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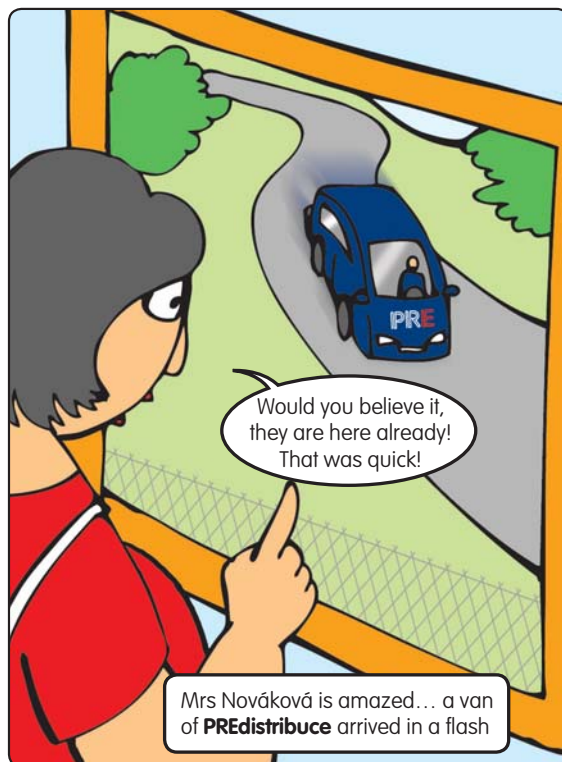


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Changes which have occurred since the end of the accounting period (31 December 2008) to the deadline for the issue of this Annual Report (24 April 2009) are highlighted *in bold italics*.



Basic Company Data

Commercial name: PREDistribuce, a.s.
Registered office: 150 00 Prague 5, Svornosti 3199/19a
Identification No.: 27376516
Tax identification No.: CZ27376516
Legal form: joint stock company
Company is registered in: Commercial Register at the Municipal Court in Prague, Section B, Insert 10158
Account: ČSOB Prague-město, Account No.: 17494043/0300

The incorporation of the independent Company PREDistribuce, a.s. is associated with the changes brought on by the new energy legislation and obligation of transformation in accordance with European norms.

Under Act No. 670/2004 Coll., which amended Act No. 458/2000 Coll., on Business Conditions and Public Administration in the Energy Sectors and on the Amendment to other Acts (the Energy Act), as amended, the Directive of the European Parliament and Council Number 2003/54/ES on common rules for the national electricity market was incorporated into the Czech rule of law. These regulations imposed on so-called vertically integrated entrepreneurs, i.e. concurrent electricity distribution and trading licence holders, which included Pražská energetika, a.s. the duty to legally separate those licensed activities so the electricity distribution licence holder is a legally independent Company.

Pražská energetika, a.s. ID No.: 60193913, with its registered office in Prague 10, Na Hroudě 1492/4, PCN 100 05 carried out this change by a contract on the investment contribution of part of the enterprise dated 28 December 2005 and invested part of the enterprise (the Distribution Division) in the subsidiary PREDistribuce, a.s. ID No.: 27376516, with registered office in Prague 5, Svornosti 3199/19a, PCN 150 00.

PREDistribuce, a.s. thereby came into effect as of 1 January 2006 in all the rights and obligations of the Pražská energetika, a.s. for securing and operating the distribution system on the licensed territory of the Capital City of Prague, Rožtoky u Prahy and the municipality of Žalov. This legal succession particularly arises from the provision of Section 476 (1) and Section 477 (1) of the Commercial Code.

By this contract PREDistribuce, a.s. became the owner of the technical equipment and part of the immovable assets used to secure electricity distribution on the territory of the Capital City of Prague and the cadastral territory of Rožtoky u Prahy and Žalov.

As of 1 January 2006 under the granted electricity distribution licence No. 120504769 PREDistribuce, a.s. became the operator of the distribution system on the territory of the Capital City of Prague, Rožtoky u Prahy and Žalov.



The PRE Group, Company Mission and Vision

The Company is a member of the PRE Group. Among the Group's basic activities belongs the sale, trading and distribution of electricity. Besides this, it also secures other additional power services.

The history of the Group's companies dates back to 1897 when the Electricity Works of the Royal Capital City of Prague (Elektrické podniky královského hlavního města Prahy), whose subject of business at that time was together with electricity supplies also provision of the city's street lighting and operation of the trams, was established.

The Group is successfully dealing with the challenges of the liberalizing market and is a supporter of free competition in the power sector.

The Group's members, besides its parent company, are the following subjects, 100% owned subsidiaries:

- **PREdistribuce, a.s. (PREdi)** – distributes electricity on the territory of Capital City Prague and Roztoky u Prahy, plans the renovation and development of the distribution system, constructs, operates, administers and maintains equipment of the distribution system.
ID No.: 27376516; Prague 5, Svornosti 3199/19a, tel.: 267 051 111, fax: 267 310 817, Internet: www.pre.cz, e-mail: pre@pre.cz and distribuce@pre.cz
- **ODEM a.s.,*** – takes readings of power media at customers on the supplied territory.
ID No.: 25755609; Prague 10, Na Hroudě 2149/19, tel.: 267 053 253, fax: 267 053 255, Internet: www.odem.cz, e-mail: info@odem.cz
- **PREměření, a.s., (PREm)** – repairs and installations of electric meters on the PRE supplied territory.
ID No.: 25677063; Prague 7, Partyzánská 7a**, tel.: 267 052 254, fax: 267 052 263, Internet: www.pre.cz, e-mail: mereni@pre.cz
- **PREleas, a.s.,** – provides leasing operations for the PRE Group members.
ID No.: 25054040; Prague 10, Limuzská 2110/8, tel.: 272 702 305, fax: 272 702 305

* The sole shareholder decided to wind up ODEM a.s. on 26.2.2008 and liquidate it as of 1.3.2008. During the period of liquidation the company's business name was used with the added note "in liquidation" (hereinafter only ODEM a.s. in the text of the Annual Report). The Company was deleted from the Commercial Register on 5.12.2008 once its liquidation had been completed.

** As of 5.2.2008 Prague 10, Na Hroudě 2149/19.

Mission of PREdistribuce, a.s.

The mission of PREdistribuce, a.s. is to provide the reliable distribution of electricity and associated services while observing standards laid down by implementing decrees. All technological capabilities need to be utilized and the quality of distribution systematically improved in the Capital City of Prague and Roztoky u Prahy to support the prosperity of the distribution network users, shareholders and employees.

Vision of PREdistribuce, a.s.

PREdistribuce, a.s. is a stable and prosperous power Company with a long tradition. It is a reliable electricity distributor on the territory of the Capital City of Prague and the town of Roztoky u Prahy. By using the latest technology and procedures it meets the requirements and expectations of the distribution network users. Likewise, it is a strong social partner for its employees by caring for their professional development.

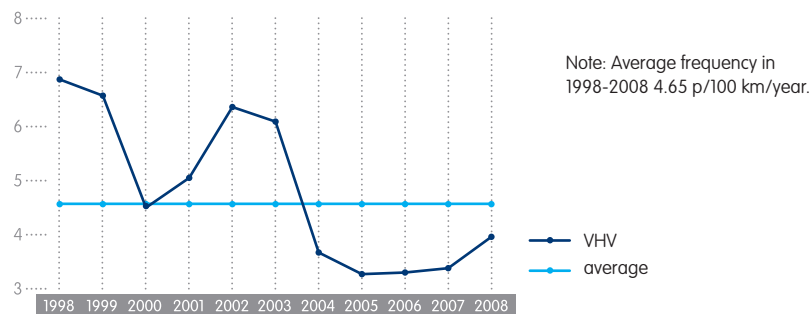
Main financial indicators (MCZK)

	2008	2007	2006
Total assets	26,314	24,864	24,494
Distribution equipment	21,721	20,880	20,643
Other fixed assets	1,997	2,322	2,315
Group cash looping receivables	0	339	317
Trade receivables	2,498	1,274	1,157
Other assets	98	49	62
Total liabilities	26,314	24,864	24,494
Equity	18,850	19,582	18,456
Deferred tax liability	2,968	2,995	3,806
Group cash pooling payables	874	0	0
Trade payables	133	156	160
Deferred revenues	1,743	1,675	1,599
Provisions	157	176	169
Loans	1,500	0	0
Other liabilities	89	280	304
Gross profits from distribution services sale	4,699	4,621	4,187
Routine trade activities profit before tax	1,080	1,293	1,025
Routine trade activities profit after tax	880	1,742	776
Extraordinary profit/loss	0	0	(28)
Profit after tax	880	1,724	748

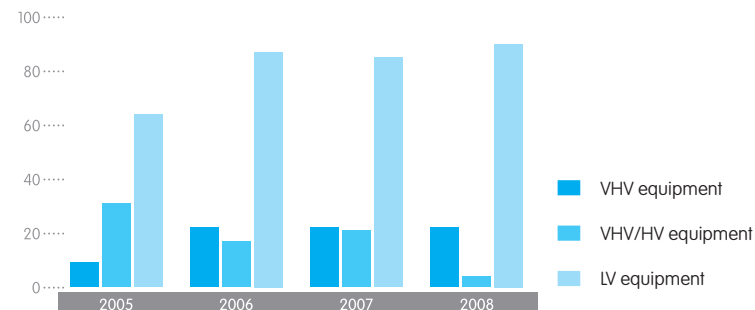
Other indicators

		2008	2007	2006
Total distribution (balance)	GWh	6,372.5	6,172.0	6,085.0
Number of consumption points:	number	735,779	726,366	713,474
of which: industrials	number	1,929	1,854	1,916
small businesses/MOP	number	136,089	136,320	132,323
households/MOO	number	597,761	588,192	579,235
Total length of electricity networks	km	11,552	11,544	11,229
of which: VHV	km	206	196	196
HV	km	3,701	3,670	3,476
LV	km	7,645	7,678	7,557
Number of employees – average full time equivalent	persons	515	555	583

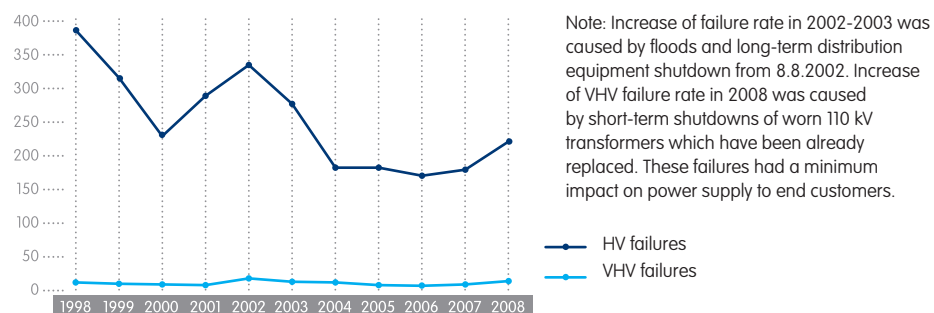
Frequency of 22 kV cable failures



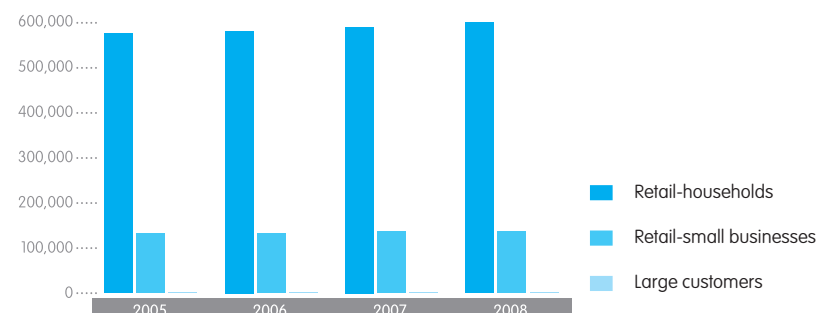
Average time of electricity supply disconnection on VHV, VHV/HV and LV equipment



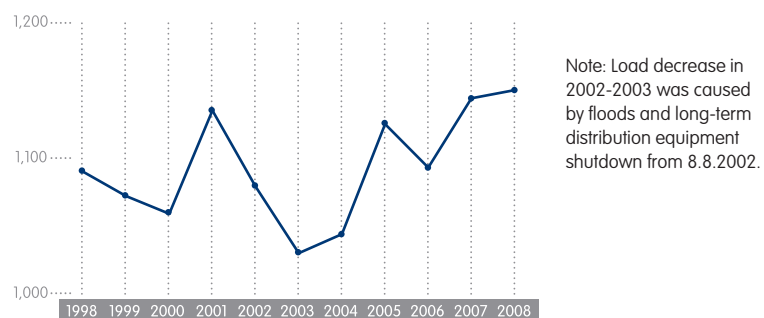
Number of VHV and HV failures



Number of consumption points



Highest achieved annual load profile





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Foreword of the Chairman of the Board of Directors

Dear readers,

by way of introduction I would like to wish you, on behalf of PREdistribuce, a.s., lots of health and success for 2009 when we will need to face the economic problems associated with the economic crisis. I hope that you, our customers and business partners, and we will successfully overcome the problems in 2009 and be able to assess this next year as a very good one.

