2016 and on the prices stipulated by the Energy Regulatory Office for 2016, which reflect the principles of regulated prices for both purchases and sales. The principles should ensure coverage of a distribution company's legitimate costs, including the generation of resources for distribution system renovation and development and revenue for shareholders.

The Company's plan for 2016 anticipates revenues from sales of own products and services amounting to CZK 49,180m, income before taxes of CZK 7,508m, and capital expenditure of CZK 8,362m.



# CAPITAL EXPENDITURES

## Capital Construction

The Company invested CZK 7,697m in distribution system renovation and development in 2015. Distribution system development involved most importantly ensuring sufficient distribution system capacity and taking care of connection requests by customers and generating facilities.

## Principal Investment Policy Targets

Main capital construction activities were focused on renovating distribution system infrastructure with the aim of improving the quality of supplies and the reliability and safety of distribution system operation. Development projects were prepared and undertaken in compliance with applicable law, especially the Energy Regulatory Office's Decree No. 540/2005 Sb., on the quality of electricity supplies and related services in the electricity sector, and current rules for the operation of distribution systems. Once again, capital expenditure was also made on Smart Region, a project to cover a selected area with a smart distribution grid that will allow efficiently combining electric power from traditional and alternative sources.

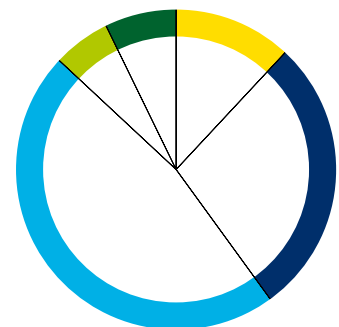
## Capital Expenditures in 2014 and 2015, Plan for 2016

### Capital Expenditures (CZK Millions)

	2014	2015	Plan for 2016
HV structures	1,354	926	805
MV structures	1,927	2,131	2,528
LV structures	3,365	3,655	3,952
Electricity meters	618	476	433
Ancillary investments	689	509	644
<b>Total</b>	<b>7,953</b>	<b>7,697</b>	<b>8,362</b>

### Capital Expenditures in 2015

	%
HV structures	12
MV structures	28
LV structures	47
Electricity meters	6
Ancillary investments	7
<b>Total</b>	<b>100</b>



## Investments in the Distribution System

Investment activities in 2015 were principally focused on MV and LV structures. CZK 5,786m was invested in such equipment in 2015. Most of the projects involved reconstructing and renovating underground and overhead lines, as well as constructing the MV parts of HV/MV transformer stations and MV/MV switching stations.

Investments in HV structures amounted to CZK 926m. Most of the projects concerned reconstructing and constructing new HV overhead lines and reconstructing TS/DS substations.

Investments in projects initiated at customers' request totaled CZK 2,099m.

### Major Projects

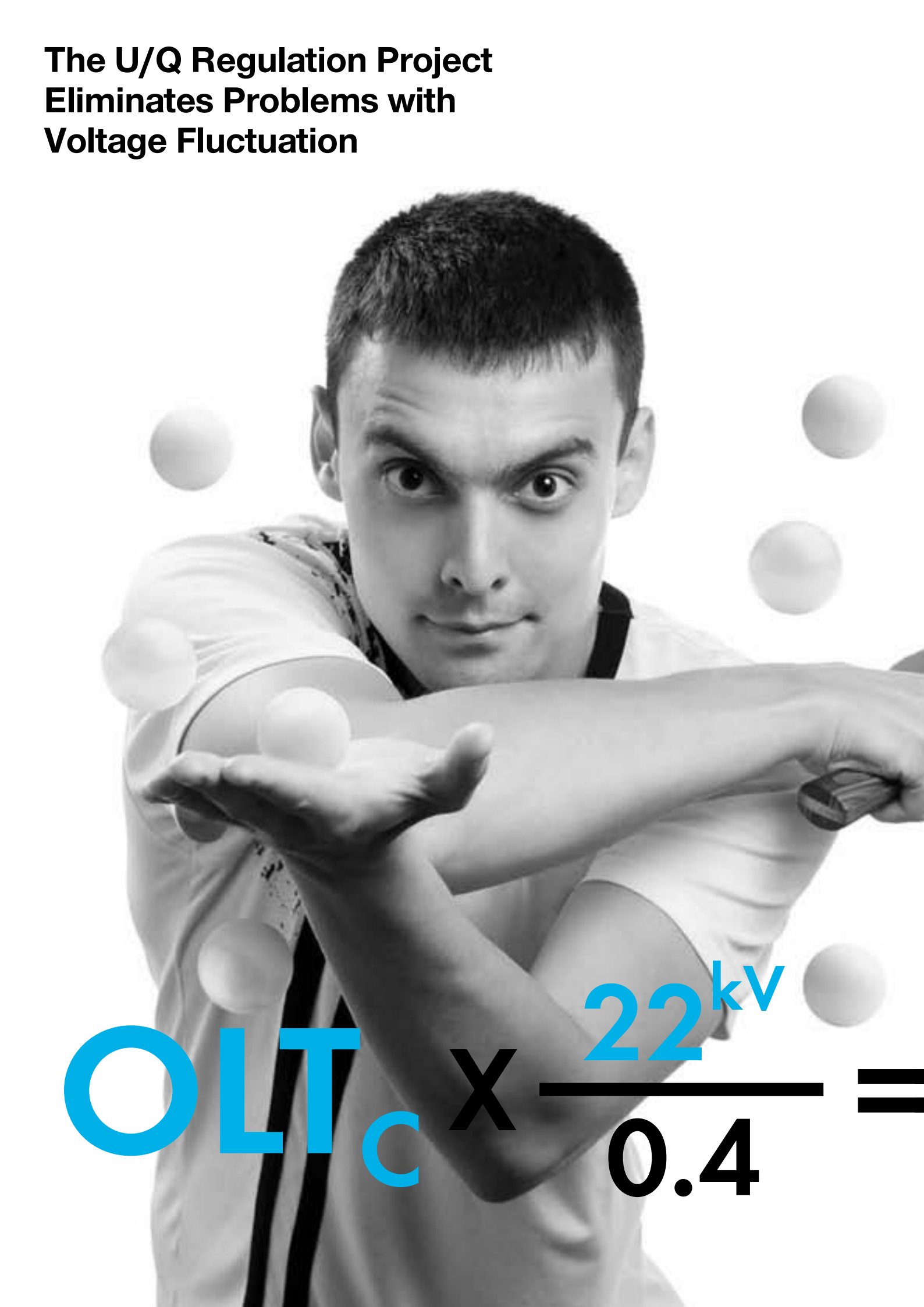
#### Internal investment projects:

- Albrechtice, reconstruction of a 110kV substation;
- Plzeň, Škoda Central Power Station III, reconstruction of a 110/22kV transformer station;
- Přeštice, reconstruction of a 110kV substation;
- Bavoryně, construction of a new 110/22kV transformer station;
- Litoměřice South transformer station, reconstruction of a 110/22kV substation—flood protection measure;
- Hradec Králové North 110/35kV transformer station—reconstruction of a 35kV substation;
- Milovice, reconstruction of a 110/22kV transformer station;
- Pečky–Nymburk, reconstruction of a HV line;
- Opočíněk–Týnec nad Labem, reconstruction of a 110kV line;
- Bohemia Center–Pečky, reconstruction of a 110kV line.

### Other

CZK 985m was invested in activities supporting main distribution processes, in particular the enhancement of operating and control systems and purchases of electricity meters.

# The U/Q Regulation Project Eliminates Problems with Voltage Fluctuation


$$OLT_c \times \frac{22^{kV}}{0.4} =$$





Electricity is a force that few people can imagine as a material quantity. Still, we can transport, store, or reroute it. Its level in low- and medium-voltage networks fluctuates depending on the output of decentralized generating facilities, which causes a lot of problems. We started a project in the Aš area to resolve these problems. [IN](#) We installed a 22/0.4kV OLTC transformer there that can eliminate problems with voltage fluctuation at the medium voltage level—in an area with a high number of renewable energy sources. [OVATIONS](#) Based on the pilot project's positive results, we will take similar steps in other locations. [INNOVATIONS](#)



$$= \left( \text{We started to implement our U/Q regulation project in the medium voltage network in 2015 and are planning to finish it in 2016.} \right) + \left( \frac{U}{Q} \right)^3$$

## INFORMATION ON THE COMPANY'S CORE BUSINESS

The Company's core business is providing electricity distribution system services to individuals and legal entities. The Company manages distribution system assets and controls the operation of the distribution system from its control center. In 2015, the distribution system was operated and maintained in line with quality standards and requirements defined in the Preventive Maintenance Regulations. The smooth operation of the distribution system during the year was negatively affected by five massive failures (including three disasters) caused by severe weather, during which there were 2,955 emergency interruptions of electricity distribution with impacts on customers that lasted more than three minutes. Besides these failures, the control center registered 32 faults in the HV system, 5,969 faults in the MV system, and 26,714 faults in the LV system that lasted more than three minutes and affected at least one customer. In addition, 6,778 damaged fuses were replaced in customers' main fuse boxes or feeder boxes.

The Company monitors and evaluates indicators concerning the quality and reliability of electricity supply and distribution and the quality of provided services.

### System Average Interruption Duration Index (Minutes)

	0	50	100	150	200	250	Total
2014							250.5
2015							274.4

One of the indicators is the System Average Interruption Duration Index (SAIDI), which represents the overall average outage duration per customer during the whole year. The value includes all emergency and planned interruptions that occurred directly in the Company's distribution system during the year with the exception of interruptions due to severe weather, which are excluded from the value.

ČEZ Distribuce, a. s. owns and operates the following distribution system assets:

### Distribution System Infrastructure

	Unit	2014	2015
<b>Installed line length</b>	<b>km</b>	<b>162,583</b>	<b>163,211</b>
of which: HV	km	9,808	9,834
MV	km	50,579	50,651
LV	km	102,196	102,726
<b>MV/LV transformer stations</b>	<b>Number</b>	<b>57,918</b>	<b>58,259</b>
of which: owned by the Company	Number	45,076	45,412
owned by a third party	Number	12,842	12,847
<b>HV/HV, HV/MV transformer stations</b>	<b>Number</b>	<b>239</b>	<b>239</b>



The Company's distribution system distributed 43,913GWh of electric power in 2015.

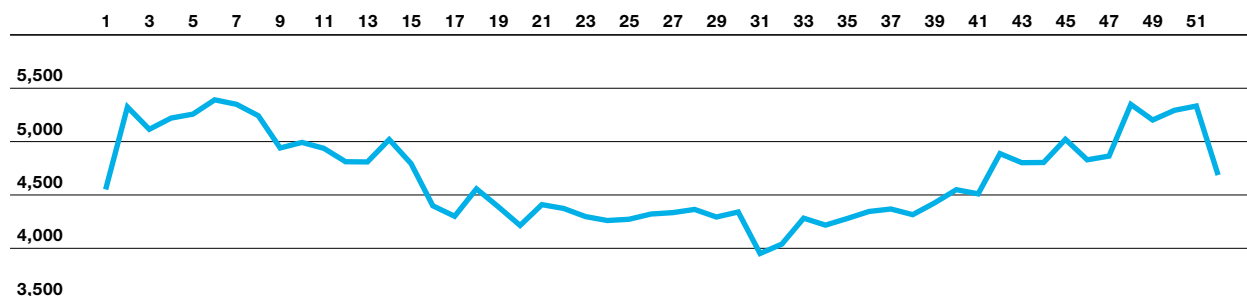
**Annual Figures on Electricity Distribution (GWh)**

	2014	2015
<b>System inflow</b>		
Supplied from transmission service providers' grids	23,094	23,778
Supplied from ČEZ, a. s. facilities	6,963	6,900
Supplied from neighboring distribution service providers	944	1,016
Supplied from facilities owned by other producers, including autoproducers	9,335	9,149
Supplied from other facilities	134	85
Imports (from abroad) at distribution service level	30	14
Distribution license holders (local distribution system)	2,831	2,971
<b>Total system inflow</b>	<b>43,331</b>	<b>43,913</b>
<b>System outflow</b>		
HV/MV customers	12,542	12,908
LV customers	13,641	13,819
Consumed by producers in distribution service providers' grids	1,765	1,884
Consumed by other facilities	134	85
Supplied to neighboring distribution service providers	5,806	5,861
Supplied to transmission service providers' grids	1,471	1,579
Exports (to abroad) at distribution service level	335	142
Distribution license holders (local distribution system)	5,570	5,528
Other consumption by distribution service providers	49	53
Losses	2,018	2,054
<b>Total system outflow</b>	<b>43,331</b>	<b>43,913</b>

Electricity inflow into the Company's distribution system was 43,913GWh in 2015. In respect of the total amount, 2015 is comparable to 2014. There was an increase of 1.34%, which is 582GWh more. The greatest percentage, 54.15%, was electricity inflow from the transmission service provider's grid, which was 23,778GWh. This is an increase of 684GWh over 2014. The amount of electricity acquired directly from the generating facilities of ČEZ, a. s. was 6,900GWh, which was 63GWh less than in 2014. In year-on-year terms, there was an increase of 72GWh in supplies from neighboring distribution service providers, a decrease of 186GWh in supplies from facilities owned by other producers, including autoproducers, and a decrease of 49GWh in electric power from other facilities. Imports from abroad decreased by 16GWh. Supplies from local distribution systems increased by 140GWh. The amount of electricity distributed to HV and MV customers increased by 366GWh year-on-year; electricity distributed at those voltage levels accounted for 29.39% of total supplies. The amount of electricity distributed at LV level increased by 178GWh, accounting for 31.47% of total supplies. Producers' consumption increased by 119GWh against 2014; other facilities' consumption decreased by 49GWh year-on-year. Supplies to neighboring distribution service providers increased by 55GWh year-on-year; their share in the total amount of electricity distributed was 13.35%. The amount supplied back to the transmission service provider's grid increased by 108GWh; exports to abroad amounted to 142GWh, decreasing by 193GWh year-on-year. Supplies to local distribution systems decreased by 42GWh year-on-year. Other consumption increased by 4GWh; losses increased by 36GWh.