The year 2008 rounded off the third year of our Company's existence and of providing a high quality and continuous energy supply to all our distribution customers. PREdistribuce, a.s. was established as a 100% subsidiary of the sole shareholder, Pražská energetika, a.s. Its main task is the distribution of electricity on the territory of the Capital City of Prague and the town of Roztoky u Prahy. Our Company has held an electricity distributor licence for this territory since 1.1.2006 to expire in 16.1.2027. Electricity distribution, as a regulated activity, is subject to regulation by the Energy Regulatory Office of the Czech Republic (ČR-ERÚ). All the networks and operating equipment of PREdistribuce, a.s. are part of the critical infrastructure of Prague and all of the Czech Republic from the point of view of security.

The Company's main objective is to safeguard the reliable distribution of electricity from its facilities – delivery points within a transmission system – right up to consumption or delivery points of the individual customers through the maintained distribution system. This system consists of a system of 110 kV, 22 kV and 0.4 kV overhead and cable lines, 24 distribution stations with transformation of 110/22 kV and 4,783 network transformer stations 22/0.4 kV.

All the Company's distribution system equipment was operated and run by 517 employees last year. The equipment is operated and run in such a way that planned repairs and maintenance, as well as the management of operation and solution of breakdowns and equipment failure, are handled with high quality expertise and in compliance with standards. Likewise, the Company employees carried out important activities such as the planning of development and renovation of distribution equipment and management of network assets, connection of new customers, construction of investment energy structures and service lines. Last but not least, the Company also carries out high quality measurements of very high voltage and high voltage transmitted electricity and transfer of data for the settlement of distribution services and supplies to the system of the Operátor trhu (Market Operator). I believe that all these activities were carried out by the Company employees promptly and at a high professional level.

At the end of 2006, the Company introduced an annual reading of electricity in networks of low voltage of 0.4 kV which resulted in a change in the organization of some activities at low voltage level. As of 1.1.2008, all activities associated with the measurement of electricity at 0.4 kV level, were brought together in the affiliated company PREměření, a.s. Our Company only retained supervision over the activities of PREměření, a.s., especially the measured inlets and consumption points at end customers and over the activities of own accounting meter management, including supervisory activity over the purchase of meters and gauges. The Company's task in this area for the next period is to cooperate with its affiliated company PREměření, a.s. in all measurement activities so customers do not notice the difference of whether the operation on a meter is carried out by one or the other company.

I also wish to include several basic data testifying to the output and amount of electricity transmitted. The total network load achieved a maximum of 1,147 MW on 11.12.2008; a total of 6,372.5 GWh of electricity was distributed through the networks to the territory of the Capital City of Prague and the town Roztoky u Prahy which covered the requirements of existing and new customers at all voltage levels. In comparison with 2007, the growth in the increase of distributed energy was over 3 %. The standards of the quality of electricity supplies and associated services in compliance with the Regulation of the ERÚ No. 540/2005 Coll. were met with regard to the absolute majority of end customers connected to the Company's distribution networks. Customers were connected to the networks throughout the year in compliance with valid legislation, i.e. the ERÚ Regulation No. 51/2006 Coll.

However, I also regret to state that in recent years the distribution network has been tested by the effects of sudden adverse weather conditions. After the floods of 2002 and the Kyrill windstorm at the start of 2007, the Czech Republic was struck by hurricane Emma in March 2008. During this contingency the distribution network on the territory of the City of Prague and the town of Roztoky u Prahy was stricken by several power failures caused by the strong hurricane affecting the remains of the overhead 1 kV line in east Prague. The 110 kV backbone network and 22 kV distribution network fully withstood the onslaught of the winds and so the Company's management did not have to declare a state of emergency and acknowledge the long-term instability in the energy feed as was the case in other regions of the Czech Republic. Based on the assessment of the impact of these windstorms on the reliability of operations, the Company's management quickly adopted measures to systematically renovate overhead electricity lines. The Company managed to fully reconstruct the overhead 110 kV line between the Východ and Malešice distribution stations at a length of almost 5 km located in north-east Prague where the lines are the oldest and have suffered the greatest wear and tear, and so are the most at risk. The further reconstruction of lines in the north of the city is planned for 2009 so the pace and quality of the city's life is not threatened during further exceptional weather conditions.

← M. Hampl, Chairman of the Board and CEO

No extensive systemic technical emergencies were reported on power lines, at 110/22 kV distribution stations or at 22/0.4 kV nodal transformer stations in 2008 which would significantly, in a matter of hours, affect the supply of electricity to Prague residents.

The failure rate of electricity distribution in Prague in the number of incidents of serious failures and the quality of supply has registered a falling trend in the last monitored decade, and in the last 4 years it has converged to a relatively low level despite the increase in foreign interventions, and the annually increasing load. The values of the average period of interruption in power on 110 kV lines, in 110/22 kV transformation and in 22 kV networks are comparable with big EU cities such as Munich and Stuttgart. This positive trend was achieved over a long period by the implementation and highly rational planning of development and renovation from one centre, renovating in line with approved corporate standards and implemented modern technologies and elements applied within the EU with high demands on reliability and security. The Company's management will continue implementing further measures for the gradual improvement of network reliability in the sphere of network management and operation.

The sum of MCZK 1,723.6 was invested in 2008 in the distribution network, i.e. in the standard renovation and development of the network including control, telemechanisation and measuring systems, and a further MCZK 255 was invested in means of operation. I am happy to say that the increased interest of investors continues in connecting new buildings and thus new consumption points in the hitherto un-built parts of Prague are being created. In view of the increased interest of investors in the construction of new projects, we were able to add a new 110/22 kV transformer station in Pankrác to the system in 2008, and fully connect the Smíchov distribution station with the Karlov distribution station on the other bank of the River Vltava in the system, and thereby ensure higher energy supply reliability in the developing parts of the Capital City.

In the second half of 2008 there were no signs as yet of the impact of the financial crisis in the location of the Capital City of Prague, particularly with regard to a slump in the activities of developers. The number of newly connected consumption points is constantly the highest in the Czech Republic. Due to their expert knowledge and long-term experience, the Company's employees can be credited for maintaining the distribution network in Prague in constant operation with the minimum time of disruption, despite the huge construction activity of suppliers and owners of under-street equipment in the built-up parts of the city and number of foreign interventions in comparison with 2007 rising by almost 35 %. However, the Company's management for the years to come adopted a set of measures to remove the consequences of foreign intervention in the network. The aim of these measures is to introduce a high quality assurance safeguard that preventive information on the laying of distribution equipment will be delivered to the GIS digital data system and to perform subsequent checks of protective zones of distribution equipment. In the event of foreign intervention and due to other breakdowns caused by the fatigue of material or other failure of elements, the Company strives to make sure that energy supplied to end customers is restricted as little as possible. One of the chief obligation of the distributor is to receive reports as quickly as possible about any breakdown at the Company's customer centre, to assess the report correctly and to restore the supply as quickly as possible using all technical means available with the use of the breakdown service, and thereby renew electricity transmission to end customers.

In 2008 the employees of PREdistribuce, a.s. duly fulfilled all the key tasks of the distributor for the Capital City. Due to the constant development of the Capital City and the increase in the electricity load, I am glad to say that there was no major breakdown in 2008 which would mean the collapse of life in the Capital City. Our Company proudly acknowledges the traditions of the energy sector in the Capital City and wants to continue to be discreet, conservative, but an indispensable component of Prague life. PREdistribuce, a.s. continued to be a respected part in its third year of existence of the PRE Group and contributed with its share to ensuring the satisfaction of Prague residents and the running of the city as a compact unit representing the Czech Republic. We will continue in our efforts to fulfil the tasks of a high quality and reliable electricity distributor in future years and maintain a positive trend in the quality and continuity of electricity supply.

Our Company belongs among modern companies which are aware of their responsibility to the environment and endeavours to continuously improve the conditions for its protection. It is also a strong partner for its employees and provides constant care for their professional growth.

We want to be a good distributor for the Capital City for 2009, too, and a respected partner of the ERÚ when discussing the amendment of laws or regulations for the third regulatory period.



Milan Hampel

Chairman of the Board of Directors and Director

PREdistribuce, a.s. was incorporated as of 1 January 2006 as a 100% subsidiary being a result of spin-off of the part of assets and employees of the Distribution Division from the parent company Pražská energetika, a.s. It was due to this fact that the basic tasks arose for the first year of its independent existence involving steps towards ensuring the organizational, procedural and economic stabilization of the newly incorporated Company; managing costs under the conditions of regulation, stabilization of relations with the parent company including the fulfilment of the objectives assigned by the parent company in the sphere of cost management, in general and personnel costs in particular.

An important role was realizing the steps defined in the so-called “Compliance Programme” whose objective was to exclude as much as possible the possibility of discriminatory action in processes for which the distribution system operator is responsible towards all market participants.

Aside these tasks, the Company's long-term strategy is to raise distribution efficiency in the technical and operation area and in investment measures in the network as well as in the optimal structure of processes within the Company and with regard to external co-participating subjects. All these steps are also directed at the fulfilment of the standards of quality of supplies and associated services prescribed and guaranteed by legislation which are fully in the competence of the distribution licence holder. In view of the sphere of PREdistribuce, a.s. activity on the territory of the Capital City, in future more restrictive standards can be expected in accordance with the character of the territory and its sensitivity to possible faults in electricity distribution.

2008 was a year marked by a major economic crisis that virtually had an impact on the entire economically active world in many economic sectors. It is due to this crisis that a fall in demand can be expected and consumers will in turn expect a subsequent fall in electricity prices. The PRE Group will have to come to terms with this reality.

It is obvious that in view of the aging or decommissioning of production facilities (for political reasons in Germany), or due to non-fulfilment of EU security standards (for units of Slovak nuclear power plants), there is a long-term fall in the energy production base in neighbouring countries of the Czech Republic. This is also the reason why a number of energy companies (including the PRE Group) are planning the construction of new facilities whether for the purpose of covering the basic energy load or for the production facilities capable of being implemented on the electricity market in the system services portfolio. In view of the nature of the business, this is an especially expensive activity requiring the bank loan capital. However, after the crisis that has arisen in the banking sector, banking institutions will most certainly be much more cautious in their loan transactions than in earlier years. The result will be more expensive loans that will have to be projected into the Group's costs and subsequently into electricity prices.

The responsibility of the PRE Group for the situation in supplying electricity to the City of Prague is reflected, among other things, in the care for the distribution system which forms the city's critical infrastructure. Further feeding VHV/HV transformer stations Smíchov and Pankrác were put into operation; they are capable of supplying electricity to new or developing city locations. It is planned to put 110 kV connecting cable lines into operation which, in the case of the connection of Karlov with Smíchov, pass through the newly constructed cable tunnel beneath the River Vltava. The Praha Střed VHV/HV transformer stations, including the relevant 110 kV cables, the Letňany and Lhotka transformer stations together with an extension of the relevant 22 kV distribution stations are being reconstructed. The 110 kV feeding network and linked lower voltage networks are being consistently complemented to meet the conditions for the function of the critical infrastructure. In connection with these conditions the operation is planned of a new control system for the distribution system which should replace the old control system being put out of service.

The PRE Group is preparing a pilot project for the Smart Metering system for measuring customers' electricity consumption, which, in compliance with trends towards which leading large European electricity suppliers are heading and which most end customers are calling for, should allow monthly billing of supplied electricity, contribute to optimising coverage of the daily load diagram of the category of retail – household and retail – small business end customers, and as a result also contribute to a reduction in the loss of electricity.