The hourly maximum was 5,393MW and was achieved on February 5, 2015 at 6 P.M.

#### Weekly Maximums (MW)



ČEZ Distribuce, a. s. sells its services for electricity distribution to customers through electricity traders or by direct sales. In 2015, ČEZ Distribuce, a. s. had a framework contract with 106 active traders.

#### Number of Connection Points

	Unit	2014	2015
HV, MV—large end customers	Number	14,706	14,829
LV—commercial retail	Number	440,380	437,762
LV—residential retail	Number	3,133,953	3,155,733
<b>Total</b>		<b>3,589,039</b>	<b>3,608,324</b>

Around 20,000 new connection points were connected and around 17,000 connection points had their reserved capacity increased in 2015. Additionally, 183 new generating facilities with a total installed capacity of 26 MW were connected in 2015. CZK 528m was collected in contributions towards connection and capacity increases pursuant to Decree No. 51/2006 Sb., on conditions for connection to the electricity system, and CZK 1,983m was expended on fulfilling the requests in 2015.

#### New Connections, Increased Capacity

Voltage level	Expenditure on the distribution system (CZK millions)	Contributions collected (CZK millions)	Connected or increased (MW)
HV	26	9	83
MV	200	117	150
LV	1,757	402	444
<b>Total</b>	<b>1,983</b>	<b>528</b>	<b>677</b>

# SAFETY AND QUALITY MANAGEMENT, ENVIRONMENTAL PROTECTION

## Occupational Safety and Health

An optimally adjusted safety management system allowed the Company to keep a positive development trend in occupational safety and hygiene in the work environment. The good results were significantly helped by a certified OSH management system, implemented in line with the "Safe Enterprise" program. The Company was successfully recertified in 2015. During the recertification, the OSH management system in place was reviewed for compliance with the "Safe Enterprise" program established by the State Labor Inspection Office.

In a continued effort to enhance the level of safety, the Company focuses on closer cooperation with major contractors, especially in the field of work management with a focus on minimizing the number of incidents and consequent occupational injuries. The Company has registered a considerable improvement in contractors' approach to occupational safety in recent years.

## Fire Prevention

The Company's main objectives in the past year were continuous fire prevention, the creation of conditions for safe operation of the distribution system, and the protection of employees and assets.

The key task was defending the "Safe Enterprise" certificate, which includes fire prevention. The recertification process proved that an operational fire protection management system was in place and legal requirements for fire protection in the Czech Republic were met.

Fire protection management was carried out in accordance with fire protection control documents and verified by inspection activities according to the audit and inspection plan. No fire causing damage exceeding CZK 1m broke out at the Company. Continuous education of employees in fire prevention was ensured and provided in the form of general and professional training.

## Environmental Protection

The Company was committed to creating the conditions for effective protection of the environment and related compartments. Specialized company employees in charge of environmental care paid active attention to all environmental compartments, especially waste and water management, incident prevention, and last but not least avian protection.

Protecting birds against electrical accidents remains a major issue in nature conservation. It is the Company's statutory obligation to secure all HV overhead lines against bird injuries by 2024. No increase in bird injuries caused by electrocution or collision with overhead lines was registered during 2015.

A total of 79 sites with old environmental burdens were identified within the service area of ČEZ Distribuce. Some of the burdens were already removed in the past years and preparations for the remedial process are underway for others. At the end of 2015, environmental burdens were removed in compliance with the law and the Czech Environmental Inspectorate's opinions at 47 sites. Monitoring, additional surveying, or burden documentation updating are taking place at the remaining 32 sites.


The Company's water management follows long-established rules. Wastewater disposal is taken care of by contractually bound suppliers that succeeded in a tender process. Capital construction and repair projects include renovation of water management structures and equipment. The Company expanded its relations and collaboration with ČEPS, a.s. in water management. This includes, in particular, using each other's water management facilities and equipment, such as wastewater treatment plants, sewerage systems, and water mains at adjacent sites. This cuts costs that the companies would otherwise have to pay separately. Adopted measures decreased the number of environmental disasters caused by the theft of insulating liquids from MV distribution transformers in 2015, which ultimately meant reduced cost of clean-up.

As in previous years, the Company managed waste in accordance with an approved system without major issues. Company employees separate waste into recyclable components. To this end, they have appropriate recycling containers available, the number and location of which are optimized on an ongoing basis according to their actual use.

In November, the Company successfully underwent its first EMS surveillance audit, which confirmed the validity of its certification to ČSN EN ISO 14001 from December 2014 for a new period.

Expenditure on waste disposal, wastewater treatment, environmental clean-ups, and other environmental services amounted to CZK 7.3m in 2015.

## SHARES AND SHAREHOLDERS

The total amount of the stated capital of ČEZ Distribuce, a. s., as registered in the Companies Register at the closing date of the Annual Report, was CZK 60,000m. The Company's sole shareholder is ČEZ, a. s.  having its registered office at Prague 4, Duhová 2/1444, postal code 140 53, identification number 452 74 649, holding a 100% stake in the stated capital of ČEZ Distribuce, a. s.

### Types and Volumes of Issued Stock

The stated capital is divided into 600 registered materialized common shares of stock with a nominal value of CZK 100m. The common shares of stock are replaced with a Stock Certificate with a total nominal value of CZK 60,000m issued to ČEZ, a. s. having its registered office at Prague 4, Duhová 2/1444, postal code 140 53, identification number 452 74 649.



# HUMAN RESOURCES

## Employment Changes

In the field of labor relations and social policy, the Company strove to maintain social peace, respecting the Labor Code and related legislation as well as collective agreements in effect at ČEZ Distribuce, a. s.

### New Hires and Exits in 2015

	Number of employees
New hires	59
Exits	53

The workforce headcount as at December 31, 2015 was 1,470 employees

## Education and Training

ČEZ Distribuce, a. s. places high demands on staff expertise and other qualification requirements. Emphasis is put especially on professional training with a focus on electrical engineering. In 2015, there were training programs aimed at supporting employees' individual development, an ongoing management development program for top management, and the Management Academy—a development activity focusing on middle and higher management. ČEZ Distribuce, a. s. also joined CEZ Group's internal mentoring program, which started during the year. ČEZ Distribuce, a. s. invested CZK 7.8m in development activities for its employees in 2015.

## Social Policy

Under its social policy, the Company provides its employees with monetary and non-monetary benefits. Non-monetary benefits have the form of shortened working time and an additional week of vacation beyond the statutory minimum. To enhance the protection of employees, vaccination against tick-borne encephalitis is provided to staff in selected jobs. The Company's expenditure on monetary benefits amounted to CZK 78.9m. The employer made contributions especially to pension and life insurance, meal plans, and health care. Personal accounts were opened for all employees under contract and they can use them, for example, to pay for their recreation or to get Flexi Pass vouchers.

## Relations with Labor Unions


There were a total of 28 local labor unions operating at ČEZ Distribuce, a. s. in 2015. The percentage of union members among all company employees was 51%. Collective bargaining on an amendment to the effective collective agreement took place in 2015, concerning mainly wages and salaries. The collective bargaining culminated in the signing of amendment No. 10 to the collective agreement in December. There were a total of 24 regular meetings held between the employer and labor union representatives in 2015, at which information was presented to the labor organizations and topics set down by the Labor Code and the collective agreement were discussed.

## RESEARCH AND DEVELOPMENT

ČEZ Distribuce, a. s. took part in opposition procedures for grants awarded to colleges and universities by the Czech Science Foundation and in final state examinations. The Company also participated in preparing specifications for master's and bachelor's theses for students at schools with electrical engineering programs.

In research and development, the Company collaborated on the preparation of studies, analyses, and consultations for putting prepared proposals into practice with experts from EGÚ Brno, a.s.; EGC - EnerGoConsult ČB s.r.o.; EGE, spol. s r.o., České Budějovice; as well as with VŠB – Technical University of Ostrava.

The Company focused mainly on the practical application of proposals made in studies in the past years. Such studies and analyses and pilot projects implementing new technologies in medium- and low-voltage grids included:

- Pilot projects implementing new technologies:
  - Implementing the “Smart Grids” project (for more information, visit <http://www.cezdistribuce.cz/cs/pro-media/smart-region.html> 
  - Testing BPL communication on 35kV overhead lines in practice;
  - Testing a fault detector for MV insulated conductors, installed under a pilot project on selected 22kV and 35kV lines;
  - Testing voltage stabilization by regulation of generating facilities' reactive energy;
  - Implementing and utilizing metering in the operation of a mesh network in Šumperk;
  - Implementing pilot measurement of EP quality at a DTS and testing the transmission of measured values;
  - Verifying the possibility of optimizing local consumption against local generation in the distribution system;
- Gathering basic data and setting up a method for the calculation of the reliability of individual distribution system elements (element reliability);
- Voltage stabilization in MV and LV distribution grids with a high share of RES and distributed generation—the study aims to assess the effect and impacts of a high share of distributed generation on voltage quality in MV and LV grids.





# DONORSHIP AND SPONSORSHIP PROGRAM

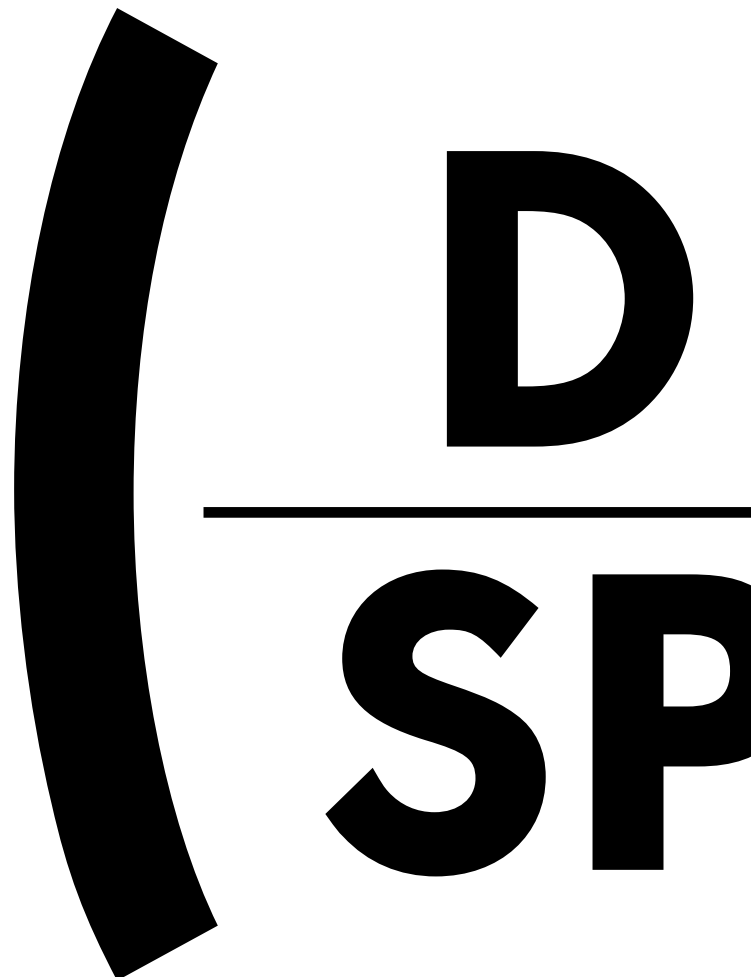
## Donorship

ČEZ Distribuce, a. s. contributed CZK 75m to projects undertaken by the CEZ Foundation.

The CEZ Foundation's support went into developing leisure-time activities for children and youth, improving the quality of life for disadvantaged people, and improving the civic amenities of municipalities in regions where ČEZ Distribuce, a. s. operates.

Donations made directly by ČEZ Distribuce, a. s. amounted to CZK 1.75m in 2015. The amount was divided among six selected projects. Under these projects, the Company supported the healthcare sector and helped improve social care.

The Company contributed CZK 1.17m to the CEZ GROUP SENIORS Endowment Fund in 2015.



## DEVELOPMENTS IN THE LEGISLATIVE FRAMEWORK

The basis of the legislative framework for electricity distribution consists of the following regulations, as amended (visit <http://www.cezdistribuce.cz/cs/energeticka-legislativa.html> <sup>1</sup> for more information):

- Act No. 458/2000 Sb., on the conditions for doing business and exercising state administration in the energy sectors and on amendments to some acts (Energy Act);
- Act No. 165/2012 Sb., on supported energy sources and on amendments to some acts (Supported Sources Act);
- Act No. 406/2000 Sb., on energy management;
- Decree No. 408/2015 Sb., on Electricity Market Rules;
- Decree No. 194/2015 Sb., on the method of price regulation and procedures for price regulation in the electricity and heat sectors;
- Decree No. 262/2015 Sb., on regulatory reporting;
- Decree No. 540/2005 Sb., on the quality of electricity supplies and related services in the electricity sector;
- Decree No. 51/2006 Sb., on conditions for connection to the electricity system;
- Decree No. 82/2011 Sb. on electricity metering and the method for determining damages in case of unauthorized consumption, unauthorized supply, unauthorized transmission, or unauthorized distribution of electricity.

The following regulations were directly amended in 2015:

- Act No. 458/2000 Sb., on the conditions for doing business and exercising state administration in the energy sectors and on amendments to some acts (Energy Act), Act No. 165/2012 Sb., on supported energy sources, and Act No. 406/2000 Sb., on energy management were amended by Act No. 131/2015 Sb.

The main reason for and objective of amending Act No. 458/2000 Sb., Energy Act, Act. No. 165/2012 Sb., on supported sources, and Act No. 406/2000 Sb., on energy management, by Act No. 131/2015 Sb. were:

### Energy Act

- Allowing customers to operate an electricity generation facility with installed capacity up to 10kW without a license granted by the Energy Regulatory Office;
- Allowing the operation of an electricity generation facility without a license granted by the Energy Regulatory Office for technology verification purposes;
- Amending customer protection measures applied to price changes and distance contracts or contracts concluded away from a license holder's business premises for electricity supplies or integrated electricity supply services;
- Changing the organizational structure and amending the powers of the Energy Regulatory Office;
- Extending the institution of the supplier of last resort if a trader supplying electricity under an integrated contract has not obtained a distribution system service;
- Amending the consultation process in regulatory affairs;
- Increasing the limit above which authorization must be sought for the construction of an electricity generation facility from 100kW to 1MW;
- Making amendments to protection zones;
- Amending the definitions of contracts and unauthorized consumption.



### Act on Supported Energy Sources

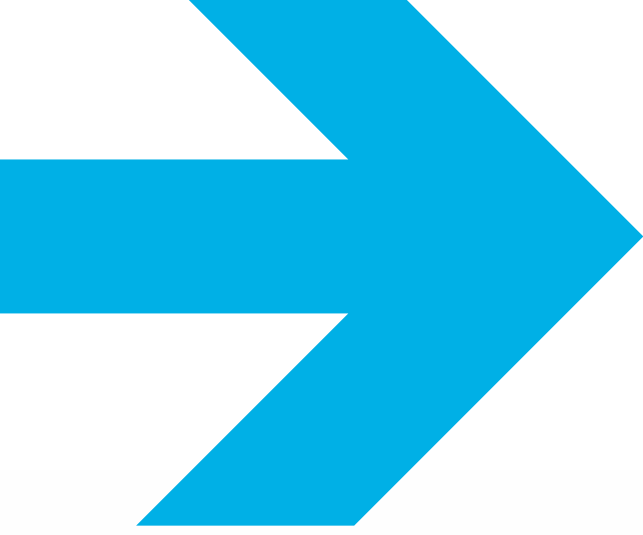
- Amending the conditions for metering electricity from renewable sources, secondary sources, and high-efficiency combined heat and power production and for submitting measured values to the market operator;
- In support financing, introducing an electricity support component of the price of distribution system services based on reserved capacity for the high-voltage and medium-voltage levels and on the amperage rating of the main breaker upstream of an electric meter for the low-voltage level, while also specifying the maximum amount to be paid for this component;
- Introducing the customer's entitlement to compensation for the price paid to cover costs associated with support for electricity consumed by the customer in the Czech Republic and generated from renewable energy sources in a different member state of the European Union, a contracting state of the Agreement on the European Economic Area, or the Swiss Confederation in 2013–2015;
- Terminating support for biomethane and decentralized electricity generation;
- Amending the conditions for issuing, registering, and recognizing guarantees of origin for electricity from renewable sources and high-efficiency combined heat and power production;
- Transferring the authority to enforce the Supported Sources Act, except for levy administration, from the State Energy Inspection to the Energy Regulatory Office.

### Other Legislation Changes in 2015

Due to amendments to the Energy Act, certain decrees were replaced with new implementing legislation:

- Decree No. 194/2015 Sb. of August 3, 2015, on the method of price regulation and procedures for price regulation in the electricity and heat sectors;
- Decree No. 262/2015 Sb. of October 1, 2015, on regulatory reporting;
- Decree No. 408/2015 Sb. of December 23, 2015, on Electricity Market Rules.

The process of replacing or amending implementing legislation due to amendments to the Energy Act was completed in early 2016.



# 5<sup>DS</sup>

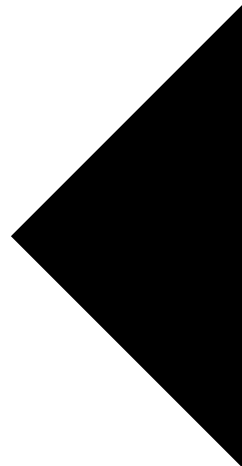
**Smart Region Deploys  
Modern Technologies in  
the Distribution Grid**



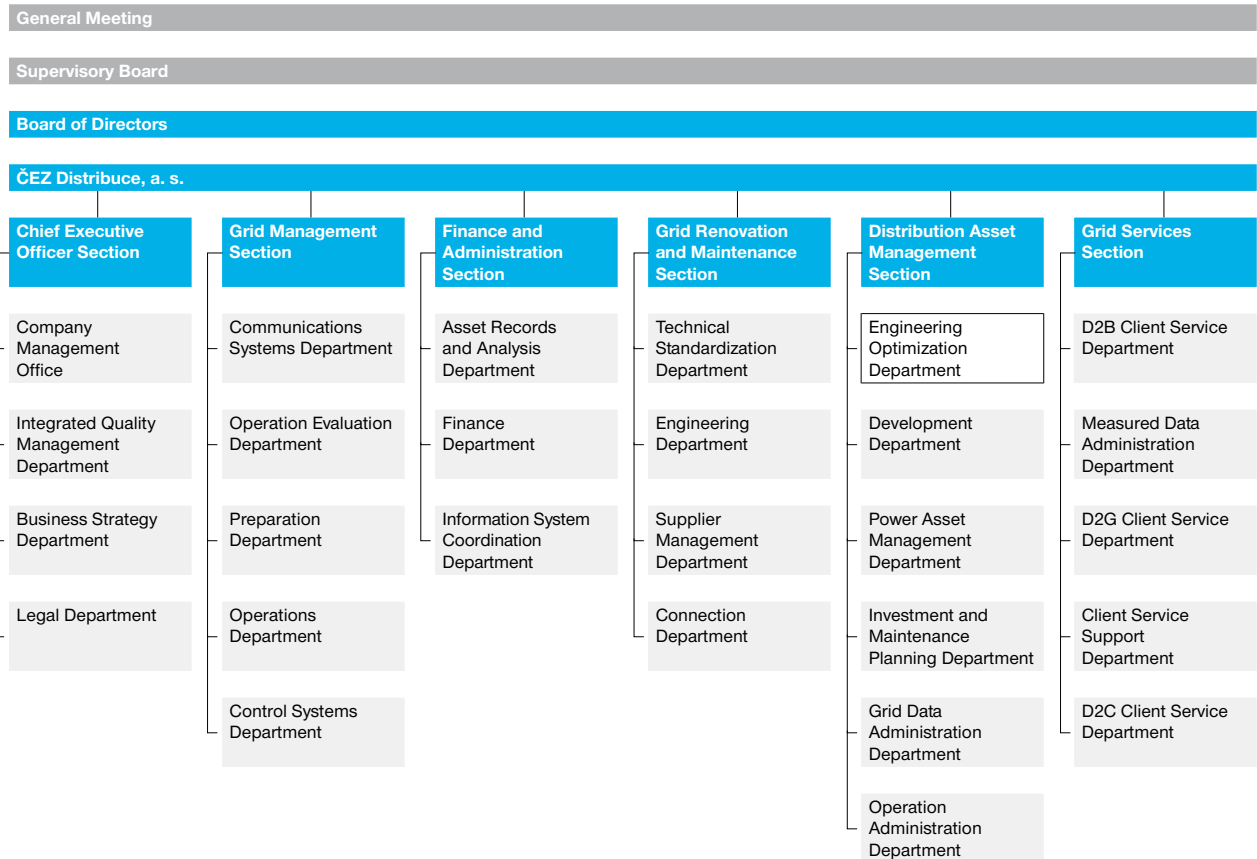
We verified and tested proposed solutions and newly installed technologies in 2015.

$$= \sqrt{\frac{\text{GRID}_4\text{EU}}{V_{SR}}}$$

We have been members of the international GRID4EU project for five years, along with five European distribution system operators and twenty-one other partners. The project deals with the development of smart grids in EU member states. [IN](#) Six large demonstration projects focusing on distribution grids were implemented in various countries and under different conditions. One of them was the first smart energy region in the Czech Republic—the Vrchlabí Smart Region. [OVATIONS](#) In the past period, we deployed modern technologies in the distribution grid, we tested the operation of smart meters, we were engaged in electric mobility, and every step we took was aimed at providing greater comfort to our customers. The GRID4EU project, which was successfully completed in January 2016, has shown that the applied solutions are workable. We will gradually apply the results in additional locations. [INNOVATIONS](#)



## BASIC ORGANIZATION CHART OF ČEZ DISTRIBUCE, a. s. AS AT APRIL 1, 2016



# GLOSSARY OF TERMS AND ABBREVIATIONS

## Glossary of Terms and Abbreviations

Terms and abbreviations	Commentary
Broadband Over Power Lines (BPL)	Communication over LV and MV power lines.
Cash pooling	A method for optimizing bank account management. Using this method, the account balances of participating companies are consolidated on a daily basis. Contractual credit and debit interest is calculated for accounts included in the cash pool.
Distribution system (DS)	An interconnected set of 110kV lines and equipment, except selected 110kV lines and equipment that are part of the transmission system, and 0.4/0.23kV, 3kV, 6kV, 10kV, 22kV, and 35kV lines and equipment that serve to distribute electricity in a defined area in the Czech Republic, including metering, protective, control, safeguarding, information, and telecommunications systems.
DTS	Distribution transformer station.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation, and amortization.
Electricity market operator (OTE)	A joint stock company founded by the government, whose task is to organize the electricity market in the Czech Republic, reconcile agreed and actual supplies and consumption for market participants, ensure the settlement of differences between agreed and actual supplies, and organize the electricity spot market.
EMS	Environmental management system.
EP	Electric power.
Framework contract	A contract entered into by a trader and a distributor when the trader has at least one customer with an integrated contract.
HV	High voltage—distribution infrastructure with phase-to-phase voltage over 52kV.
Large end customers	Customers that use electricity from medium- and high-voltage grids.
LV	Low voltage—distribution infrastructure with phase-to-phase voltage of 1kV or less.
MV	Medium voltage—distribution infrastructure with phase-to-phase voltage from 1kV to 52kV.
OSH	Occupational safety and health.
Renewable energy sources (RES)	Sources of energy that are naturally replenished. This means the energy of water, geothermal heat, sunlight, and wind or energy obtained by biomass combustion.
Retail customers	The category of electricity consumption consisting of electricity customers connected to low-voltage grids (up to 1kV). The category is subdivided into the residential and commercial retail segments.
ROA	Return on assets.
ROE	Return on equity.
SAIDI	System Average Interruption Duration Index. The total duration of all electricity distribution interruptions in minutes per calendar year; the total time is presented as minutes/year/customer.
“Smart Grids”	Electricity grids and communications networks that allow regulating electricity generation and consumption in real time—on both a local and a global scale. They are based on interactive, bi-directional communication between generating facilities and appliances/customers concerning current power generation and consumption capacities.
Transmission system (TS)	An interconnected set of 400kV and 220kV lines and equipment and selected 110kV lines and equipment that serves for electricity transmission throughout the Czech Republic and interconnection with the electricity systems of neighboring countries, including metering, protective, control, safeguarding, information, and telecommunications systems. The transmission system is built and operated in the public interest.
TS/DS	Transmission system/distribution system.