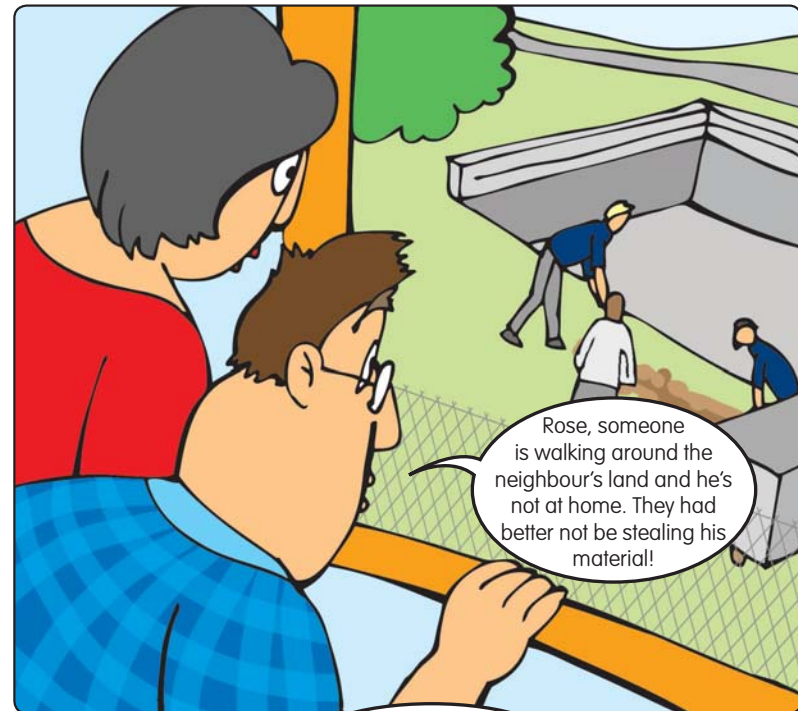
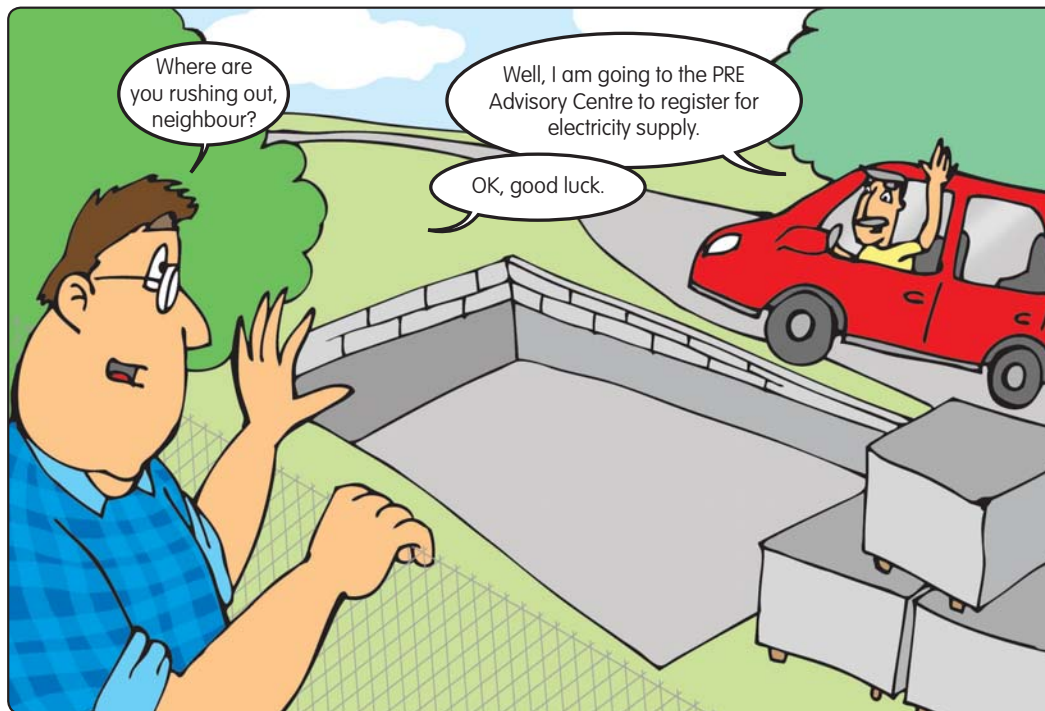
Our Company will always exert maximum efforts with regard to the condition, renovation and development of the backbone network. Important distribution equipment will be renovated, “bottlenecks” in the network removed, new transformer stations, switching and distribution transformer stations are and will be added to the network after careful consideration of the situation.

The principal mission of the Company is to ensure a reliable transmission of electricity from sources – delivery points from the transmission system – to the consumption or delivery points of individual customers through the maintained distribution system. The most important strategic objective is to optimize network assets and ensure their maximum utilization for electricity distribution in order to provide in cooperation with the other PRE Group companies high quality and non-discriminatory services for network customers.

Important Decisions of the Parent Company Pražská energetika, a.s., affecting the Incorporation and Structure of PREdistribuce, a.s.

- A. The decision on the formation of the Company was made at a meeting of the Board of Directors of the parent company Pražská energetika, a.s. on 16 August 2005 (**RP-82/2005**). This decision was made in accordance with the provisions of Section 171 (l) a) and Section 172 of the Commercial Code. The line of business of the newly formed Company was:
- lease of real estate, apartments and non-residential premises without the provision of other than basic services in accordance with Section 4 of the Trade Licensing Act,
 - electricity distribution.
- The Company was formed for an unlimited period.
- The Company's registered capital was MCZK 2 being divided into 2 registered certificated shares, of which each had the nominal value of MCZK 1.
- The founder decided to subscribe and repay the entire registered capital himself as follows:
- Pražská energetika, a.s. subscribed 2 shares by a monetary investment contribution which was MCZK 2. The issue price of one share equalled its nominal value and was MCZK 1
 - the investment contributions repaid by the founder were administered by the founder, i.e. Pražská energetika, a.s. until the incorporation of the Company.
- B. At its meeting on 7 October 2005 (**RP-123/2005**) the Board of Directors of the parent company decided to change the line of business of PREdistribuce, a.s. as of 1 January 2006 to:
- electricity distribution,
 - installation, repairs, inspections and testing of selected electrical equipment,
 - production, installation and repair of electronic equipment,
 - inspection and testing of selected pressure equipment,
 - repair and installation of meters,
 - testing, measurement, analysis and checks,
 - review and testing of selected lifting equipment,
 - engineering work in investment construction,
 - installation, maintenance and service of telecommunication equipment,
 - graphic and drafting work,
 - real estate activity,
 - lease and hiring of movables.
- The possibility was also approved of the issue of shares as collective papers that will replace individual securities.
- C. At a meeting on 28 December 2005 (**RP-159/2005**) the Board of Directors of the parent company decided to increase the registered capital of PREdistribuce, a.s. with a subscription of shares and repayment of the issue price of the subscribed shares by a non-monetary investment contribution of part of the enterprise. The registered capital was increased by the sum of MCZK 21,547 which is the value of part of the enterprise for the investment contribution based on a valuation made by an expert as at 30 June 2005. The Board of Directors also approved the draft of Shares Subscription Contract (**RP-160/2005**) and the draft Contract on the Investment Contribution of part of the Enterprise of Pražská energetika, a.s. "Distribution Division" (**RP-161/2005**).
- Then:
- on 29 December 2005 Pražská energetika, a.s. and PREdistribuce, a.s. concluded the Contract on the Investment Contribution of Part of the Enterprise effective as of 1 January 2006,
 - on 29 December 2005 Pražská energetika, a.s. and PREdistribuce, a.s. concluded the Agreement on the Subscription of Shares to the value of the stated increase.
- D. On 1 January 2006 PREdistribuce, a.s. was taken over with the signing of the Handover and Takeover Record between the companies Pražská energetika, a.s., and PREdistribuce, a.s. The sole shareholder approved the subscription of shares by the non-monetary investment contribution the subject matter of which was part of the enterprise of the "Distribution Division" valued by an expert opinion at MCZK 21,549.
- The registered capital was increased based on a decision of the General Meeting of Pražská energetika, a.s. held on 28 December 2005.

- E. In June 2006 the Board of Directors took note of the approval of the organizational changes by the Board of Directors of PREdistribuce, a.s. applying to the transfer of 50 employees of PREdistribuce, a.s. ensuring the installation of electric meters on LV networks, including the transfer of rights and obligations to PREměření, a.s.
- F. At its meeting on 19 June 2006 (**RP-90/2006**) the Board of Directors of the parent company adopted the decision to reduce the registered capital of PREdistribuce, a.s. (this decision was made in view of the fact that the auditors of the subsidiary confirmed the reported accumulated losses from previous years in the value of CZK 3,841,085,719.68 as at 30 April 2006). It was decided:
- to reduce the Company's registered capital from the sum of CZK 21,549,000,000 by the sum of CZK 3,841,066,152 to the sum of CZK 17,707,933,848,
 - the reason for reducing the Company's registered capital was to compensate the Company's accumulated losses from previous years at a total of CZK 3,841,085,719.68 reported in the Company's accounting documents in the balance sheet, item A.IV.2.,
 - with the sum of CZK 3,841,066,152 corresponding to the reduction in the Company's registered capital it was decided to compensate part of the Company's accumulated losses totaling CZK 3,841,085,719.68. The remaining part of the accumulated losses of CZK 19,567.68 will be left on the account of accumulated losses from previous years,
 - the registered capital was reduced by the proportional reduction in the nominal value of all the Company's shares so that the nominal value of one hitherto Company ordinary registered certificated share worth MCZK 1 was reduced by CZK 178,248; i.e. after the reduction of registered capital one Company ordinary registered certificated share had the nominal value of CZK 821,752.
- G. In September 2006 the Board of Directors decided to issue a collective paper No.1 and certified shares No.1 and No.2 of the issuer PREdistribuce, a.s. replacing 21,549 ordinary registered shares to the nominal value of CZK 821,752 of each share.
- H. At its meeting on 6 November 2007 the Board of Directors of the parent company (**RP-106/2007**) decided on the transfer of activities related to meter reading services to a subsidiary PREměření, a.s. (see the part Company Organization Chart, or Line of Business).



Risk Management System in the Company, the PRE Group respectively

The risk management system within the Group is planned on a two-level arrangement where each company comes out from risk management principles stipulated on the Group level and applies a unified bounding methodical mechanism. Each company nominates its own Risk Management Committee, the Group's Risk Management Committee then discusses the overall consolidated report on risk management and the overall risk exposure of the Group.

The risk management system defines the roles and responsibilities of key players of the risk management system, namely the Risk Management Committee, the PRE Group's Risk Manager, risk managers of individual companies and other persons involved in the risk management system. The risk management organizational structure is relatively independent of the line management structure. Identification processes, analysis, measuring, monitoring and reporting of individual risks specifically form the basic pillars of the risk management system. Total risk exposure detected during monitoring of individual risks creates a foundation for the Group's own risk consolidation process.

Regular uniformly structured reporting includes both an actual overview of monitored risks and also monitoring of the most important measures leading to risk reduction. Overall risk reports are elaborated in a unified structure in all Group companies and a systematic monitoring of risks in market, financial, credit, legislative regulatory, operating and other risks categories is carried out.

All monitored risks are projected with regard to their expected level of impact and relative frequency. The measurement of risks in the financial and market risk category are also regularly monitored by other specific indicators such as VaR, CFVaR, maximum risk of loss and the like. Binding limits are set for selected indicators. Currently, work is under way on specifying models for the measurement of these risks and subsequent modifications of risk management procedures in these areas.

Among the most important risks are changes in the currency exchange rate and further market and particularly price risks. These risks are significantly associated with trading activities on the Energetická burza Praha (Prague Energy Exchange) as its transactions are settled in Euros and require daily balance of values of the fixed positions. The value of planned cash flow in foreign currency is secured according to set risk limits of these positions.

The task of the risk management processes is to also ensure the function of timely warnings and simultaneous assessment of the efficiency of remedial measures. The risk management system as a whole focuses above all on the main monitored risks the impact and probable incidence of which represents the greatest threat according to the assessment. The identification of monitored risks arises from risk assessment concentrated into a regularly updated risk list. Risk owners are regularly trained in new trends and methods of risk management in order to improve the quality of the risk management system output. Risk management activities cooperate with the functions of the PRE Group's internal audit work thereby helping to identify key interest areas.

Just as all entities in the economy, so the PRE Group is exposed to macro-economic risk which is now generally described as the financial crisis. Potential impact is carefully analysed and preventive type of measures are compiled to ensure necessary stability under turbulent conditions.