## List of Units and Abbreviations Used

Unit	Commentary
GWh	Gigawatt-hour; 1GWh = 10 <sup>9</sup> Wh = 10 <sup>6</sup> kWh; Wh = unit of energy
kA	Kiloampere, 1kA = 10 <sup>3</sup> A, A = unit of electrical current
km	Kilometer
kV	Kilovolt; 1kV = 10 <sup>3</sup> V; V = unit of electric potential (voltage)
kW	Kilowatt, 1kW = 10 <sup>3</sup> W, W = unit of power
m	Million
MVA	Megavolt-ampere; 1MVA = 10 <sup>6</sup> VA; VA = unit of apparent (total) power
MW	Megawatt; 1MW = 10 <sup>6</sup> W = 10 <sup>3</sup> kW; W = unit of power
MWh	Megawatt-hour; 1MWh = 10 <sup>6</sup> Wh = 10 <sup>3</sup> kWh; Wh = unit of energy

## Method Used to Calculate Financial Indicators

Indicator	Description
Current Ratio	(Current Assets + Accruals) / (Short-Term Liabilities + Short-Term Bank Loans and Notes + Accruals)
Total Debt to Total Capital	(Long-Term Liabilities Including Current Portion + Short-Term Loans) / (Long-Term Debt Including Current Portion + Short-Term Loans + Equity)
Net Debt	Long-Term Liabilities Including Current Portion + Short-Term Loans - Cash and Cash Equivalents - Highly Liquid Financial Assets
Net Debt to EBITDA	(Long-Term Liabilities Including Current Portion + Bonds + Short-Term Loans - Cash and Cash Equivalents - Highly Liquid Financial Assets) / Earnings Before Taxes and Other Expenses and Revenues + Depreciation and Amortization
Net Income	Earnings After Taxes (financial result for an accounting period)
EBIT	Earnings Before Taxes and Other Expenses and Revenues
EBIT Margin	EBIT / Operating Revenue
EBITDA	Earnings Before Taxes and Other Expenses and Revenues + Depreciation and Amortization
Financial Debt to Equity	(Long-Term Liabilities Including Current Portion + Bonds + Short-Term Loans) / Average Equity
Fixed Asset Coverage	(Equity + Non-Controlling Interests + Long-Term Liabilities + Deferred Tax Liability) / Fixed Assets
Asset Turnover	Total Operating Revenue / Average Assets
Operating Cash Flow to Debt	Operating Cash Flow / Long-Term Liabilities
Return on Assets, Net (ROA Net)	Earnings After Taxes / Average Total Assets
Return on Equity, Net (ROE Net)	Earnings After Taxes / Average Equity
Depreciation-to-Fixed Assets Ratio	-1 * (Accumulated Depreciation and Allowances for Tangible Fixed Assets) / Depreciated Tangible Fixed Assets in Use, Gross



# LIST OF TABLES AND CHARTS IN THE ANNUAL REPORT

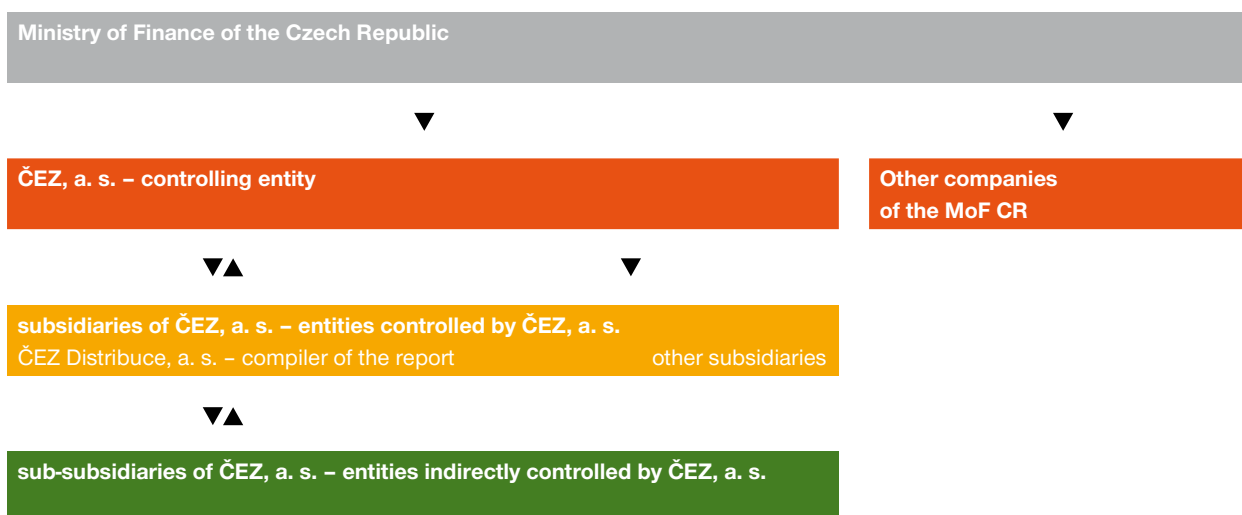
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# RELATED PARTIES REPORT FOR 2015

Pursuant to the Provisions of Sections 82 Et Seq. of Act No. 90/2012 Sb., on Business Corporations, as Amended (“Business Corporations Act”)

## 1. Structure of Relations Between the Controlling Entity and the Controlled Entity and Between the Controlled Entity and Entities Controlled by the Same Controlling Entity (“Related Entities”)



For a chart showing the structure of relations with other subsidiaries and an alphabetical list of the subsidiaries, see a separate insert under the back cover flap.

### Controlling Entity

The entity controlling the commercial company ČEZ Distribuce, a. s. within the meaning of Sections 74 et seq. of the Business Corporations Act is the commercial company ČEZ, a. s.

Business name	ČEZ, a. s.
Having its registered office at	Duhová 2/1444, 140 53 Prague 4
ID No.	452 74 649
Registered in the Commercial Register kept by	Municipal Court in Prague, Section B, File 1581
Manner of control	The controlling entity ČEZ, a. s. owns a 100% stake in ČEZ Distribuce, a. s.

### Controlled Entity / Preparer

Business name	ČEZ Distribuce, a. s.
Having its registered office at	Děčín, Děčín IV-Podmokly, Teplická 874/8, postal code 405 02
ID No.	247 29 035
Registered in the Commercial Register kept by	Regional Court in Ústí nad Labem, Section B, File 2145 (“Controlled Entity”)

This Report contains data for the period from January 1, 2015 to December 31, 2015.

## 2. Role of the Controlled Entity

The Controlled Entity is a commercial company engaged primarily in electricity distribution and in other activities and services related to the performance of the aforementioned licensed activity. The Controlled Entity performs all its activities in accordance with business licenses granted to it within its line of business as defined in the Controlled Entity's bylaws and registered in the Commercial Register.

## 3. Manner of Control Over the Controlled Entity

ČEZ, a. s. controls the Controlled Entity by being its sole shareholder and thus holding a 100% share in voting rights. Because of this share in voting rights, ČEZ, a. s. may appoint and remove most members of the Controlled Entity's statutory governing body. Means of control within CEZ Group include approval of business plans and annual budgets.

The manner of control over the Controlled Entity is implemented in compliance with the applicable provisions of Act No. 458/2000 Sb., Energy Act, i.e. with due regard to the distribution license holder's actual decision-making rights.

## 4. List of Acts Pursuant to Section 82(2)(d) of Act No. 90/2012 Sb., on Business Corporations

In the last accounting period, the Controlled Entity did not perform any legal acts to its detriment that would have been performed at the instigation or in the interest of the Controlling Entity or entities controlled by the Controlling Entity and concerned assets exceeding 10% of the equity of the Controlled Entity as identified in its latest financial statements.

## 5. List of Mutual Contracts

### List of Concluded Contracts

This list contains an overview of mutual contracts between the Controlled Entity and Related Entities that were valid and effective from January 1, 2015 to December 31, 2015. Related Entities that the Controlled Entity has a valid contract with are arranged without regard to the value of performance.

#### 1. ČEZ, a. s.

- Service contract No. 33\_20100101\_01 of February 10, 2010 as amended on September 22, 2014;
- Personal information processing agreement made in relation to Service Contract 33\_20101122\_01 on November 29, 2010;
- Trademark license agreement No. 33\_2011\_008 of December 30, 2010;
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_016 of February 27, 2012, as amended;
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- Agreement on contracting entities' concerted action in the award of a public contract for "Office Supplies";
- Implementation agreement on concerted action in the award of a public contract for "RC Control System Renovation and Repairs FA";
- 14 lease contracts;
- 2 distribution service contracts, as amended (of December 19, 2014—Kudowa; of December 31, 2014—Poříčí);
- Framework contract on location swap and the provision of regulation services for electricity supplies to customers in the Poříčí isolated island of December 31, 2014;
- Framework contract on emergency assistance to the Poříčí island of December 31, 2014;
- Service contract for regulation in electricity supplies for the Střelná isolated island of December 19, 2014;
- Ancillary service contract for voltage and reactive power regulation of December 15, 2014;
- 24 contracts for facility connection to the distribution system;
- 4 credit facility agreements: No. 2012/9, 2014/2, 2015/1, and 2015/6;
- Mutual credit facility agreement based on a multi-level flexible on-line real bilateral cash pooling agreement for the economically linked group of November 30, 2010;
- Mutual credit facility agreement based on a flexible on-line real bilateral EUR cash pooling agreement for the economically linked group of August 26, 2013;
- Agreement on taking electricity supplies from the ČEZ, a. s. distribution system, Vítkovice Heating Plant;
- 17 distribution agreements Segment center operations agreement;
- Sales contract (purchasing R110 kV ESL array equipment—Stage 4, Slapy power plant);
- Easement agreement for new investments in the distribution system;
- Surface water delivery contract (Elbe);
- Non-disclosure agreement;
- BG distribution protection calculation;
- Consultancy agreement, Accumulation R&D.

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

- Service contract No. 1292-2014-002 of December 31, 2013 as amended (under which 7,128 separate contracts for work were made);
- Contract for goods and service delivery No. 33\_2012\_006 of February 29, 2012, as amended (under which 19,343 materials delivery contracts were made);
- Service contract for voltage regulation;
- 5 lease contracts, as amended;
- Vehicle usage and sharing agreement;
- 3 service contracts.

#### 3. ČEZ Energo, s.r.o.

- Lease contract;
- 35 contracts for facility connection to the distribution system;
- Sales agreement on construction work in progress.

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

- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- Agreement on waste water discharge and treatment No. 4100724739 of June 27, 2008, as amended;
- Agreement on potable water delivery and withdrawal No. 7410060 of June 27, 2008;
- Lease contract;
- 5 contracts for facility connection to the distribution system.

#### 5. ČEZ ICT Services, a. s.

- Framework ICT service contract No. 33\_20101230\_R of December 30, 2010 as amended (under which separate contracts were made);
- Service contract for TPS and FDS systems No. 13\_20100226\_01\_R of February 26, 2010, as amended;
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- 5 contracts on software assignment and software license assignment;
- 5 sales contracts;
- 2 service contracts (MSD, EIS/GIS);
- 7 lease contracts, as amended;
- Separate contract for OPGW fiber lease;
- Separate contract for operation, regular maintenance, and repair of optical parts of optical ground wires on MV and HV lines;
- Service contract for TPS and FDS;
- 15 agreements on making future amendments to the service contract;
- Framework work and service contract, including separate contracts for ICT assets development;
- Agreement on contracting entities' concerted action in the award of a public contract (multilateral agreement);
- Information protection agreement;
- CONVERGE license sales agreement;
- 2 agreements on SW maintenance support.

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

- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- Back-charge agreement for waste water treatment No. DSO\_34\_2012\_015 of May 4, 2012;
- 2 contracts for facility connection to the distribution system;
- Lease contract;
- 2 agreements on distribution system equipment relocation;
- 2 agreements on the establishment of an easement;
- Distribution service contract.

#### 7. ČEZ OZ uzavřený investiční fond a.s.

- 3 lease contracts;
- Sales contract;
- 2 agreements on the establishment of an easement.

#### 8. ČEZ Prodej, s.r.o.

- Framework electricity distribution contract of August 31, 2005;
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_015;
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- Lease contract, as amended;
- Supply contract for electricity for in-house consumption;
- Supply contract for electricity to cover distribution system losses, as amended;
- Gas consumption contract;
- Service contract;
- Data on-line processing agreement.

#### 9. ČEZ Korporátní služby, s.r.o.

- Framework contract for the provision and procurement of services and leases No. 51\_20060701\_02 of July 1, 2006, as amended;
- Separate contract for the provision of accounting services made under the FC on December 19, 2012, as amended;
- Separate contract for the provision of human resources services made under the FC on December 13, 2012, as amended;
- Separate contract for the provision of print and reprographic services made under the FC, as amended;
- Separate contract for the provision of document filing and destruction services made under the FC, as amended;
- Separate contract for the provision of correspondence processing services made under the FC, as amended;
- Separate contract for property management and the provision of other services made under the FC, as amended;
- Separate contract for full service leasing made under the FC, as amended;
- Separate contract for fleet management made under the FC, as amended;
- Separate contract for vehicle hire made under the FC, as amended;
- Contract for the procurement of work and services for electrical inspections, as amended;
- 8 agreements on the back charge of actual costs of rainwater discharges;
- Separate lease contract made under the FC, as amended;
- 2 lease contracts, as amended;
- 2 sublease contracts, as amended;
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_012 of December 21, 2011, as amended;
- Precontract on facility connection to the distribution system;
- 3 agreements on the establishment of an easement/servitude;
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- Non-disclosure agreement made on the basis of FC and SCs;
- 5 sales contracts for land and equipment;
- 3 contracts for capital investment projects;
- 3 service contracts.

#### 10. ČEZ Teplárenská, a.s.

- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- 3 contracts for facility connection to the distribution system;
- Lease contract.

#### 11. ČEZ Zákaznické služby, s.r.o.

- Service contract No. 51\_20050831\_03 of August 29, 2005, as amended;
- Framework agreement on the assignment of claims within CEZ Group No. 33\_2013\_001 of January 1, 2013;
- Contract for the provision of OSH, fire protection, and environmental protection services No. 33\_2012\_201 of December 21, 2011;
- 2 lease contracts, as amended;
- Inspection contract.

#### 12. Energotrans, a.s.

- Ancillary service contract for voltage and reactive power regulation;
- Contract for electricity for in-house consumption;
- Distribution service contract.

#### 13. Elektrárna Dětmorovice, a.s.

- Ancillary service contract for voltage and reactive power regulation;
- Distribution service contract.

#### 14. Elektrárna Tisová, a.s.

- Distribution service contract.

#### 15. Elektrárna Počerady, a.s.

- Framework agreement on the assignment of claims within CEZ Group.

**16. MARTIA a.s.**

- HCR framework agreement;
- HCR framework agreement II;
- PD HCR framework agreement;
- 537 contracts for work for PD preparation and building construction.

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

- Contract for work—preparation of a project for island operation measurement in the DS with distributed generating facilities, as amended.

**18. Severočeské doly a.s.**

- Lease contract;
- Distribution service contract.

**19. Telco Pro Services, a. s.**

- Contract for the provision of OSH, fire protection, and environmental protection services No. 13\_2014\_001 of May 27, 2014;
- Contract for fault remedy services and collaboration in inspection activities, repairs and servicing, and RC diagnostics in the Moravia and East regions;
- Contract for the procurement of service activities on selected ARCS equipment in the Moravia region, including preventive maintenance and repairs;
- 21 building contracts;
- Lease contract.

**20. Tepelné hospodářství města Ústí nad Labem s.r.o.**

- 2 lease contracts.

**21. CITELUM, a.s.**

- HCR framework agreement II;
- Distribution system connection contract.

**22. ÚJV Řež, a.s.**

- Distribution service contract.

**23. Centrum výzkumu Řež s.r.o.**

- Distribution service contract.

**24. ČEZ ESCO, a.s.**

- Contract for the provision of OSH, fire protection, and environmental protection services.

**25. Energetické centrum s.r.o.**

- Sales contract.

**26. ČEZ, a. s. & ČEZ Distribuční služby, s.r.o. & ČEZ Korporátní služby, s.r.o.**

- Agreement on contracting entities' concerted action in the award of a public contract (Contracting Entities Agreement).

All contracts listed in Section 5 of this Report are contracts made in the ordinary course of business and their contents are not beyond its scope. Further information on contractual relations is not included in order to protect trade secrets and/or other confidential information.

## 6. Assessment of Harm Incurred and Compensation

The statutory governing body of the Controlled Entity declares that the contracts listed in this Report did not cause any harm to the Controlled Entity within the meaning of the Business Corporations Act, in particular Section 71 and other related provisions of the Business Corporations Act.

## 7. Other Information

### 7.1. Confidentiality

Confidentiality applies to information and facts that are trade secrets of the Controlled Entity and its Related Entities, as well as information identified as confidential by those entities or arising from their business relations whose partial disclosure or disclosure in connection with other information or facts could be detrimental to those entities or their contractual partners, as well as information whose confidentiality and protection is required by law.

### 7.2. Glossary of Abbreviations Used in the Report

ARCS	Automatic remote control systems
DS	Distribution system
EIS/GIS	Engineering information system/geographic information system
EP	Environmental protection
ESL	Slapy Power Plant (Elektrárna Slapy)
FA	Framework agreement
FC	Framework contract
FDS	Fire detection systems
FP	Fire protection
FS	Framework contract
HCR	Hourly charging rate
MF CR	Ministry of Finance of the Czech Republic
MSD	Map service development
OPGW	Optical ground wire
OSH	Occupational safety and health
PD	Project documentation
PPA	Public Procurement Act
RC	Ripple control
SCs	Separate contract
SLA	Service level agreement
SW	Software
TPS	Technical protection system

## 8. Conclusion

Based on available information, the Controlled Entity's Board of Directors assessed advantages and disadvantages resulting from the Controlled Entity's position within CEZ Group, i.e. from relations between the Controlled Entity and Related Entities, and did not observe any disadvantages resulting from those relations. The Controlled Entity takes advantage of synergistic effects within CEZ Group and of CEZ Group's expertise to efficiently perform its licensed activity and the related ancillary services. It also takes advantage of involvement in a risk management system and a system of internal controls, in an insurance program, in the CEZ Group safety and quality management system, etc. The Controlled Entity's statutory governing body did not observe any negative circumstances that would arise from relations between the Controlled Entity and Related Entities.

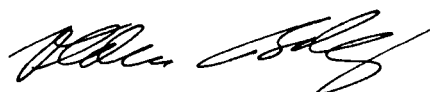
The Report has been prepared with due diligence, with commitment to providing objective information gathered from available documents and data for the specified purpose of this Report, with maximum effort, and with respect to including all relevant circumstances that otherwise could affect the accurate and correct appraisal of this Report. The Report was submitted to the Controlled Entity's Supervisory Board for review within the meaning of and in compliance with Article 12(8)(d) of the Controlled Entity's bylaws as well as in compliance with Section 83 of the Business Corporations Act.

The Controlled Entity's statutory governing body approved this Report on February 25, 2016.

Děčín, February 25, 2016



Ing. Richard Vidlička, MBA  
Chairman of the Board of Directors



Ing. Vladimír Budinský, MBA  
Vice-Chairman of the Board of Directors



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## ČEZ DISTRIBUCE, a. s. BALANCE SHEET AS AT DECEMBER 31, 2015

(in thousands of CZK)

Ident.	ASSETS	2015			2014
		Gross	Allowances	Net	Net
	<b>TOTAL ASSETS</b>	<b>275,817,505</b>	<b>(136,685,958)</b>	<b>139,131,547</b>	<b>136,150,280</b>
<b>A.</b>	<b>Stock subscriptions receivable</b>	-	-	-	-
<b>B.</b>	<b>Fixed assets</b>	<b>254,789,940</b>	<b>(136,167,305)</b>	<b>118,622,635</b>	<b>117,765,132</b>
<b>B. I.</b>	<b>Intangible assets</b>	<b>841,125</b>	<b>(450,010)</b>	<b>391,115</b>	<b>359,324</b>
B. I. 1.	Foundation and organization expenses	86	(86)	-	-
	2. Research and development	1,907	(1,907)	-	-
	3. Software	620,424	(321,609)	298,815	269,572
	4. Patents, royalties and similar rights	44,502	(38,334)	6,168	11,089
	5. Goodwill	-	-	-	-
	6. Other intangible assets	161,208	(88,074)	73,134	71,497
	7. Intangible assets in progress	12,998	-	12,998	7,166
	8. Advances granted for intangible assets	-	-	-	-
<b>B. II.</b>	<b>Tangible assets</b>	<b>253,948,815</b>	<b>(135,717,295)</b>	<b>118,231,520</b>	<b>117,405,808</b>
B. II. 1.	Land	843,787	-	843,787	807,847
	2. Buildings, halls and constructions	188,515,506	(99,098,770)	89,416,736	88,432,053
	3. Separate movable items and groups of movable items	62,703,817	(36,613,167)	26,090,650	26,130,444
	4. Permanent growth	-	-	-	-
	5. Livestock	-	-	-	-
	6. Other tangible assets	16,522	(5,358)	11,164	10,372
	7. Tangible assets in progress	1,716,603	-	1,716,603	1,881,688
	8. Advances granted for tangible assets	152,580	-	152,580	143,404
	9. Gain or loss on revaluation of acquired property	-	-	-	-
<b>B. III.</b>	<b>Financial investment</b>	-	-	-	-
B. III. 1.	Subsidiaries	-	-	-	-
	2. Associates	-	-	-	-
	3. Other long-term securities and interests	-	-	-	-
	4. Loans to subsidiary and associates	-	-	-	-
	5. Other long term investments	-	-	-	-
	6. Long term investments in progress	-	-	-	-
	7. Advances granted for long-term investment	-	-	-	-
<b>C.</b>	<b>Current assets</b>	<b>20,991,330</b>	<b>(518,653)</b>	<b>20,472,677</b>	<b>18,343,563</b>
<b>C. I.</b>	<b>Inventory</b>	<b>219,596</b>	-	<b>219,596</b>	<b>227,098</b>
C. I. 1.	Materials	148,303	-	148,303	163,512
	2. Work in progress and semi-finished production	71,293	-	71,293	63,586
	3. Finished products	-	-	-	-
	4. Livestock	-	-	-	-
	5. Goods	-	-	-	-
	6. Advances granted for inventory	-	-	-	-
<b>C. II.</b>	<b>Long-term receivables</b>	<b>181</b>	-	<b>181</b>	<b>219</b>
C. II. 1.	Trade receivables	-	-	-	-
	2. Receivables from group companies with majority control	-	-	-	-
	3. Receivables from group companies with control of 20%-50%	-	-	-	-
	4. Receivables from partners	-	-	-	-
	5. Long-term advances granted	-	-	-	-
	6. Unbilled revenue	-	-	-	-
	7. Other receivables	181	-	181	219
	8. Deferred tax assets	-	-	-	-
<b>C. III.</b>	<b>Short-term receivables</b>	<b>20,771,502</b>	<b>(518,653)</b>	<b>20,252,849</b>	<b>18,116,203</b>
C. III. 1.	Trade receivables	2,140,691	(518,446)	1,622,245	1,472,639
	2. Receivables from group companies with majority control	7,472,923	-	7,472,923	5,932,789
	3. Receivables from group companies with control of 20%-50%	-	-	-	-
	4. Receivables from partners	-	-	-	-
	5. Social security and health insurance	-	-	-	-
	6. Due from government – tax receivables	-	-	-	-
	7. Short-term advances granted	609,093	-	609,093	536,844
	8. Unbilled revenue	10,548,128	-	10,548,128	10,173,399
	9. Other receivables	667	(207)	460	532
<b>C. IV.</b>	<b>Short term financial assets</b>	<b>51</b>	-	<b>51</b>	<b>43</b>
C. IV. 1.	Cash	51	-	51	43
	2. Bank accounts	-	-	-	-
	3. Short-term securities and interests	-	-	-	-
	4. Short-term financial assets in progress	-	-	-	-
<b>D. I.</b>	<b>Accrued assets and deferred liabilities</b>	<b>36,235</b>	-	<b>36,235</b>	<b>41,585</b>
D. I. 1.	Prepaid expenses	35,916	-	35,916	38,372
	2. Prepaid expenses (specific-purpose expenses)	-	-	-	-
	3. Unbilled revenues	319	-	319	3,213

(in thousands of CZK)