Important Events

2006

- 1.1. → Milan Hampl was elected a member of the Board of Directors,
- 27.1. → amendment to the Articles of Association § 20 and 24 approved,
- 31.1. → the membership ended in the Supervisory Board of – Vladimír Šálek, Jan Doležálek, Aleš Staněk,
- 1.2. → Petr Dražil was elected a member of the Board of Directors,
- 1.2. → Petr Hulinský, Hermann Lüschen, Drahomír Ruta and Pavel Elis were elected members of the Supervisory Board,
- 1.3. → Karel Urban and Vladimír Přáda were elected members of the Supervisory Board,
- 4.4. → amendment to the Articles of Association § 11, 14, 21, 25 and 26 was approved,
- 20.4. → Petr Hulinský was elected Chairman of the Supervisory Board and Hermann Lüschen Vice Chairman,
- 19.6. → reduction of the registered capital was approved,
- June → reconstruction of the R 22 kV Malešice transformer completed,
- September → reconstruction of the 110 kV overhead lines TR Chodov TR Jih,
- 6.10. → Christian Franz-Josef Schorn and Martin Langmajer were elected members of the Board of Directors,
- amendment to the Articles of Association – § 5, 20 and 22 approved,
- October → reconstruction of the TR 110/22 kV Východ completed,
- 110 kV line termination into the TR Východ completed,
- cable tunnel into the TR Západ completed,
- reconstruction of transformation in the TR Západ completed,
- 2.11. → Milan Hampl was elected Chairman of the Board of Directors; Petr Dražil Vice Chairman,
- November → reconstruction of the RS 4000 Klárov completed,
- replacement of the 22 kV switch breakers, modification of ŘS and reconstruction of HDO transmitter in TR Chodov completed,
- December → the first phase of the R 110 kV reconstruction in TR Běchovice completed.

2007

- 19.4. → the first ordinary General Meeting assessing economic results of the business year 2006 was convened,
- September → completion of the second phase of the 22 kV cable laying from TR Černý Most,
- November → completion of the second phase of the R 110 kV reconstruction in TR Běchovice,
- December → building of the third section of the R 22 kV in TR Letňany,
- completion of the first section of the R 22 kV reconstruction in TR Běchovice,
- renovation of TR Holešovice façade.

2008

- January → construction of KT Kateřinská completed,
- March → construction of KT Smíchov south branch completed,
- 22.4. → second ordinary General Meeting assessing the economic results of the business year 2007 was convened,
- May → construction of TR Letňany completed,
- August → construction of KT Vltava completed,
- construction of KT Pankrác completed,
- September → cable laying Jih Sříd KT 102 completed ,
- construction of overhead lines Malešice-Východ completed,
- November → additional equipment of the R 110 kV Lhotka completed,
- December → construction of the TR Smíchov completed,
- construction of the TR Pankrác completed,
- cable laying between Karlov-Smíchov completed,
- the first phase of renovation of the 110 kV distributor TR Sříd completed.

Report on General Meetings held during the Year

Three general meetings were held in 2008 (always in the form of a decision taken by the parent company as the sole shareholder).

A. General Meeting on 22 April

The agenda of the proceedings was the approval of the report of the Board of Directors on the Company's management activities in 2007 and its assets, the report on relations between the related entities, the ordinary financial statements for 2007, distribution of profit, remuneration of members of the Company's bodies and contributions made to the funds, and the Annual Report for 2007.

B. General Meeting on 20 August

The agenda of the proceedings was the approval of the proposal for the adjustment of the investment plan of 2008.

C. General Meeting on 21 October

The agenda of the proceedings was to appoint the audit firm for the next year – this was again Deloitte Audit s.r.o.

Board of Directors as at 31.12.2008

Milan Hampl (44 years)

Chairman,

Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

Petr Dražil (42 years)

Vice Chairman,

Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

Christian Franz-Josef Schorn (44 years)

Member,

Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Martin Langmajer (44 years)

Member,

Address: Municipal Authority of the Capital City of Prague, Mariánské náměstí 2, 110 01 Prague 1

Supervisory Board as at 31.12.2008

Petr Hulinský (41 years)

Chairman,

Address: Municipal Authority of the Capital City of Prague, Mariánské náměstí 2, 110 00 Prague 1

Hermann Lüschen (55 years)

Vice Chairman,

Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Drahomír Růta (62 years)

Member,

Address: Pražská energetika, a.s., Na Hroudě 1492/4, 100 05 Prague 10

Pavel Elis (43 years)

Member,

Address: Pražská energetika, a.s., Na Hroudě 1492/4, 100 05 Prague 10

Karel Urban (50 years)

Member,

Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

Vladimír Přáda (40 years)

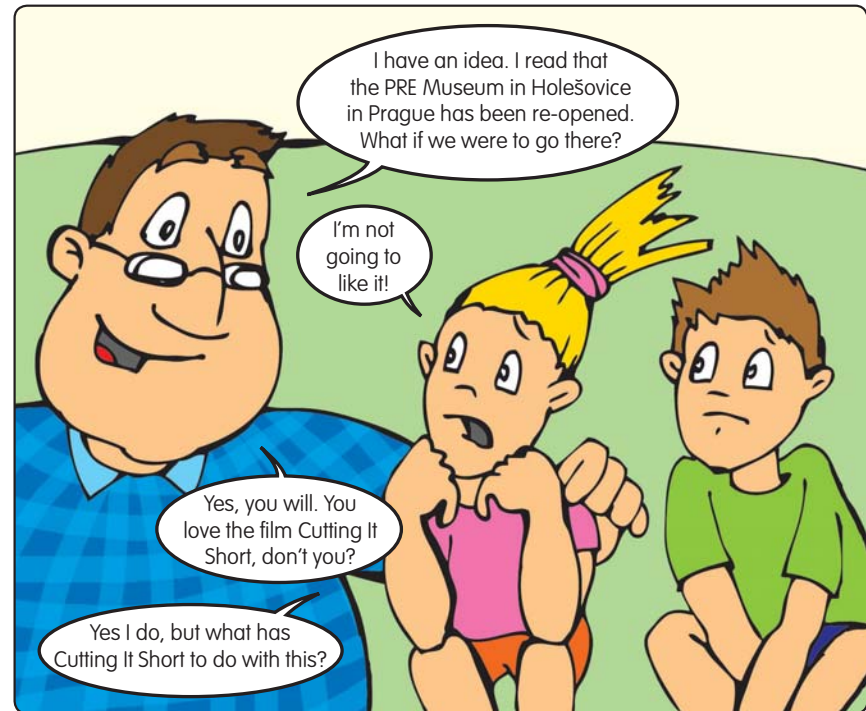
Member,

Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

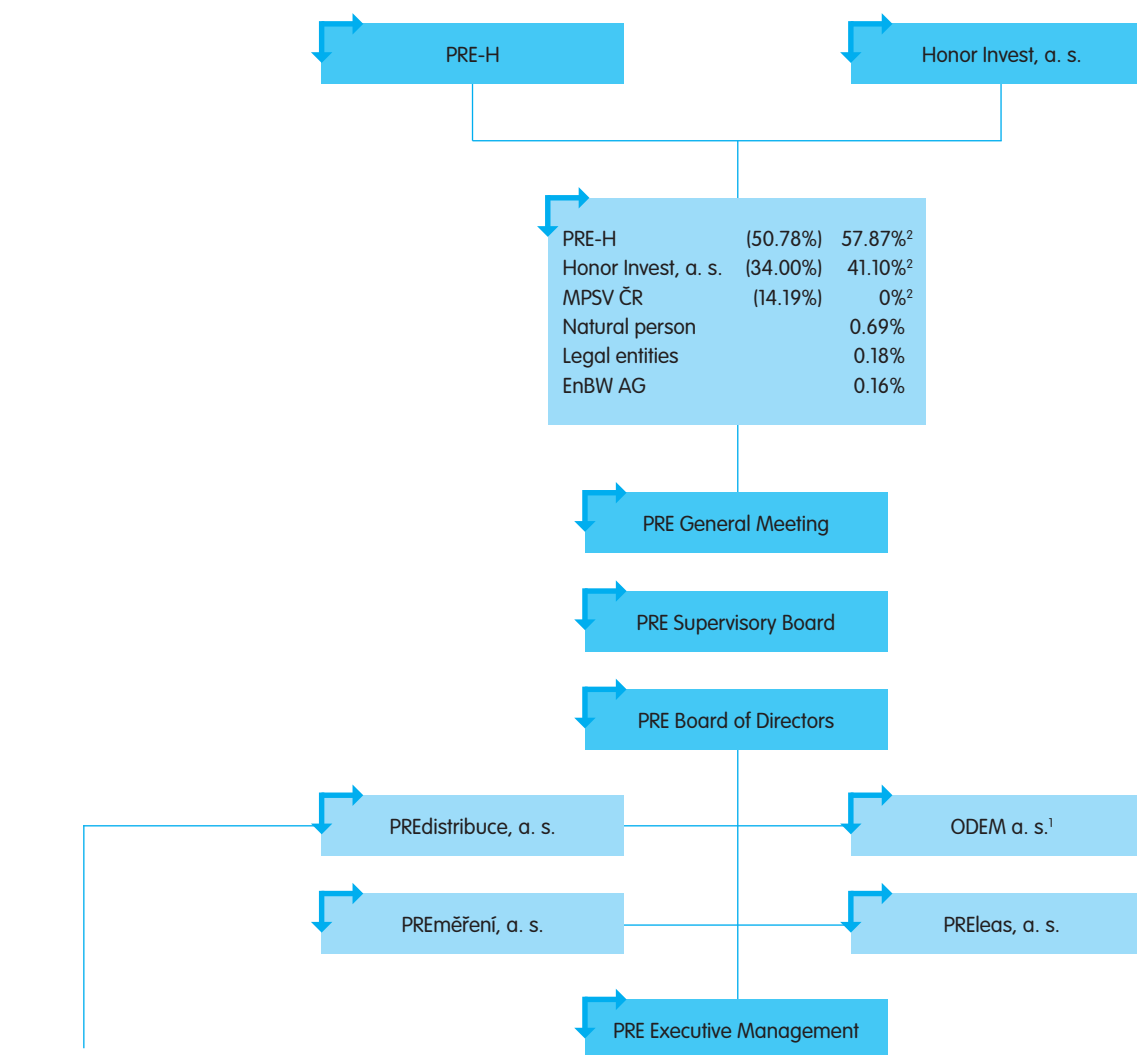
From left: P. Dražil, M. Hampl, M. Langmajer, Ch. Schorn →



PREdistribuce



The PRE Group and Company Management



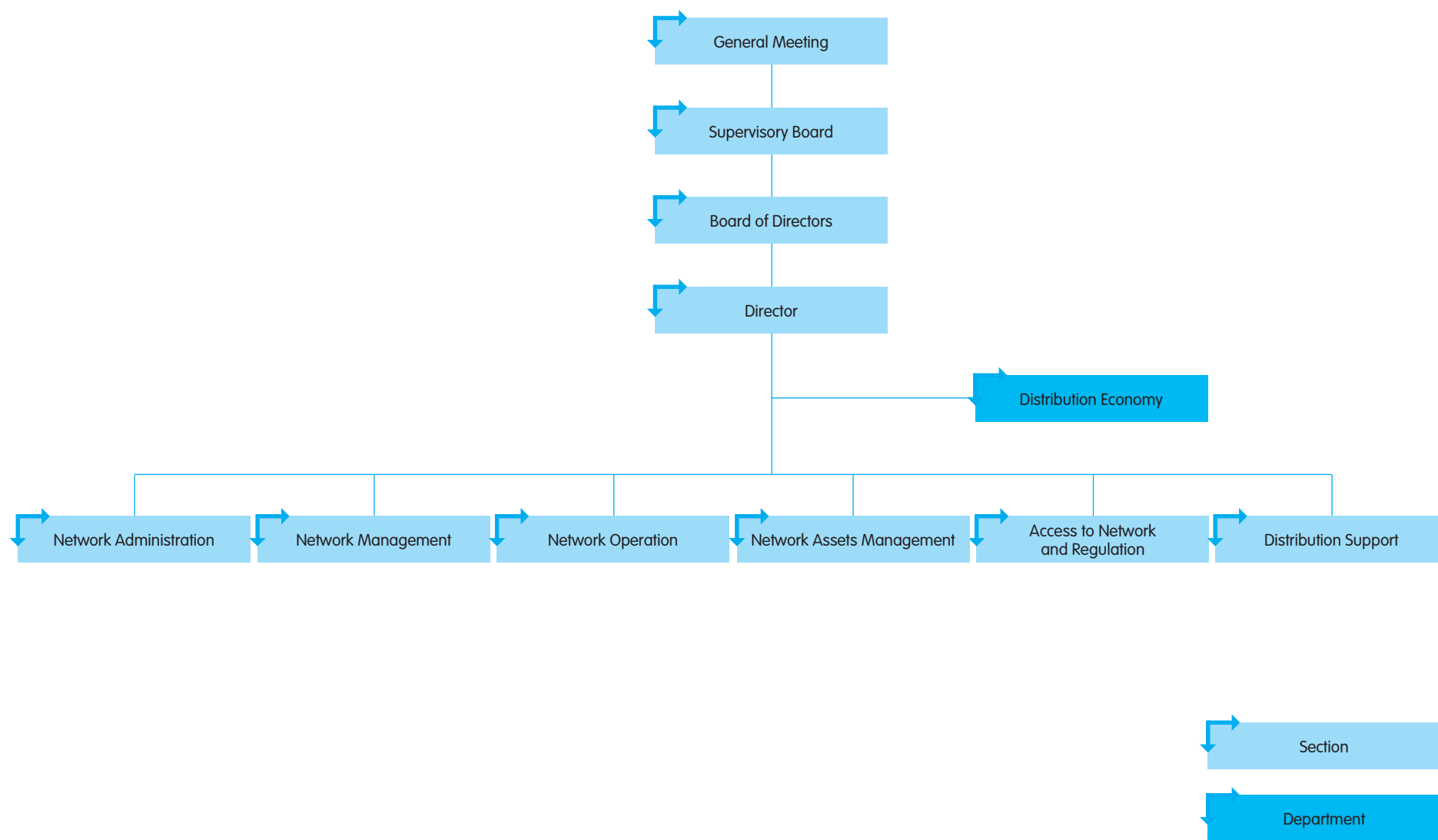
PREd General Meeting
 PREd Supervisory Board
 PREd Board of Directors
 PREd Executive Management

¹ The sole shareholder decided to wind up ODEM a.s. on 26.2.2008 and liquidated it as of 1.3.2008. During the period of liquidation the Company's business name was used with the added note "in liquidation" (hereinafter only ODEM a.s.). The Company was deleted from the Commercial Register on 5.12.2008 once its liquidation had been completed.

² As of 9.9.2008.

ompany Organization Chart

22



The Company line of business:

- distribution of electricity,
- assembly, repair, inspection and tests of selected electrical equipment,
- production, installation and assembly of electronic equipment,
- repair and assembly of measuring instruments,
- testing, measuring, analyses and checks,
- engineering activities in investment construction,
- assembly, maintenance and service of telecommunications equipment,
- graphic and technical designer work,
- real estate activity,
- lease and lending of movable items,
- inspection and tests of selected pressure equipment,*
- inspection and tests of selected lifting equipment.*

* This was terminated by the decision of the sole shareholder on 27 November 2007.

On 6 November 2007, in the framework of organizational changes within the PRE Group, the sole shareholder decided, with effect from 1 January 2008, on the transfer of activities related to meter reading services to a subsidiary PREměření, a.s. It concerned namely:

- creation of intra-company legislation concept in the metering sphere,
- nomination of a commission for selecting cooperative persons,
- granting exceptions for metering devices location,
- management of relation with external partners,
- set-up of invoices and payment charges not related to supply (e.g. for unauthorised consumption, installation of optical separators, renting switchgear for short-term consumption) related to metering,
- activities related to cooperative persons who are authorized to work in non-metered parts of the electrical equipment,
- activities related to mounting, checking and replacement of metering equipment that belongs to special customers (external and also internal),
- training of technical activities related to metering,
- archiving of metering equipment documents,
- activities related to readings of metering equipment and their evaluation (e.g. processing of reports from system),
- clearing of submissions, complaints, objections and other requirements related to metering equipment and its readings,
- activities related to assembly, disassembly, replacement and check of metering equipment,
- activities related to purchase, delivery and registry of metering devices,
- providing opinion on projects on applications, and advisory activity in the metering equipment sphere,
- analyses and evaluation of new technologies related to the metering of electricity supplied from the LV networks and the use of such technologies in PREdi,
- control activity in the area of metering devices and consumption electric equipment,
- central registry of sealing pliers,
- organization, provision of installation, changes of metering devices, their readings and processing data for evaluation standardized daily profiles of electricity supplies (TDD).

Brief History and Current Situation in the Power Industry – Unbundling

In the Czech Republic the model is implemented of regulated access of third parties to the networks (reg TPA), which in its principle means that eligible customers are entitled to select their own electricity supplier and have authorized access to the electrical energy networks. Since the start of electricity market liberalization all electricity trading was gradually exposed to competition.

In accordance with the Energy Act it was originally necessary to separate the distribution activity from the trading by 1 January 2007 at the latest; however later based on an assessment of the regulator's opinion of the determined amount of permitted distribution revenues, this process was speeded up and the separation took place during the course of 2005 (in the PRE Group as of 1 January 2006, in a manner whereby the parent company invested its distribution assets in the Company).

On 1 January 2006 part of the enterprise of Pražská energetika, a.s. (Distribution Division) was taken over by PREdistribuce, a.s. with the signing of the Handover and Takeover Record between the companies Pražská energetika, a.s. and PREdistribuce, a.s. At the end of 2005 the Company received an electricity distribution licence from the ERÚ and simultaneously based on an application made, the ERÚ cancelled the electricity distribution licence of Pražská energetika, a.s. as of 31 December 2005.

Recapitulation of the important events in 2008; overview of the relevant legal regulations

In 2008 all electricity customers could, as well as in previous years 2006 and 2007 select their own supplier according to their judgement (Act No. 670/2004 Coll.). This year was also the fourth year of II. Regulation period (2005-2009). In July 2008, the Energy Regulatory Office initiated a consultancy process regarding the strategy for III. regulatory period including determination of principles and methodology of the regulation which will be applied in the period from 1 January 2010 to 31 December 2014.

Decree No. 363/2007 Coll., of 28 December 2007, issued by the Energy Regulatory Office, amended the Decree No. 426/2005 Coll., on details concerning granting licences for business activities in energy sectors (the Decree came into effect on the day of issue).

Decree No. 364/2007 Coll., of 28 December 2007 issued by the Energy Regulatory Office, amended the Decree No. 475/2005 Coll., implementing certain provisions of the Act on support of renewable resources utilization (the Decree came into effect on 1 January 2008).

Decree No. 365/2007 Coll., issued by the ERÚ on 28.12.2007 amended Decree No. 541/2005 Coll. on the Rules of the Electricity Market, principles of pricing for the activities of the electricity market operator and implementing some further provisions of the Energy Act, as amended by Decree No. 552/2006 Coll., (the Decree came into effect on 1.1.2008).

The ERÚ, pursuant to § 10 (2) of Act No. 526/1990 Coll., on Prices, as amended, issued under § 17 (6) e) of Act No. 670/2004 Coll. (the Energy Act), a Price Decision no. 7/2007 of 20.11.2007 which defines the support for the production of energy from renewable sources of energy, combined electricity and heat production and secondary energy sources. The Price Decision came into effect on 1.1.2008.

Furthermore, pursuant to the aforementioned legislation, the ERÚ issued a Price Decision No. 9/2007 which sets the prices of electricity and related services and a Price Decision No. 10/2007 which sets fixed prices of electricity distribution to consumers from the LV network of 26.11.2007. The Price Decision came into effect on 1.1.2008.

By Regulation No. 61/2008 Coll. of 26.2.2008 the Prime Minister promulgated the full version of Act No. 406/2000 Coll., on Energy Management as arises from amendments made by Acts No. 359/2003 Coll., No. 694/2004 Coll., No. 180/2005 Coll., No. 177/2006 Coll., No. 186/2006 Coll., No. 214/2006 Coll., No. 574/2006 Coll., and No. 393/2007 Coll.; while the last amendment to the Act came into effect on 1.1.2008. Regulation No. 110/2008 Coll., issued by the Ministry of Industry and Trade on 14.3.2008 and in force as of 1.7.2008, amended Regulation No. 439/2005 Coll., which sets the particulars of the method of determining the amount of electricity from combined electricity and heat production and the amount of electricity from secondary energy sources.

By Decree No. 343/2008 Coll. of 12.9.2008 the Ministry of Industry and Trade defined the specimen application for the issue of a guarantee for the origin of electricity from renewable energy sources. The Decree also came into effect on 12.9.2008.

As well as Act No. 180/2005 Coll., on the support of the electricity production from renewable energy sources and on the amendment of some laws, the Ministry of the Environment also issued, in accordance with the process of the developing support for electricity production from biomass, Decree No. 453/2008 Coll. of 11.12.2008 which came into effect as of 1.1.2009 and which amended Decree No. 482/2005 Coll., as amended by Decree No. 5/2007 Coll., on setting the types, methods of use and parameters of biomass with the support of electricity production from biomass in which the types of biomass are defined and which are the subject of this support.

The parent company performs the personnel administration and wage calculation (payroll). The module used for managing personnel administration is SAP HR version 4.7.

The targeted professional training as part of improving the employee qualifications continued for the narrow specialization of employees arising from the law (e.g. Decree No. 50/78 Coll.). Special employee training continued aimed at deepening professional knowledge, knowledge of new decrees and laws in the economic, legal and personnel field. Courses were also held on raising the qualification of employees. Selected employees continued in improving their professional knowledge by extramural studies at universities. In course of the year 36 employees were improving their professional knowledge by extramural studies.

The rules of remuneration are clearly determined within the Company as their basic principles arise from collective bargaining between representatives of the trade union organization and Company management. The collective agreement also deals, among other things, with wage regulation; in turn the relevant Company norms deal with specific application of the remuneration system. Tariff and non-tariff wages are also enforced in the Company. The variable wage component consists of an individual or team performance component or remunerations from the fund of the section head or manager.

It is also one of the Company's priorities to provide effective assistance to employees being made redundant; particularly those of a pre-pension age, single parents and the socially less privileged. In order to alleviate the negative consequences of organizational changes the Company runs a system of social and financial compensation measures.

Three amendments to the Collective Agreement for the period 2007-2009 were concluded during the years 2007 and 2008.

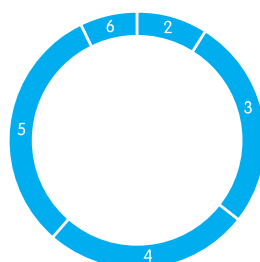
Comprehensive works health care, including dental care, is also ensured for employees as was the case in previous years. A health prevention care programme is taking place in the Company meeting the requirements of the National Health Promotion Programme.

The following three projects are being carried out for employees beyond this scope: oncology programme aimed at prevention and treatment of breast cancer, preventive urology programme, vaccination against tick-borne encephalitis, hepatitis A and influenza.

The concept of the Company's social policy is based on the need to motivate employees both morally and in the form of financial contributions, remunerations and other forms of appraisal of their work. Great attention is paid to care of employees, improvement of their working and living conditions, housing, meals, works preventive care, preventive healthcare programmes and other social benefits such as interest-free loans, recreation for employees and their family members, cultural and sports events, etc. Most of these social programmes are embodied in the Collective Agreement.

One of the main tasks of the management of PREdistribuce, a.s. for the future in cooperation with the Human Resources Department is to enhance high quality work positions by independent technicians working in development and operation management mostly from the ranks of the Czech Technical University graduates and vocational secondary schools specializing in the power industry. This measure will ensure the smooth transfer of experience and knowledge about distribution networks from employees who will soon reach retirement age.

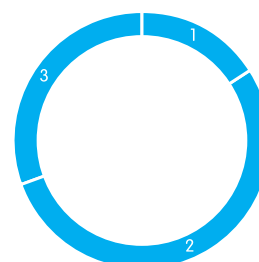
Age Structure



1	upto 20 years	0%
2	20–30 years	8.90%
3	30–40 years	26.69%
4	40–50 years	25.92%
5	50–60 years	31.53%
6	over 60 years	6.96%

Average age as at 31.12.2008 45

Qualification Structure



1	University	16.05%
2	Vocational with GCSEs	53.58%
3	Secondary and apprenticeship	30.37%
4	Elementary	0%



The parameters and factual contents of the PREdistribuce, a.s. Investment Programme are based in the long-term on the results of analyses respecting the technical condition, transmission capability and achieved reliability of network operation, real physical service life of the individual network components and possibility of their effective maintenance. It also takes into account the respected further trend in customer demand for new connections, or an increase in consumed output at already existing connection points on already built-up area and in the developing city's locations. The predicted future trend is supported by the specific requirements of customers and the present development constantly recorded in the last few years in Prague and the town of Roztoky u Prahy. The increased activity of investors in Prague after the accession of the Czech Republic to the EU continues, but it may mean a greater degree of uncertainty in the estimates of future development. These starting points also show the further need to maintain a virtually constant speed and scope of investment activities for the future. The distribution of funds respects the slight shift in volume in favour of the HV and VHV levels which are very important for reliable operation of the distribution system because their failure would have a greater impact on the network customers.