Ident.	SHAREHOLDERS' EQUITY AND LIABILITIES	2015	2014
	<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>139,131,547</b>	<b>136,150,280</b>
<b>A.</b>	<b>Equity</b>	<b>92,766,390</b>	<b>91,095,343</b>
<b>A. I.</b>	<b>Basic capital</b>	<b>60,000,000</b>	<b>60,000,000</b>
A. I. 1.	Registered capital	60,000,000	60,000,000
	2. Own shares and own ownership interests (-)	-	-
	3. Changes in basic capital	-	-
<b>A. II.</b>	<b>Capital funds</b>	<b>1,313</b>	<b>1,314</b>
A. II. 1.	Share premium (agio)	-	-
	2. Other capital funds	1,313	1,314
	3. Gain or loss on revaluation of assets and liabilities	-	-
	4. Gain or loss on revaluation of corporation transformations	-	-
	5. Gain or loss on corporation transformations	-	-
	6. Gain or loss on revaluation upon corporation transformations	-	-
<b>A. III.</b>	<b>Funds created from profit</b>	<b>12,000,000</b>	<b>12,000,000</b>
A. III. 1.	Reserve fund	12,000,000	12,000,000
	2. Statutory and other funds	-	-
<b>A. IV.</b>	<b>Profit (loss) for the previous years</b>	<b>14,152,029</b>	<b>12,324,740</b>
A. IV. 1.	Retained earnings for the previous years	14,152,029	12,324,740
	2. Accumulated loss of previous years	-	-
	3. Other retained earnings for previous years	-	-
<b>A. V. 1.</b>	<b>Profit (loss) for the year (+/-)</b>	<b>6,613,048</b>	<b>6,769,289</b>
	2. Approved decision on advances for profit distribution (-)	-	-
<b>B.</b>	<b>Liabilities</b>	<b>38,578,115</b>	<b>37,189,385</b>
<b>B. I.</b>	<b>Provisions</b>	<b>484,128</b>	<b>531,625</b>
B. I. 1.	Provisions created under special legislation	-	-
	2. Provision for pensions and similar obligations	-	-
	3. Provision for corporate income tax	153,954	247,644
	4. Other provisions	330,174	283,981
<b>B. II.</b>	<b>Long-term liabilities</b>	<b>19,811,599</b>	<b>17,913,827</b>
B. II. 1.	Trade payables	-	-
	2. Liabilities to group companies with majority control	8,358,100	6,436,950
	3. Liabilities to group companies with control of 20%–50%	-	-
	4. Liabilities to partners	-	-
	5. Long-term advances received	-	-
	6. Bonds payable	-	-
	7. Long-term notes payable	-	-
	8. Unbilled deliveries	-	-
	9. Other payables	-	-
	10. Deferred tax liabilities	11,453,499	11,476,877
<b>B. III.</b>	<b>Current liabilities</b>	<b>18,282,388</b>	<b>18,743,933</b>
B. III. 1.	Trade payables	2,308,350	2,841,532
	2. Liabilities to group companies with majority control	858,464	1,287,550
	3. Liabilities to group companies with control of 20%–50%	-	-
	4. Liabilities to partners	-	-
	5. Liabilities to employees	51,005	45,264
	6. Liabilities arising from social security and health insurance	27,413	26,254
	7. Due to government – taxes and subsidies	429,221	263,538
	8. Short-term advances received	10,890,816	11,367,582
	9. Bonds payable	-	-
	10. Unbilled deliveries	3,707,062	2,903,245
	11. Other liabilities	10,057	8,968
<b>B. IV.</b>	<b>Bank loans and borrowings</b>	<b>-</b>	<b>-</b>
B. IV. 1.	Long-term bank loans	-	-
	2. Short-term bank loans	-	-
	3. Borrowings	-	-
<b>C. I.</b>	<b>Accrued liabilities and deferred assets</b>	<b>7,787,042</b>	<b>7,865,552</b>
C. I. 1.	Accruals	45,162	1,045
	2. Deferred income	7,741,880	7,864,507

## ČEZ DISTRIBUCE, a. s. PROFIT AND LOSS STATEMENT AS AT DECEMBER 31, 2015

(in thousands of CZK)

Ident.	Text	2015	2014
I.	Revenues from sale of goods	-	-
A.	Costs of goods sold	-	-
+	<b>Gross margin</b>	-	-
<b>II.</b>	<b>Production</b>	<b>52,359,203</b>	<b>50,531,102</b>
II.	1. Revenue from sale of finished products and services	52,008,425	50,260,021
	2. Changes in inventory produces internally	7,707	(13,225)
	3. Own work capitalized	343,071	284,306
<b>B.</b>	<b>Production related consumption</b>	<b>36,681,293</b>	<b>34,764,031</b>
B.	1. Consumption of material and energy	3,185,762	3,321,072
	2. Services	33,495,531	31,442,959
+	<b>Value added</b>	<b>15,677,910</b>	<b>15,767,071</b>
<b>C.</b>	<b>Personnel expenses</b>	<b>1,153,742</b>	<b>1,068,322</b>
C.	1. Wages and salaries	771,896	721,739
	2. Bonuses to members of corporation management	19,125	11,219
	3. Social security and health insurance	269,757	249,843
	4. Other social costs	92,964	85,521
D.	Taxes and charges	10,870	12,526
E.	Amortization and depreciation of intangible and tangible fixed assets	6,806,144	6,747,136
<b>III.</b>	<b>Revenue from sale of intangible and tangible fixed assets and materials</b>	<b>127,993</b>	<b>106,071</b>
III.	1. Revenues from sale of intangible and tangible fixed assets	17,465	19,721
	2. Revenue from sale of materials	110,528	86,350
<b>F.</b>	<b>Net book value of intangible and tangible fixed assets and materials sold</b>	<b>81,567</b>	<b>45,295</b>
F.	1. Net book value of intangible and tangible fixed assets sold	16,865	14,196
	2. Materials sold	64,702	31,099
G.	Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	89,089	96,900
IV.	Other operational revenues	1,088,350	1,138,307
H.	Other operational expenses	331,693	299,383
V.	Transfer of operational revenues	-	-
I.	Transfer of operational expenses	-	-
*	<b>Profit or loss on operating activities</b>	<b>8,421,148</b>	<b>8,741,887</b>
VI.	Revenue from sale of securities and interests	72,690	-
J.	Securities and interests sold	72,690	-
<b>VII.</b>	<b>Income from financial investments</b>	<b>-</b>	<b>-</b>
VII.	1. Income from subsidiaries and associates	-	-
	2. Income from other long-term securities and interests	-	-
	3. Income from other financial investments	-	-
VIII.	Income from short-term financial assets	-	-
K.	Expenses related to financial assets	-	-
IX.	Gain on revaluation of securities and derivatives	-	-
L.	Loss on revaluation of securities and derivatives	-	-
M.	Change in provisions and allowances relating to financial activities	-	-
X.	Interest revenues	9,792	6,578
N.	Interest expenses	282,669	430,839
XI.	Other financial revenues	-	-
O.	Other finance cost	6,594	4,308
XII.	Transfer of financial revenues	-	-
P.	Transfer of finance cost	-	-
*	<b>Profit or loss on financial activities</b>	<b>(279,471)</b>	<b>(428,569)</b>
<b>Q.</b>	<b>Tax on profit or loss on ordinary activities</b>	<b>1,528,629</b>	<b>1,544,029</b>
Q.	1. - Due	1,552,007	1,624,081
	2. - Deferred	(23,378)	(80,052)
**	<b>Profit or loss on ordinary activities after taxation</b>	<b>6,613,048</b>	<b>6,769,289</b>
XIII.	Extraordinary gains	-	-
R.	Extraordinary losses	-	-
<b>S.</b>	<b>Tax on extraordinary profit or loss</b>	<b>-</b>	<b>-</b>
S.	1. - Due	-	-
	2. - Deferred	-	-
*	<b>Extraordinary profit or loss</b>	<b>-</b>	<b>-</b>
***	<b>Profit or loss for the year (+/-)</b>	<b>6,613,048</b>	<b>6,769,289</b>
****	<b>Profit or loss before taxation</b>	<b>8,141,677</b>	<b>8,313,318</b>

## ČEZ DISTRIBUCE, a. s. CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of CZK)

Ident.	Text	2015	2014
<b>P.</b>	<b>Cash and cash equivalents at beginning of period</b>	<b>43</b>	<b>18</b>
	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Z.	Profit or loss on ordinary activities before taxation (+/-)	8,141,677	8,313,318
A.1.	Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	6,310,322	6,356,431
A.1.1.	Depreciation and amortization of fixed assets and write-off of receivables	6,826,937	6,771,029
A.1.2.	Change in allowances, provisions and accruals	(788,891)	(833,334)
A.1.2.1.	Change in allowances and adjustments	42,896	44,001
A.1.2.2.	Change in provisions	(47,497)	(110,384)
A.1.2.3.	Change in accruals and contingencies	(784,290)	(766,951)
A.1.3.	Gain on disposal of fixed assets	(600)	(5,525)
A.1.4.	Interest expense and interest income	272,876	424,261
A.1.4.1.	Interest expense	272,876	430,839
A.1.4.2.	Interest income	-	(6,578)
A.1.5.	Other non-cash movements	-	-
A.1.6.	Income from dividends and profit sharing	-	-
<b>A.*</b>	<b>Net cash from operating activities before taxation, changes in working capital and extraordinary items</b>	<b>14,451,999</b>	<b>14,669,749</b>
A.2.	Change in non-cash components of working capital	199,029	845,294
A.2.1.	Change in trade receivables, in prepaid expenses and unbilled revenues	(654,730)	2,888,885
A.2.2.	Change in trade payables, short-term loans, in accruals and deferred income	846,257	(1,893,304)
A.2.3.	Change in inventory	7,502	(150,287)
<b>A.**</b>	<b>Net cash from operating activities before taxation, interest paid and extraordinary items</b>	<b>14,651,028</b>	<b>15,515,043</b>
A.3.	Interest paid	(237,900)	(430,839)
A.4.	Interest received	9,792	6,578
A.5.	Tax paid	(1,645,698)	(1,756,986)
A.6.	Gains and losses on extraordinary items	-	-
A.7.	Dividends received	-	-
<b>A.***</b>	<b>Net cash provided by (used in) operating activities</b>	<b>12,777,222</b>	<b>13,333,796</b>
	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
B.1.	Purchase of fixed assets	(7,877,380)	(7,952,602)
B.2.	Proceeds from sale of fixed assets	90,236	19,721
<b>B.***</b>	<b>Net cash provided by (used in) investing activities</b>	<b>(7,787,144)</b>	<b>(7,932,881)</b>
	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
C.1.	Change in long-term liabilities and long-term, resp. short-term, loans	1,492,064	(1,287,564)
C.2.	Change in receivables/payables related to group cash pooling	(1,540,134)	1,602,674
C.3.	Effect of changes in equity on cash	(4,942,000)	(5,716,000)
C.3.1.	Effect of changes in basic capital on cash	-	-
C.3.2.	Cash donations recorded in equity	-	-
C.3.3.	Cash payments from equity funds	-	-
C.3.4.	Dividends or profit sharing paid	(4,942,000)	(5,716,000)
C.3.5.	Acquisition/sale of own shares	-	-
<b>C.***</b>	<b>Net cash provided by (used in) financing activities</b>	<b>(4,990,070)</b>	<b>(5,400,890)</b>
<b>F.</b>	<b>Net increase (decrease) in cash</b>	<b>8</b>	<b>25</b>
<b>R.</b>	<b>Cash and cash equivalents at end of year</b>	<b>51</b>	<b>43</b>

## ČEZ DISTRIBUCE, A. S. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

### 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 2015 were as follows

Board of Directors		Supervisory Board	
Chair	Ing. Richard Vidlička, MBA	Chair	PhDr. Ivo Hlaváč
Vice-Chair	Ing. Vladimír Budinský, MBA	Vice-Chair	Ing. Jaroslav Janda
Member	Bc. Tomáš Murtinger	Member	Ing. Tomáš Pleskač, MBA
Member	Ing. Pavel Filipi	Member	Karel Čech
Member	Ing. Radim Černý	Member	Irena Klúsová
Member	Ing. Jiří Kudrnáč	Member	Mgr. Dr. Petr Štulc

On 31 March 2015, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., the Board of Directors of ČEZ, a. s., appointed Ing. Jiří Kudrnáč and Bc. Tomáš Murtinger the members of the Board of Directors of ČEZ Distribuce, a. s., with effect from 1 April 2015, and removed Ing. Petra Šárová from her position of Vice-Chair of the Board of Directors and Ing. Karel Kohout from his position of member of the Board of Directors, with effect from 31 March 2015.

On 25 August 2015, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., Ing. Vladimír Budinský, MBA was appointed by the Board of Directors of ČEZ, a. s., the member of the Board of Directors of ČEZ Distribuce, a. s., with effect from 1 October 2015.

On 29 September 2015, subject to the decision of the sole shareholder executing the powers of the general meeting of ČEZ Distribuce, a. s., Ing. Richard Vidlička, MBA and Ing. Pavel Filipi were appointed by the Board of Directors of ČEZ, a. s., the members of the Board of Directors of ČEZ Distribuce, a. s., with effect from 2 October 2015.

At its meeting held on 2 October 2015, the Board of Directors of ČEZ Distribuce, a. s., appointed Ing. Richard Vidlička, MBA and Ing. Vladimír Budinský, MBA the Chair and the Vice-Chair of the Board of Directors of ČEZ Distribuce, a. s., respectively.

These facts correspond to the entry in the Commercial Register as at 31 December 2015.

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;
- Network Services 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 2015 and 2014.

**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 2015 and 2014 financial statements are as follows:

**a) Intangible Fixed Assets**

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

Intangible fixed assets with a cost exceeding CZK 60 thousand in 2015 and 2014 are amortized over their useful economic lives.

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.

**Amortization**

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

	<b>Years</b>
Foundation and organization expenses	5
Research and development	6
Software	4-6
Patents, royalties and similar rights	6
Other intangible fixed assets	6

**b) Tangible Fixed Assets**

Tangible fixed assets are recorded at their acquisition cost, which consists of purchase price, freight, customs duties and other related costs.