Overview of investment funds allocations in 2006–2008 (MCZK)

	Total Investments	Distribution equipment			Electric meters
		VVN	VN	NN	
2006	1,282.2	398.2	452.4	271.7	159.9
2007	1,428.0	412.2	665.1	221.8	128.8
2008	1,723.6	851.3	438.9	341.5	91.9

The construction of the investment plan, in segmentation to individual distribution equipment categories, dealt with the extended reproduction of network systems on the one hand based on the available data and with respect to mutual links, while taking into account the expected customer requirements and corresponding development of the load in the individual locations. On the other hand, the investment plan also dealt with the simple reproduction of distribution equipment ensuring with the planned repairs the operating reliability and required level of distribution services expected by the customers in the Capital City. The level of supply quality and the services associated with this was determined by secondary ERÚ legislation. Non-fulfilment of the guaranteed standards unlike in previous years is penalized as of 1 July 2006, by the obligation of payment for non-observance of the guaranteed standard in accordance with the new Decree of the ERÚ No. 540/2005 Coll.

The Company allocates investment expenses to information technology only in case of dispatch and control technology. Investments to other spheres of information technology are carried out by the parent company.

A significant part of investment funds must, in accordance with the current energy legislation, be earmarked for so-called customer investment fulfilling the distributor's obligation to carry out modifications in the network which will enable the connection of customers' consumption points and satisfy the quantitative (size of input, volume and profile of power transmission) and qualitative (reliability of supply and quality of energy) customers requirements in the territory being supplied for whom the Company holds a distribution licence. New legislation laid down by the Decree of the ERÚ No. 51/2006 Coll. which came into force on 1 March 2006, amended the existing addressed approach of determining the share of customer payments in the justified costs of the distributor for the connection and securing of input and introduced the lump sum payments for individual voltage levels in accordance with specific rates applying to the reserved input unit (ampere per LV level, or MW per HV and VHV level). Thanks to this methodical change and the transitional period that Decree No. 51/2006 Coll. introduced, it was difficult to estimate the possible volume of contributions to this category of investments.

The part of the investment programme dealing with so-called strategic investments deserves special attention as this particularly involves the construction of new 110/22 kV transformer points and their system connection at the 110 kV level. They also involve additional equipment and extension of the capacity of these stations resulting from the development of load profile in areas which they supply including the construction of new connection lines ensuring the optimal feeding of output to lower levels of the network. An overview is stated further of those projects realized in 2008 or which are being prepared for implementation in 2009 and next years.

Strategic Investments

In 2008 PREdistribuce, a.s. continued with the trend in extending new backbone networks and the careful renovation of existing VHV and HV networks which are part of the city's critical infrastructure. Maintaining the backbone network and its technical level is the best means of preventing large breakdowns which could result in large territorial supply cuts and could ensue in the collapse of part of the city. Extensive breakdowns will always result in great damage to the production or income of large companies and to personal property. In some cases the breakdowns may also indirectly endanger human lives (e.g long-term lack of supply to hospitals).

In previous period there started a reconstruction of 110/22 kV transformer station Běchovice which is the oldest 110/22 kV distribution station operating on the territory of Prague. Full operation of the entire distribution station was commenced at the beginning of 2008, including the control system and was incorporated into the 110 kV system between distribution systems operators – companies PREdistribuce, a.s. and ČEZ Distribuce, a.s.

During 2008, due to the increasing power input in the northern part of the city mainly related to the extension of Metro line C, there was finished the reconstruction of 110/22 kV distribution station Letňany. Modification of sections 1 and 2, including deployment of automated control system of the 110 and 22 kV distribution station, was carried out in the scope of the reconstruction.

The requirements for input in the Pankrácká pláň location and the area around Budějovické náměstí has, in recent years, required measures to increase disposable transformation output in this area. At the end of 2008 construction was completed of the Pankrác 110/22 kV transformer station. This distribution equipment, located in an inconspicuous technological structure near the city's arterial road will secure an electricity feed for the growing requirements of existing customers and future requirements of new investors in the Prague 4 district. Throughout 2008 assembly took place on the Pankrác 110/22 kV transformer station of demanding 110 kV and 22 kV technology cased in distributors, earthwork continued and the laying of a 110 kV cable feed from the Lhotka distribution station.

In 2008 earthwork finished for the construction of cable tunnels under the River Vltava in parts of the Prague 2 district at the Karlov 110/22 kV transformer station and in Prague 5 at the Smíchov transformer station. Subsequently, the laying of the 110kV cable was completed in the cable ducts and in the dug route which has resulted in the connection of the Karlov-Smíchov transformer stations in the 110 kV network. This interconnection will remove so-called "bottlenecks" in the 110 kV distribution line in Prague thereby achieving a significant increase in operating reliability in the city centre. In 2008 the construction was also completed, or extension of the Smíchov 110 kV transformer station, especially the technological equipment of the new 110 kV distributor, by adding one transformer and a new 22 kV distributor. The full operation of the Smíchov distribution station will substantially increase the certainty and security of electricity supply to the central part of Smíchov which, of all the city districts, has changed and been modernised the most. There will also be a reserved input for further planned activities by investors especially in the area around Smíchov Railway Station.

Another large strategic construction of 2008 was the renovation of the 110 kV distributor of the Praha-Sířed 110 kV transformer station. Here the renovation was successfully completed of half of the distributor (two sections), operating for 34 years, while in full operations and without any breakdowns. This most loaded transformer station achieving a peak load of up to 160 MW deserved to have its 110 kV distributor, which is the real heart of the city, gradually modernised after several breakdowns in past years. The second stage of reconstruction (the remaining sections) will be completed in view of the load imposed on the city centre in the summer months of 2009. In connection to the replacement of part of the distributor, the oldest 110 kV cable was also replaced that leads from the Jih transformer station. The oil cable was also in operation for 34 years and had become an environmental hazard in the cable tunnels with great demands on maintenance to be kept in operation. Another oil cable dating back to 1974 between the Sířed and Malešice distribution stations will be replaced in 2009 by a cable with plastic insulation.

An important completed construction in 2008 was also the replacement of outdoor 110 kV line in the route of the original line dating back to 1928. The double line of 4.8 km in length was replaced in the north-east part of the city between the Východ and Malešice transformer stations. In the next stage, in 2009, the section of 110 kV line, dating back to 1955, will be replaced; i.e. from the Sever transformer station to the mast in the cadastral territory of Roztoky. The line is already showing extensive signs of corrosion and wear and tear, thereby posing a threat to secure electricity supplies to the north of the city. The remaining section of this 110 kV line in Prague 6 will not be reconstructed until 2012 in connection with the construction of the city's north traffic bypass and the reconstruction of TR Řeporyje.

Reconstruction work continued in 2008, together with the activities on the 110 kV backbone networks and the 110/22 kV distribution stations, on switching stations, distribution stations and the HV cable network. In 2008 work continued in renovating entry parts of 22/0.4 kV switching stations as part of the planned renovation of stations in the grounds of large hospitals and waterworks which are neglected.

In conclusion, it can be stated that the automation of the operation of the VHV/HV transformer stations and 22 kV switching stations is fully complete. In the years to follow, attention will be focused on the smooth supply of electricity while exploring the use of automatic substitutes through modern controlling or telemetric (telemechanisation) systems of the distribution system stations of important large customers.

It is evident from the abovementioned facts that in the three years of the existence of PREdistribuce, a.s. many important investment projects were launched and completed which have proved beneficial to the Capital City and are a guarantee for the continuing trend in the high quality and uninterrupted supply of electricity to the City of Prague. We hope that the Company will continue to be able to meet the functions in the field of development and renovate both morally or physically obsolete equipment of the distribution system in the Capital City.

Overview of the development of selected network indicators

Indicator	Unit	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Achieved maximum	MW	1,147	1,141	1,090	1,086	1,065	1,029	1,055	1,036	994	952	1,057	1,003
Length of VHV network	km	206	196	196	196	196	194	194	202	181	174	174	174
Number of VHV/HV stations	unit	21/24	20/23	20/23	20/23	20/23	19/22	19/22	19/22	18/21	17/20	16/21	15/20
Length of HV lines	km	3,701	3,670	3,476	3,556	3,581	3,632	3,546	3,535	3,570	3,575	3,530	3,469
Total number of HV/LV stations	unit	4,783	4,750	4,693	4,656	4,635	4,578	4,626	4,640	4,522	4,500	4,562	4,398
Number of HV/LV distribution stations	unit	3,281	3,272	3,258	3,238	3,241	3,222	3,255	3,407	3,345	3,331	3,403	3,421
Length of LV network *	km	7,645	7,678	7,557	7,477	7,420	7,354	7,383	8,870	8,774	8,660	8,324	8,041

Note: * Leap change of the LV network length between the year 2001 and 2002 resulted from the technical records specification of the applications of the graphic information system of the network.

The year 2008 was the fourth year of the second regulatory period, the third year of complete liberalization of the energy market and of separate functioning of the distribution system operator, PREdistribuce, a.s. The Company line of business was determined by regulatory rules arising out of the energy legislation which corresponds with common standards of other European countries.

Last year the Company created economic result after tax amounting to MCZK 880. The operating profit/loss amounting MCZK 1,136 decreased year-on-year by MCZK 149 especially due to the increased consumption from operation within the Group by MCZK 306. The sales margin from distribution services achieved the value of MCZK 4, 699, the added value decreased year-on-year by MCZK 170 to the value amounting MCZK 2,533. Convergence to an annual billing period was required for securing an operating cash flow through loans. Hence, the financial results arising from economic activity showed a loss of MCZK 56.

The most significant expense items in the year concerned were expenses spent on services and purchase of energies MCZK 2,209, transmission and distribution services MCZK 1,964, depreciation MCZK 1,188 and personal expenses MCZK 373. The total revenues were mostly formed by revenues from the sale of distribution services amounting to MCZK 6,663 and operating revenues amounting to MCZK 178.

The total value of the Company assets amounted to MCZK 26,314. A significant part of the value was formed by long-term assets amounting to MCZK 23,718 and also by current and other assets of MCZK 2,580. Trade receivables amounting to MCZK 2,498 were mainly formed by receivables within the Group amounting to MCZK 2,417. Accruals amounted to MCZK 16.

Besides the economic result, there was only an increase in the reserve fund to MCZK 237 within the equity capital of MCZK 18,850. Liabilities (external sources) of MCZK 5,714 consisted of a deferred tax obligation of MCZK 2,968 and short-term obligations of MCZK 1,089, and a reserve of MCZK 157. Accruals of MCZK 1,750 represented namely the value of deferred revenues from the shares of applicants for a connection.

Throughout the year PREdistribuce, a.s. was involved in a system for joint management of funds within the entire PRE Group. The value of the sources and allocation of funds in 2008 are recapitulated by the Cash Flow Statement.

The main sources for generating the Company funds, from the point of view of cash flow, was accounting profit before tax amounting MCZK 1,080, depreciations amounting MCZK 1,188 and income from contributions made by applicants for a connection amounting to MCZK 212. These sources were used especially for expenditure connected with investment activities in the amount of MCZK 1,766, dividends MCZK 1,612 and payment of income tax MCZK 553. In connection with a change of the reading system, a Contract on Loan in the amount of MCZK 1,500 was concluded with Pražská energetika, a.s. in order to finance the operating capital.

	Unit	2008	2007	2006	Index 2007/2008	Index 2006/2007	Calculation formula
Level of liquidity							
Total revenues	MCZK	6,897.1	6,513.6	6,128.5	1.06	1.06	Total revenues
Sales margin from the sales of electricity	MCZK	4,698.7	4,621.1	4,186.8	1.02		Sales margin from distribution
Profit after tax	MCZK	879.6	1,724.3	747.9	0.51	2.31	Profit after tax
Profit after tax without VOD*	MCZK	852.1	913.2	725.5	0.93	1.26	Profit after tax – deferred tax
Level of profitability of revenues							
Sales margin from the distribution sales per CZK 1	%	70.5	73.5	70.9	0.96	1.04	Sales margin from distribution sale: sales of electricity x 100
Added value per CZK 1 of revenue	%	36.7	41.5	41.1	0.89	1.01	Added value: total revenues x 100
Profit before tax per CZK 1 of revenue	%	15.7	19.9	17.2	0.79	1.15	Profit/loss from regular activity before tax: total revenues x 100
Profit without VOD* after tax per CZK 1 of revenue	%	12.4	14.0	11.8	0.88	1.18	Profit after tax: total revenues x 100
Level of liquidity							
Regular liquidity	%	234.1	376.4	313.6	0.62	1.20	Short-term assets: short-term payables x 100
Turnover of short-term receivables	Number of turnovers	2.7	4.0	4.1	0.67	0.97	Total revenues: status of short-term payables at the end of year
Turnover of short-term payables	Number of turnovers	6.3	15.0	12.8	0.42	1.17	Total revenues: status of short-term payables at the end of year
Equity interest in total invested capital	%	71.63	78.76	75.35	0.91	1.05	Equity: total invested capital x 100
Equity interest to foreign capital	%	253.0	370.8	305.6	0.68	1.21	Equity: foreign capital x 100
Level of return							
Sales margin from distribution per CZK of long-term	%	19.8	18.9	17.4	1.05	1.09	Sales margin from distribution sale: (Equity + long-term payables) x 100
Return on sale – ROS without VOD	%	12.4	14.0	11.8	0.88	1.18	Profit after tax: total revenues x 100
Return on total assets – ROA without VOD*	%	3.2	3.7	3.0	0.88	1.24	Profit after tax: total assets x 100
Return on equity – ROE without VOD*	%	4.5	4.9	3.9	0.93	1.24	Profit after tax: equity x 100
Return on total invested capital	%	4.3	5.2	4.0	0.83	1.29	(Profit before tax + expense interest): total invested capital x 100
Turnover of total invested capital	Number of turnovers	0.3	0.3	0.3	1.00	1.05	Total revenues: total invested capital
Added value labour productivity	TCZK/employee	4,917.5	4,869.2	4,199.1	1.01	1.16	Added value: average adjusted number of employees
Total revenues labour productivity	TCZK/employee	13,392.4	11,736.2	10,219.9	1.14	1.15	Total revenues: average adjusted number of employees
Average adjusted number of employees	persons	515	555	583	0.93	0.95	Number of persons

*Note: Without the impact of deferred tax.

Ecology, Environmental Protection, Safety and Protection of Health at Work

The companies of the PRE Group rank among those modern organizations which prioritise their responsibility for environmental protection and attempt to constantly improve the conditions for its protection. Considerable funds are invested in the Group's environmental protection policy to modernise the equipment of the distribution network. Older oil transformers are constantly being replaced by hermetically sealed transformers or ones without oil tanks, so-called dry transformers. This reduces the risk of possible contamination of surface and groundwater. In the 1990s the extensive removal began of equipment and PCB-filled condensers; currently no equipment which could contain this substance is operated. Old environmental burdens were dealt with and removed already in 2003.

In 2008, in accordance with the Act No. 185/2001 Coll. on wastes and the implementing regulation, tests of oil-filled power equipment to detect the lack of presence of PCB were finished. The presence of PCB has not been detected in any of the equipment. A functional system has been created at the Group's workplaces of sorting and collecting dangerous and other waste and re-collection of products. Employees are continuously trained in the entire sphere of environmental protection; selected employees are also trained in how to manage dangerous chemical substances and preparations. An instruction presentation is available for training on the Intranet.

The ISO 14 001 – EMS system has been introduced in PRE and PREdistribuce, a.s. In 2009 a recertification audit will take place in both companies.

Environmental Care Policy

The following obligations concerning environmental protection were defined within PRE and PREdistribuce, a.s.:

- observe legal regulations in all spheres of environmental protection; devote maximum attention to new regulations and apply them in both companies,
- observe the sorting of communal waste including dangerous components, sorting all other kinds of waste and packaging, and sorting selected types of waste which can be delivered for recollection free of charge,
- consistently observe the system of handling dangerous substances and dangerous waste; deliver waste to authorized companies for disposal,
- conduct systematic training of employees who handle dangerous chemical substances and preparations with regard to health and environmental protection,
- by a system of providing information and education, increase the employees' awareness of the need for environmental protection and efforts of its constant improvement.

Safety and Protection of Health at Work Policy

PREdistribuce, a.s. as an independent entity was presented the "Safe Enterprise" award for the first time in 2007. The introduced occupational safety and health protection management system, responsibility of the employees to observe regulations and be responsible for their health resulted in a considerable fall in the rate of work injuries as early as 2005. Only one injury was registered resulting in work incapacity of more than three calendar days. In the year 2006 no injury was reported and in 2007 only one injury was registered. The number of injuries increased in 2008 as three were registered.

The Policy of Safety and Protection of Health at Work above all favours

- safety and protection of health at work as an integral part of the Company's activity management,
- common objective of the Group's management members and all employees – to avoid risk situations and threats by consistent observance of occupational safety principles,
- a system of corporate norms applying to health protection, preventive checks, OOPP and risk analysis of individual work activities ensures that legislation is upheld and the obligations of the employer and employees observed.

R→ Report on Relations between the Controlling and Controlled Person

Report on the Relations between the Controlling and Controlled Person and on the Relations between the Controlled Person and Other Persons Controlled by the Same Controlling Person in accordance with Section 66a (9) of the Commercial Code. (Report on Relations between Connected Persons).

The Controlling Person: Pražská energetika, a.s.

with registered office: Prague 10, Na Hroudě 1492/4, PCN 100 05, ID No.: 60193913, entered in the Commercial Register kept at the Municipal Court in Prague, Section I B, Insert 2405.

The Controlled Person: PREdistribuce, a.s.

with registered office: Prague 5, Svornosti 3199/19a, PCN 150 00, ID No.: 27376516, entered in the Commercial Register kept at the Municipal Court in Prague, Section B, Insert 10158.

List of other Persons controlled by the same Controlling Person:

The Controlled Person: PREměření, a.s.

with registered office: Prague 7, Partyzánská 7a, PCN 170 00 (deleted on 26.2.2008), Prague 10, Na Hroudě 2149/19, PCN 100 05 (entered on 26.2.2008), ID No.: 25677063, entered in the Commercial Register kept at the Municipal Court in Prague, Section B, Insert 5433.

The Controlled Person: ODEM a.s.

with registered office: Prague 10, Na Hroudě 2149/19, PCN 100 05, ID No.: 25755609, entered in the Commercial Register kept at the Municipal Court in Prague, Section B, Insert 5884.

The Controlled Person: PREleas, a.s.

With registered office: Prague 10, Limuzská 2110/8, PCN 100 00, ID No.: 25054040, entered in the Commercial Register kept at the Municipal Court in Prague, Section B, Insert 4033.

The above-mentioned defined range of controlling and controlled persons is known to the Board of Directors of the controlled person PREdistribuce, a.s. Other persons were not found.

I. Contractual Relations between the Controlled Person PREdistribuce, a.s. and the Controlling Person

Pražská energetika, a.s.

“Contract on Provision of Services No. P200006/01” – in force as of 1.1.2006 for indefinite period

Amendment No. 1 – in force as of 28.12.2006

Amendment No. 2 – in force as of 31.12.2007

“Lease Contract No. PS20000007/003” – in force as of 1.1.2007 for indefinite period

Amendment No. 1 – in force as of 1.1.2008

“Lease Contract No. PS20000007/004” – in force as of 1.1.2007 for indefinite period

Amendment No. 1 – in force as of 1.1.2008

“Lease Contract No. P200006/04” – in force as of 1. 1. 2006 for indefinite period

Amendment No. 1 – in force from 1.12.2006 till 31.3.2008

Amendment No. 2 – in force from 1.4.2008 till 30.6.2008

Amendment No. 3 – in force from 1.7. 008 till 31.7.2008

“Lease Contract No. P200006/05” – in force as of 1.1.2006 for indefinite period

Amendment No.1 – in force as of 1.9.2006

Amendment No. 2 – in force as of 1.3.2008

"Lease Contract No. P200006/06" – in force as of 1.1.2006 for indefinite period

Amendment No. 1 – in force as of 1.9.2006

Amendment No. 2 – in force as of 1.4.2007

Amendment No. 3 – in force as of 31.12.2007

"Contract on the Lease of Non-residential Premises No. P200006/09" – in force as of 1.1. 006 for indefinite period

Amendment No. 1 – in force as of 1.12. 007

Amendment No. 2 – in force as of 1.9.2008

"Contract on the Lease of Garage Parking Lot No. P200006/10" – in force as of 1.1.2006 for indefinite period

Amendment No. 1 – in force as of 31. 12. 2007

"Contract on the Lease of Non-residential Premises No. P200006/11" – in force as of 1.1.2006 for indefinite period

Amendment No. 1 – in force as of 1.11.2007

Amendment No. 2 – in force as of 1.1.2008

"Contract on the Lease of Non-residential Premises No. P200006/12" – in force as of 1.1.2006 for indefinite period

"Contract on the Lease of Garage Parking Lot No. P200006/13" – in force as of 1.1.2006 for indefinite period

"Contract on Electricity Supplies to cover Losses in the Distribution System and for the Distribution System Operator Own Needs No. P200006/14" – in force as of 1.2006 for indefinite period

"General Contract on Electricity Distribution to Consumption Points connected to VHV and HV Levels No. P200006/15" – in force as of 1.1.2006 for indefinite period

"General Contract on Electricity Distribution to Consumption Points connected to LV Level No. P200006/16" – in force as of 1.1.2006 for indefinite period

"Contract on Provision of Short-Term Loans No. P200006/22" – in force as of 30.11.2005 for indefinite period

Amendment No. 1 – in force as of 25.1.2006

Amendment No. 2 – in force as of 17.6.2008

Amendment No. 3 – in force as of 25.6.2008

Amendment No. 4 – in force as of 13.10.2008

"General Mandate Contract for Construction of Telecommunication Equipment No. P200006/27" – in force as of 2.5.2006 for indefinite period

"Sub-Licence Contract No. PS20000006/033" – in force as of 21.3.2006 for indefinite period

"Lease contract No. NO21106/015" – in force as of 2.1.2006 for indefinite period

"Lease Contract – Plastic Billboards No. NO21106/001" – in force as of 30.12.2005 for indefinite period

"Lease Contract No. PS21000107/010" – in force as of 1.1.2007 for indefinite period

"Administration, Operation and Maintenance of Optical Networks No. PS23400206/002" – in force as of 1.1.2007 for indefinite period

"Contract for Work – Thermovision Metering No. PS23310206/006" – in force from 16.10.2006 till 31.12.2008

"Lease Contract No. PG3530/07/2008/22" – in force as of 1.8.2008 for indefinite period

"Contract on Loan No. 1/2008 No. PS20000008/010" – in force as of 2.1.2008

Amendment No. 1 – in force as of 28.4.2008

"Contract on Loan No. 2/2008 No. PS20000008/018" – in force as of 30.10.2008

Amendment No. 1 – in force as of 27.11.2008

"Contract on Creation of Easement No. 33200/2529/05/4196" – in force as of 15.11.2005 for indefinite period

"Contract on Creation of Easement No. 33200/3236/07/3065" – in force as of 26.1.2007 for indefinite period

"Contract on Creation of Easement No. 33200/3502/07/4849" – in force as of 26.1.2007 for indefinite period

"Contract on Creation of Easement No. 33200/3665/07/4394" – in force as of 29.11.2007 for indefinite period

"Contract on Creation of Easement No. 33200/3938/08/5562" – in force as of 2.4.2008 for indefinite period

"Contract on Creation of Easement No. 33200/4067/07/6065" – in force as of 12.11.2007 for indefinite period

"Contract on Creation of Easement No. 33200/4295/08" – in force as of 5.2.2008 for indefinite period

"Contract on Creation of Easement No. 33200/4449/08/5877" – in force as of 13.10.2008 for indefinite period

"Contract on Creation of Easement No. 33200/4457/08" – in force from 2.4.2008 till 2.4.2048

II. Contractual Relations with other Persons controlled by the same controlling Person

PREměření, a.s.