Purchased tangible fixed assets with a cost exceeding CZK 40 thousand in 2015 and 2014, respectively, are depreciated over their useful economic lives. Transformer station technologies, transformers of the distribution company and power meters are deemed the tangible fixed assets regardless of their valuation.

Starting in 2014, easements on land and building, excluding the right to use and enjoy, are also deemed the tangible fixed assets regardless of their valuation, unless they are reported as part of the building valuation.

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:

	<b>Years</b>
Constructions	10-50
Machinery and equipment	4-30
Vehicles	10-20
Furniture and fixtures	8-30
Other tangible fixed assets	6-30

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.

**Cash**

Within the ČEZ Group, a system for utilization of idle money of individual group companies, i.e. cash pool, has been introduced. Cash deposited in or used from this system as at the date of the financial statements is reported in 'Short-term receivables from group companies with majority control' or 'Current liabilities to group companies with majority control', as appropriate, in the accompanying balance sheet and the change in the deposited cash is reported in 'Change in receivables/payables from group cash pool' in the accompanying cash flow statement.

**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 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, such as tangible assets donations, etc.

In accordance with the Articles of Association, the Company creates a reserve fund from profit.

The Company is required to establish a reserve fund from profit after tax disclosed in the annual financial statements in the year, in which profit is generated for the first time; the reserve fund is allocated a minimum of 20% of profit after tax, however not more than 10% of basic capital.

The reserve fund is allocated 5% of profit after tax for each particular year until the fund reaches 20% of basic capital of the Company. The fund can only be used to offset losses. The amounts used from the fund are replenished in the same manner as the reserve fund has been established.

**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 liabilities are recorded at their nominal values.

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 finance income for the year.

**i) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company management prepared these estimates and predictions based on all available relevant information. These estimates and assumptions are based on information available as at the date of the financial statements and may differ from actual results.

**j) Recognition of Revenues and Expenses**

Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises. 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 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 the load simulation at each point of delivery on the basis of temperature-adjusted load profiles. The actual billed distribution service amounts may differ from the estimation.

**k) Income Tax**

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible provisions and allowances, entertainment expenses, differences between book and tax depreciation, etc.). In addition, the following items are taken into consideration: tax base decreasing items (donations), tax deductible items and income tax reliefs.

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.

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

Deferred tax asset is recognized when it becomes probable that the asset will be realized in the future.

**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	1,907	-	-	-	1,907
Software	491,763	-	(4,962)	133,623	620,424
Patents, royalties and similar rights	44,502	-	-	-	44,502
Other intangibles	145,186	-	(8,359)	24,381	161,208
Intangibles in progress	7,166	151,983	-	(146,151)	12,998
Advances for intangibles	-	11,853	-	(11,853)	-
<b>2015 Total</b>	<b>690,610</b>	<b>163,836</b>	<b>(13,321)</b>	<b>-</b>	<b>841,125</b>
<b>2014 Total</b>	<b>529,899</b>	<b>181,506</b>	<b>(20,795)</b>	<b>-</b>	<b>690,610</b>

#### Accumulated Amortization

	At beginning of year	Amortization during year	Cost of sales	Disposals	At end of year	Net book value
Foundation and organization expenses	(86)	-	-	-	(86)	-
Research and development	(1,907)	-	-	-	(1,907)	-
Software	(222,191)	(104,372)	(8)	4,962	(321,609)	298,815
Patents, royalties and similar rights	(33,413)	(4,921)	-	-	(38,334)	6,168
Other intangibles	(73,689)	(22,744)	-	8,359	(88,074)	73,134
Intangibles in progress	-	-	-	-	-	12,998
Advances for intangibles	-	-	-	-	-	-
<b>2015 Total</b>	<b>(331,286)</b>	<b>(132,037)</b>	<b>(8)</b>	<b>13,321</b>	<b>(450,010)</b>	<b>391,115</b>
<b>2014 Total</b>	<b>(258,960)</b>	<b>(93,121)</b>	<b>-</b>	<b>20,795</b>	<b>(331,286)</b>	<b>359,324</b>

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

As at 31 December 2015 and 2014, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 5,146 thousand and CZK 5,326 thousand at acquisition cost, respectively.

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

#### Cost

	At beginning of year	Additions	Disposals	Transfers	Other movements	At end of year
Land	807,847	-	(92)	36,032	-	843,787
Constructions	184,138,496	-	(884,556)	5,244,783	16,783	188,515,506
Separate movable items	61,325,620	-	(981,291)	2,373,830	(14,342)	62,703,817
Art works and collections	347	-	-	-	-	347
Other tangibles	14,094	-	-	2,081	-	16,175
Tangibles in progress	1,881,688	7,375,568	(32,437)	(7,508,216)	-	1,716,603
Advances for tangibles	143,404	157,686	-	(148,510)	-	152,580
<b>2015 Total</b>	<b>248,311,496</b>	<b>7,533,254</b>	<b>(1,898,376)</b>	<b>-</b>	<b>2,441</b>	<b>253,948,815</b>
<b>2014 Total</b>	<b>242,701,133</b>	<b>8,079,366</b>	<b>(2,469,003)</b>	<b>-</b>	<b>-</b>	<b>248,311,496</b>

### Accumulated Depreciation and Allowances

	At beginning of year	Depreciation during year	Cost of sales	Disposals	Other movements	At end of year	Net book value
Land	-	-	-	-	-	-	843,787
Constructions	(95,706,443)	(4,269,835)	(125)	884,556	(6,923)	(99,098,770)	89,416,736
Separate movable items	(35,195,176)	(2,402,983)	(640)	981,291	4,341	(36,613,167)	26,090,650
Art works and collections	-	-	-	-	-	-	347
Other tangibles	(4,069)	(1,289)	-	-	-	(5,358)	10,817
Tangibles in progress	-	-	-	-	-	-	1,716,603
Advances for tangibles	-	-	-	-	-	-	152,580
<b>2015 Total</b>	<b>(130,905,688)</b>	<b>(6,674,107)</b>	<b>(765)</b>	<b>1,865,847</b>	<b>(2,582)</b>	<b>(135,717,295)</b>	<b>118,231,520</b>
<b>2014 Total</b>	<b>(126,398,196)</b>	<b>(6,654,066)</b>	<b>(2,114)</b>	<b>2,154,502</b>	<b>(5,814)</b>	<b>(130,905,688)</b>	<b>117,405,808</b>

The total value of small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 43,482 thousand and CZK 43,184 thousand at acquisition cost as at 31 December 2015 and 2014, respectively.

As at 31 December 2015 and 2014, the Company recorded assets of CZK 61,268 thousand and CZK 84,378 thousand, respectively, acquired conditionally (Under Section 56 para 8 of Regulation No. 500/2002 Coll., as amended).

## 5. Receivables

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

As at 31 December 2015 and 2014, receivables overdue for more than 30 days totaled CZK 536,724 thousand and CZK 472,087 thousand, respectively. Receivables of CZK 213,640 thousand are subject to the claim process concerning the POZE legal dispute (see Note 15).

The Company wrote off receivables of CZK 22,695 thousand and CZK 24,802 thousand in 2015 and 2014, respectively as they were irrecoverable or due to unsatisfying the claims in bankruptcy proceedings. The receivables remain off-balance sheet.

Receivables from related parties (see Note 18).

Unbilled revenue represents, in particular, unbilled distribution services.

### Changes in unbilled distribution services were as follows in 2015 and 2014 (in CZK thousands)

Unbilled distribution services	Total	Retail business customers	Retail household customers
<b>Closing balance as at 31/12/2013</b>	<b>11,440,720</b>	<b>3,840,364</b>	<b>7,600,356</b>
Changes in 2014	(1,991,104)	(573,449)	(1,417,655)
<b>Closing balance as at 31/12/2014</b>	<b>9,449,616</b>	<b>3,266,915</b>	<b>6,182,701</b>
Changes in 2015	422,147	(1,015,778)	1,437,925
<b>Closing balance as at 31/12/2015</b>	<b>9,871,763</b>	<b>2,251,137</b>	<b>7,620,626</b>

## 6. Allowances

Allowances reflect a temporary diminution in the value of assets.

### Changes in the allowance accounts (in CZK thousands)

Allowances against:	Balance as at 31/12/2013	Additions	Deductions	Balance as at 31/12/2014	Additions	Deductions	Balance as at 31/12/2015
Receivables	401,377	183,313	(108,933)	475,757	322,919	(280,023)	518,653
of which:							
- Legal	192,687	107,299	(27,424)	272,562	188,117	(98,007)	362,672
- Accounting	208,690	76,014	(81,509)	203,195	134,802	(182,016)	155,981

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 Czech National Bank has stopped publishing the PRIBID rate since 1 July 2015 and the deposits bear a minimal interest rate of 0.05% p.a. from that date.

The balance of cash transferred to the parent company ČEZ, a. s., within the cash pooling system was CZK 7,472,923 thousand and CZK 3,932,789 thousand as at 31 December 2015 and 2014, respectively.

Pursuant to a contract for credit line No. 2014/2 signed on 7 October 2014, a credit line of CZK 2 billion was provided to ČEZ, a. s. The credit line can be drawn on the basis of request for drawing at a certain date for a certain period (the ultimate maturity date is the 365th day after the contract signature).

The loan was paid up in 2015.

## 8. Other Assets

As at 31 December 2015 and 2014, prepaid expenses include in particular a fee of CZK 21,617 thousand and CZK 25,220 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 31/12/2013	Increase	Balance as at 31/12/2014	Decrease	Increase	Balance as at 31/12/2015
Number of shares (pces.)	600	-	600	-	-	600
Basic capital	60,000,000	-	60,000,000	-	-	60,000,000
Other capital funds	1,314	-	1,314	(1)	-	1,313
Reserve fund	12,000,000	-	12,000,000	-	-	12,000,000
Retained earnings	11,164,681	1,160,059	12,324,740	-	1,827,288	14,152,029

Subject to the decision of the sole shareholder executing the powers of the general meetings of the Company held on 23 June 2015 and 20 June 2014, the following profit distribution for 2014 and 2013 was approved (in CZK thousands):

Profit for 2013	6,876,059	Profit for 2014	6,769,289
Dividend distribution	(5,716,000)	Dividend distribution	(4,942,000)
Undistributed profits added to retained earnings	1,160,059	Undistributed profits added to retained earnings	1,827,289
Retained earnings as at 31/12/2013	11,164,681	Retained earnings as at 31/12/2014	12,324,740
<b>Retained earnings as at 31/12/2014</b>	<b>12,324,740</b>	<b>Retained earnings as at 31/12/2015</b>	<b>14,152,029</b>

## 10. Provisions

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

Provisions	Balance as at 31/12/2013	Additions	Deductions	Balance as at 31/12/2014	Additions	Deductions	Balance as at 31/12/2015
Provision for income tax	380,548	247,644	(380,548)	247,644	153,954	(247,644)	153,954
Other provisions	261,461	44,286	(21,766)	283,981	58,746	(12,553)	330,174

As at 31 December 2015 and 2014, the provision for corporate income tax was offset against paid prepayments totaling CZK 1,380,008 thousand and CZK 1,375,455 thousand, respectively and the resulting liability is recorded in the caption "Provision for income tax".

Other provisions were created for retirement benefits and 50 years jubilee bonuses paid under collective agreement.

## 11. Long-Term Liabilities

As at 31 December 2015 and 2014, the Company had the following long-term liabilities (in CZK thousands):

	Due date	31/12/2015	31/12/2014
1st credit line	27/12/2019	-	2,551,000
2nd credit line	27/12/2019	-	1,313,250
3rd credit line	07/06/2022	3,345,550	3,860,250
4th credit line	31/12/2025	5,460,000	-
5th credit line	31/12/2025	411,000	-
<b>Total</b>		<b>9,216,550</b>	<b>7,724,500</b>
Current portion		858,450	1,287,550
Long-term portion		8,358,100	6,436,950

A contract for 1st credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 13 November 2009. The loan was withdrawn on 16 November 2009 and was repayable by 27 December 2019. The interest rate was set at 5.87% p.a. This loan was repaid by an extraordinary installment as at 31 March 2015.

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 was repayable by 27 December 2019. The interest rate was set at 5.757% p.a. This loan was repaid by an extraordinary installment as at 31 March 2015.

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.

A contract for 4th credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 2 March 2015. The first half of the loan was withdrawn on 11 March 2015, the other one on 21 August 2015. The loan is repayable by 31 December 2025. The interest rate has been set at 2.4% p.a.

A contract for 5th credit line was signed by and between ČEZ Distribuce, a. s., (debtor) and ČEZ, a. s., (creditor) on 22 December 2015. The loan was withdrawn on 29 December 2015 and is repayable by 31 December 2025. The interest rate has been set at 2.36% p.a.

The loans under the 1st to 4th credit lines were provided to finance the implementation of the Project of reconstruction and development of the power grid in the Czech Republic (the "Project"). The loan under the 5th credit line was provided to finance the investments into the power grid in the Vítkovice locality.

The interest expense relating to loans for 2015 and 2014 was CZK 282,660 thousand and CZK 430,767 thousand, respectively.

The aggregate maturities of loans as at 31 December 2015 are as follows (in CZK thousands)

	<b>Loans</b>
2016	858,450
2017	1,115,800
2018	1,373,150
2019	1,115,800
2020 and thereafter	4,753,350
<b>Total</b>	<b>9,216,550</b>

The loan agreements for the 1st to 4th credit lines with ČEZ, a. s., include the following 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 2015 and 2014.

## 12. Current Liabilities

As at 31 December 2015 and 2014, the Company had overdue current payables for more than 30 days totaling CZK 1,054 thousand and CZK 402 thousand, respectively.

As at 31 December 2015 and 2014, the Company had liabilities of CZK 27,413 thousand and CZK 26,254 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 2015 and 2014.

Payables to related parties (see Note 18).

## 13. Other Liabilities

Deferred income includes, in particular, 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 2015 and 2014 (in CZK thousands)

<b>Balance as at 31/12/2013</b>	<b>8,057,438</b>
Additions in 2014	574,020
Released to revenues in 2014	(766,951)
<b>Balance as at 31/12/2014</b>	<b>7,864,507</b>
Additions in 2015	646,803
Released to revenues in 2015	(784,290)
<b>Balance as at 31/12/2015</b>	<b>7,727,020</b>

## 14. Income Taxes

	2015 (in CZK thousands)	2014 (in CZK thousands)
Profit before taxes	8,141,677	8,313,318
Difference between book and tax depreciation	(148,365)	126,300
Difference between net book value of fixed assets for accounting and tax purposes	95,010	91,843
Non-deductible expenses		
Creation of provisions	46,193	22,520
Release of allowances	(47,214)	(5,494)
Expenses relating to previous tax period	(66,059)	(18,563)
Other	53,096	13,449
Taxable income	8,074,338	8,543,373
Current income tax rate	19%	19%
Tax	1,534,124	1,623,241
Tax allowance	(162)	(141)
Provision for income tax	1,533,962	1,623,100
Adjustment of the tax paid in previous years	18,045	981
Current tax expense	1,552,007	1,624,081

The calculation of the 2015 corporate income tax liability is preliminary. The Company submits regular tax return prior to 30 June 2016.

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

Deferred tax items	31/12/2015		31/12/2014	
	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	-	(11,561,938)	-	(11,586,528)
Other temporary differences:				
Allowance against receivables	29,636	-	38,607	-
Provisions	62,733	-	53,956	-
Other	20,491	(4,421)	18,460	(1,372)
<b>Total</b>	<b>112,860</b>	<b>(11,566,359)</b>	<b>111,023</b>	<b>(11,587,900)</b>
<b>Net</b>		<b>(11,453,499)</b>		<b>(11,476,877)</b>

## 15. Commitments and Contingencies

The Company has affected 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 2015 and 2014, the Company had concluded contracts for future supplies of fixed assets in the amount of approx. CZK 3,738,378 thousand and CZK 3,768,926 thousand, respectively. As at 31 December 2015 and 2014, an amount of contractual liabilities for next years comprises a contractual fee totaling CZK 3,357,104 thousand and CZK 3,393,904 thousand, respectively for investments, CZK 297,623 thousand and CZK 303,257 thousand, respectively for repairs and CZK 83,651 thousand and CZK 71,765 thousand, respectively for relaying.

The Company is a party to a number of legal disputes relating to collection of a price component pertaining to costs incurred in supporting the electricity generation from renewable energy sources and combined heat and power generation (fees for "OZE" and "KVET" respectively) for all electricity generated for and consumed by customers, i.e. electricity not supplied to the ČEZ Distribuce, a. s.'s power grid in the period January to September 2013. The Company's management believes that if an adverse judgment against ČEZ Distribuce, a. s. is delivered in these cases and any potential similar disputes, the Company will be entitled to claim back the fees from OTE, a.s. Therefore, the Company takes all measures necessary to prevent the Company from an unfavorable impact in the case of failure, if any. Furthermore, the Company's management believes that the court should not, in any case, award the electricity producers the portion of their claim representing VAT.

The Company is further 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)

	2015	2014
Use of grids, incl. reserved capacity at low voltage level	18,452,962	18,672,559
Support of electricity from renewable sources	18,813,567	18,432,941
Provided reserved capacity at very high voltage and very low voltage levels	8,639,884	8,290,317
Provision of system services	3,769,715	4,186,853
OTE charges	268,727	286,258
Other energy services	1,843,144	169,306
Other non-energy services	220,426	221,787
<b>Total revenues</b>	<b>52,008,425</b>	<b>50,260,021</b>

In 2015 and 2014, 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 2015 and 2014, 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)

	2015		2014	
	Total	Of which: company bodies and senior management <sup>1)</sup>	Total	Of which: company bodies and senior management <sup>1)</sup>
Average number of employees <sup>2)</sup>	1,343	5	1,222	5
Wages and salaries	771,896	3	721,739	9,451
Bonuses to members of company bodies	19,125	19,125	11,219	11,219
Social security and health insurance	269,757	4,284	249,843	3,277
Social cost	92,964	1,021	85,521	1,107
<b>Total personnel expenses</b>	<b>1,153,742</b>	<b>24,433</b>	<b>1,068,322</b>	<b>25,054</b>

<sup>1)</sup> Members of Supervisory Board and Board of Directors, chief executive officer and directors of sections.

<sup>2)</sup> Average registered number of employees recalculated as headcount based on the length of individual working arrangements to (full) working hours set by the employer. This information does not include the Supervisory Board members.

## 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 2015 and 2014 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 2015 and 2014, advances granted to related parties were CZK 5,410 thousand and CZK 166 thousand, respectively.

As at 31 December 2015 and 2014, receivables from group companies with majority control in the amount of CZK 7,472,923 thousand and CZK 3,932,789 thousand, respectively represent the balance of cash in the cash pooling system (see Note 7) and a short-term loan granted to ČEZ, a. s., in the amount of CZK 2,000,000 thousand in 2014.

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 2015 and 2014, sales were as follows (in CZK thousands):

<b>Related party</b>	<b>2015</b>	<b>2014</b>
ČEZ Prodej, s.r.o.	24,207,249	24,309,315
Severočeské doly a.s.	343,759	345,759
ČEZ, a. s.	119,381	126,631
ČEZ ICT Services, a. s.	100,841	97,289
ČEZ Distribuční služby, s.r.o.	32,447	33,389
Elektrárna Dětmarovice, a.s.	15,869	14,748
ÚJV Řež, a. s.	8,053	8,381
ČEZ Zákaznické služby, s.r.o.	1,966	2,619
MARTIA a.s.	1,807	456
Elektrárna Tisová, a.s.	1,753	-
ČEZ Energo, s.r.o.	1,415	397
ČEZ Energetické služby, s.r.o.	772	431
Energetické centrum s.r.o.	714	-
Telco Pro Services, a. s.	627	423
ELTODO-CITELUM, s.r.o.	614	-
Energotrans, a.s.	302	180
ČEZ Obnovitelné zdroje, s.r.o.	271	15
ČEZ OZ uzavřený investiční fond a.s.	255	227
ČEZ Korporátní služby, s.r.o.	221	885
Centrum výzkumu Řež s.r.o.	-	332
<b>Total</b>	<b>24,838,316</b>	<b>24,941,477</b>

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

<b>Related party</b>	<b>2015</b>	<b>2014</b>
ČEZ Prodej, s.r.o.	7,260,853	7,467,910
ČEZ Distribuční služby, s.r.o.	185,819	170,687
Severočeské doly a.s.	51,184	43,173
ČEZ ICT Services, a. s.	24,422	30,425
ČEZ, a. s.	15,131	25,712
Elektrárna Dětmarovice, a.s.	1,822	1,984
Energetické centrum s.r.o.	885	-
ČEZ Energo, s.r.o.	180	8
Elektrárna Tisová, a.s.	149	-
ČEZ Zákaznické služby, s.r.o.	131	75,020
Telco Pro Services, a. s.	112	47
ÚJV Řež, a. s.	104	529
ČEZ Korporátní služby, s.r.o.	79	6,124
ČEZ Energetické služby, s.r.o.	43	43
MARTIA a.s.	25	37
ČEZ OZ uzavřený investiční fond a.s.	3	-
ELTODO-CITELUM, s.r.o.	3	-
<b>Total</b>	<b>7,540,925</b>	<b>7,821,699</b>

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

<b>Related party</b>	<b>2015</b>	<b>2014</b>
ČEZ Distribuční služby, s.r.o.	693,138	810,716
ČEZ Prodej, s.r.o.	584,841	915,044
ČEZ ICT Services, a. s.	101,560	372,471
ČEZ Zákaznické služby, s.r.o.	43,305	49,894
ČEZ Korporátní služby, s.r.o.	37,045	26,487
ČEZ, a. s.	32,727	37,471
MARTIA a.s.	8,445	6,412
ČEZ Energetické služby, s.r.o.	3,047	12,153
Elektrárna Dětmarovice, a.s.	462	530
Telco Pro Services, a. s.	453	-
ČEZ Teplárenská, a.s.	203	250
ČEZ OZ uzavřený investiční fond a.s.	196	-
Energotrans, a.s.	139	173
OSC, a.s.	59	158
ČEZ Energo, s.r.o.	23	3
CITELUM, a.s.	19	-
Severočeské doly a.s.	2	2
ČEZ Obnovitelné zdroje, s.r.o.	1	324
SINIT,a.s.	-	884
<b>Total</b>	<b>1,505,665</b>	<b>2,232,972</b>

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties in 2015 and 2014 were as follows (in CZK thousands):

Related party	2015	2014
ČEZ Distribuční služby, s.r.o.	6,341,389	7,789,985
ČEZ Prodej, s.r.o.	2,935,170	3,107,472
ČEZ ICT Services, a. s.	738,861	1,092,963
ČEZ Zákaznické služby, s.r.o.	404,885	430,595
ČEZ Korporátní služby, s.r.o.	252,613	445,437
ČEZ, a. s.	193,655	190,155
MARTIA a.s.	54,947	37,261
Telco Pro Services, a. s.	7,610	-
ČEZ Energetické služby, s.r.o.	7,134	18,857
Elektrárna Dětmarovice, a.s.	4,473	4,214
Tepelné hospodářství města Ústí nad Labem s.r.o.	1,420	1,436
ČEZ Teplárenská, a.s.	1,383	1,182
Energotrans, a.s.	1,308	989
ČEZ OZ uzavřený investiční fond a.s.	979	-
CITELUM, a.s.	926	779
Elektrárna Tisová, a.s.	172	-
OSC, a.s.	59	185
ČEZ Energo, s.r.o.	24	31
Severočeské doly a.s.	15	27
Teplo Klášterec s.r.o.	11	-
PRODECO, a.s.	4	1
ČEZ Obnovitelné zdroje, s.r.o.	1	2,186
SINIT,a.s.	-	7,226
LOMY MOŘINA spol. s r.o.	-	1
<b>Total</b>	<b>10,947,039</b>	<b>13,130,982</b>

As at 31 December 2015 and 2014, advances received from related parties were CZK 7,829,847 thousand and CZK 8,114,448 thousand, respectively. The advances mostly comprised of advances for distribution services received from ČEZ Prodej, s.r.o.

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## 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.

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## 20. Subsequent Events

On 1 February 2016, the Board of Directors of ČEZ, a. s. (as the sole shareholder of ČEZ Distribuce, a. s.), approved a plan of transformation of ČEZ Distribuce, a. s., in the form of demerger through a spin-off followed by acquisition. Following this form of transformation, ČEZ Distribuce, a. s., as the company being demerged, does not cease to exist and part of its assets and liabilities (comprising the distribution assets in the Vítkovice locality and a liability arising from a loan granted by ČEZ, a. s.) is transferred to ČEZ Energetické služby, s.r.o., as the successor company. A transformation effective date should be 1 January 2016. As at this date, the assets of approx. CZK 360 million in the Vítkovice locality and the liability (loan) of approx. CZK 410 million will be transferred to the successor company.

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## 21. Statement of Cash Flows (see Page 57)

The cash flow statement was prepared under the indirect method.

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

Prepared on: 11. April 2016

Signature of accounting unit's statutory body:



Ing. Richard Vidlička, MBA



Murtinger Tomáš, Bc.

## 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 kept by the  
Regional Court in Ústí nad Labem, Section B, File 2145

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

License number: 121015583  
OTE registration number: 715

Closing date of the 2015 Annual Report: May 6, 2015

**Relation Structure Diagram**  
**Alphabetical List of Companies**

Being **IN** and receiving **OVATIONS** for smart solutions, exceptional ideas, modern technologies, or interesting services, in short, for **INNOVATIONS**, is something that takes courage. Not being afraid of obstacles in the way, testing, verifying, improving. Looking for experts and gifted visionaries who will take us another step forward.

For us, the equation **IN + OVATIONS = INNOVATIONS** is not composed of several unknowns. We can place precise quantities in it, which result in new courses of action.