"Contract on Provision of Services No. S252007/002, C00270/07" – in force as of 1.1.2007 for indefinite period

Amendment No. 1 – in force as of 1.1.2008

"Contract on Delivery of Malfunctioning Metering Equipment No. S252007/003, C00261/06" – in force as of 30.12.2006 for indefinite period

"Contract on Delivery of used Metering Equipment No. S252007/004, C00260/06" – in force as of 30.12.2006 for indefinite period

"Contract on Delivery of Metering Equipment No. PS21000107/070, C00296/07" – in force as of 1.1.2008 for definite period till 31.12.2008

"Contract for a Work No. P20006/19, C00203/06" – in force as of 1.3.2006 for indefinite period

Amendment No. 1 – in force as of 2.1.2008

ODEM a.s.

Since 1.1.2008 no contract has been concluded between ODEM a.s. and PREdistribuce, a.s.

PREleas, a.s.

"Leasing Contracts No. 9900014 to 9900016" – in force as of 1.2.1999

"Leasing Contracts No. 0000015 to 0000028" – in force as of 1.2.2000

"Leasing Contracts No. 0100001 to 0100010" – in force as of 1.2.2001

"Leasing Contracts No. 0100029 to 0100031" – in force as of 1.2.2001

"Leasing Contracts No. 0200001 to 0200018" – in force as of 1.2.2002

"Leasing Contracts No. 0300001 to 0300014" – in force as of 1.2.2003

"Leasing Contracts No. 0400001 to 0400006" – in force as of 1.2.2004

"Leasing Contracts No. 0500001 to 0500003" – in force as of 1.2.2005

III. Commentary of the Statutory Body

Further to Section 66a (9) of the Commercial Code the abovementioned contracts were concluded or were already in force for the last accounting period between Pražská energetika, a.s., as the controlling person, and PREdistribuce, a.s., as the controlled person, and also between PREdistribuce, a.s., as the controlled connected and the controlled and connected persons, the companies PREměření, a.s. and PREleas, a.s.

From performance of these contracts PREdistribuce, a.s. has not incurred any loss of assets and no consideration has been provided that would be disadvantageous from the point of view of PREdistribuce, a.s.

It is for these reasons that there is no need to conclude any contract between the companies for compensation of loss of assets and no such loss had to be compensated by the end of 2008 to the companies Pražská energetika, a.s., PREměření, a.s., ODEM a.s., and PREleas, a.s. The abovementioned business contracts were concluded under the usual business custom practice with no advantage to one or the other contractual parties.

In Prague, 4 February 2009



Milan Hampel

Chairman of the Board of Directors



Petr Dražil

Vice Chairman of the Board of Directors

S Supervisory Board Report

In 2008 the Supervisory Board performed tasks as laid down by the law and the Company's Articles of Association. In accordance with § 197-§ 201 of Act No. 513/1991 Coll. as amended, the Supervisory Board supervised the activities of the Board of Directors, its performance of business activities, fulfilment of the instructions of the Company's General Meeting and assessment of the Company's business plans. In 2008 the Supervisory Board met six times altogether. The year 2008 was the third year of the Company's real activity.

The Supervisory Board at its meetings above all discussed its investment plans necessary for fulfilling the Company's objectives including approval of specific constructions exceeding the limit. This concerned namely: reconstruction of external lines 110 kV between TR Sever and TR Červený Vrch, investment project for construction of TR 110/22 kV in Karlín, investment project for construction of TR 110/22 kV Uhřetěves and others.

The Supervisory Board discussed and analyzed the regular financial statements for the year 2007 and became acquainted with the auditor's report to these regular financial statements.

The Supervisory Board also discussed and analyzed the Report on Relations between the Controlling and Controlled Person and Relations between the Controlled Person and Other Persons Controlled by the Same Controlling Person in accordance with Section 66a, (9) of the Commercial Code.

Thereafter the Supervisory Board also approved:

- explicit tasks of the Company's director,
- assessment of tasks stipulated by the Company's director for the year 2007,
- text of the Annual Report for the year 2007.

The Supervisory Board states that the Company's economic results in 2008 were very good and expresses its thanks to the members of the Company Board of Directors and employees.

In Prague, 15 April 2009



Petr Hulinský
Chairman of the Supervisory Board

Independent Auditor's Report

Independent Auditor's Report to the Shareholder of PREdistribuce, a. s.

Having its registered office at: Svornosti 3199/19a, 150 00 Prague 5, Czech Republic

Identification number: 27376516

Principal activities: Distribution of electricity

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 28 February 2009 on the financial statements which are included in this annual report on pages 39 to 57:

"We have audited the accompanying financial statements of PREdistribuce, a.s., which comprise the balance sheet as of 31 December 2008, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of PREdistribuce, a.s. as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of PREdistribuce, a. s. for the year ended 31 December 2007 which is included in this annual report on pages 33 to 35. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of PREdistribuce, a. s. for the year ended 31 December 2007 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing usual business practice.

Report on the Annual Report

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 27 April 2009

Audit firm:

Statutory auditor:



Deloitte Audit s.r.o.

Certificate no. 79

Represented by:



Václav Loubek, authorised employee



Václav Loubek, certificate no. 2037

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eparate financial statements in full version as at 31 December 2008

Income Statement (CZK thousand)

	Note	2008	2007
I. 1. Sales of distribution services in the Group		6,038,535	5,836,726
I. 2. Sales of distribution services outside the Group		624,141	448,823
A. Costs of distribution and system services		(1,963,955)	(1,664,470)
+ Gross margin	(1)	4,698,721	4,621,079
II. Other income	(1)	42,684	42,027
II. 1. Other income		38,515	37,215
II. 3. Own work capitalised		4,169	4,812
B. Purchased consumables and services	(3)	(2,208,904)	(1,960,675)
B. 1. Consumed material and energy		(873,703)	(699,263)
B. 2. Purchased services		(1,335,201)	(1,261,412)
+ Added value		2,532,501	2,702,431
C. Staff costs	(2)	(372,521)	(395,514)
C. 1. Payroll costs		(253,889)	(254,844)
C. 2. Remuneration to members of statutory bodies		(2,976)	(13,128)
C. 3. Social security and health instance costs		(91,430)	(96,195)
C. 4. Social costs		(24,226)	(31,347)
D. Taxes and fees		(5,700)	(4,507)
E. Depreciation of tangible and intangible fixed assets	(7, 8)	(1,188,320)	(1,169,298)
III. Sales of fixed assets and material	(4)	8,055	5,790
III. 1. Sales of fixed assets		7,775	5,084
III. 3. Sales of material		280	706
F. Net book value of sold fixed assets	(4)	(17,332)	(10,680)
G. Change in reserves and provisions		11,115	833
IV. Other operating income	(1)	177,924	169,740
H. Other operating expenses		(9,652)	(13,313)
* Operating profit or loss		1,136,070	1,285,482
X. Interest income	(5)	5,711	10,462
N. Interest expenses	(5)	(61,918)	(2,617)
XI. Other financial income		42	1
O. Other financial expenses		(210)	(201)
* Financial profit or loss		(56,375)	7,645
Q. Income tax on ordinary activities	(6)	(200,103)	431,175
Q. 1. - payable		(227,614)	(379,892)
Q. 2. - deferred		27,511	811,067
** Profit or loss on ordinary activities		879,592	1,724,302
** * Profit or loss for the current period		879,592	1,724,302

Balance Sheet (CZK thousand)

		Note	2008			2007
			Gross	Correction	Net	Net
TOTAL ASSETS			43,112,289	(16,798,500)	26,313,789	24,863,534
A.	Receivables for subscribed capital		--	--	--	--
B.	Fixed assets		40,507,163	(16,789,177)	23,717,986	23,201,890
B. I.	Intangible fixed assets	(8)	7,904	(3,147)	4,757	4,656
B. I. 2.	Research and development		3,919	(2,428)	1,491	2,245
3.	Software		719	(719)	--	--
7.	Intangible fixed assets under construction		3,266	--	3,266	2,411
B. II.	Tangible fixed assets	(7)	40,499,159	(16,786,030)	23,713,129	23,197,134
B. II. 1.	Land		347,563	--	347,563	344,157
2a.	Cable and overhead lines		16,623,528	(6,124,557)	10,498,971	10,116,170
2b.	Power structures		12,337,390	(5,341,665)	6,995,725	6,808,417
3a.	Transformer station and switching station technologies		7,242,777	(3,016,610)	4,226,167	3,955,212
3b.	Logistics and management equipment/technology		1,424,308	(1,085,906)	338,402	346,966
3c.	Other fixtures and equipment		267,250	(162,133)	105,117	105,259
6.	Other tangible fixed assets – electrometers in the network		1,998,287	(1,055,159)	943,128	989,057
7a.	Electricity meters in stock - tangible fixed assets under construction		7,524	--	7,524	41,349
7b.	Other tangible fixed assets under construction		224,171	--	224,171	345,223
8.	Prepayments for tangible fixed assets		26,361	--	26,361	145,324
B. III.	Non-current financial assets		100		100	100
C.	Current assets		2,589,526	(9,323)	2,580,203	1,638,741
C. II.	Long-term receivables		32	--	32	24
C. II. 1.	Trade receivables		32	--	32	24
C. III	Short-term receivables		2,587,527	(9,323)	2,578,204	1,636,523
C. III. 1.	Trade receivables	(10)	54,074	(9,323)	44,751	39,020
2.	Receivables – controlling entity	(19)	410,086	--	410,086	809,226
6.	State – tax receivables		78,053	--	78,053	4,280
7.	Short-term prepayments made		82	--	82	17,773
8.	Estimated receivables	(19)	2,043,040	--	2,043,040	764,203
9.	Other receivables		2,192	--	2,192	2,021
C. IV.	Current financial assets		1,967	--	1,967	2,194
C. IV. 1.	Cash on hand		1,967	--	1,967	2,194
2.	Cash at bank		--	--	--	--
D. I.	Deferred expenses and accrued income		15,600	--	15,600	22,903
D. I. 1.	Deferred expenses		15,600	--	15,600	21,993
3.	Accrued income from securities		--	--	--	910

		Note	2008	2007
TOTAL LIABILITIES			26,313,789	24,863,534
A.	Equity	(11)	18,849,828	19,582,236
A. I.	Share capital		17,707,934	17,707,934
A. I. 1.	Share capital		17,707,934	17,707,934
A. III.	Funds from profit		236,500	150,000
A. III. 1.	Statutory reserve fund		236,500	150,000
A. IV.	Profit or loss for prior periods		25,802	--
A. IV. 1.	Retained earnings		25,802	--
A. V.	Profit or loss for the current period		879,592	1,724,302
B.	Liabilities		5,714,221	3,606,413
B. I.	Reserves	(13)	157,366	175,596
4.	Other reserves		157,366	175,596
B. II.	Long-term payables		4,467,897	2,995,408
B. II. 2.	Payables – controlling entity	(19)	1,500,000	--
B. II. 9.	Other payables		32	32
10.	Deferred tax liability	(9)	2,967,865	2,995,376
B. III.	Short-term payables		1,088,958	435,409
B. III. 1.	Trade payables	(14)	97,452	141,751
2.	Payables – controlling entity	(19)	909,116	14,342
5.	Payables to employees		13,295	13,135
6.	Social security and health instance payables		8,234	9,179
7.	State – tax payables and subsidies		25,101	250,851
8.	Short-term prepayments received		35,385	5,051
10.	Estimated payables		375	1,100
C. I.	Accrued expenses and deferred income		1,749,740	1,674,885
C. I. 1.	Accrued expenses	(19)	6,298	--
2.	Deferred income	(15)	1,743,442	1,674,885

Cash Flow Statement (CZK thousand)

	Note	2008	2007
Opening balance of cash and cash equivalents		2,194	2,221
Operating activity			
Accounting profit from ordinary activity before tax		1,079,695	1,293,127
Amortisation and depreciation	(7, 8)	1,188,320	1,169,298
Write-off of bad debts and other assets		491	297
Non-monetary personnel expenses		(6,450)	8,260
Change in provisions, reserves and temporary accounts	(10, 13)	(3,184)	15,355
Release of investment contributions to income	(15)	(143,053)	(132,583)
Profit (loss) from the sale and disposal of fixed assets	(4)	11,366	9,433
Interest	(5)	53,770	(10,462)
Net cash flow from operating activity before changes in working capital	2,180,955	2,352,725	2,352,725
Change in trade receivables (increase)		(1,175,049)	(102,996)
Change in trade payables (increase)		40,023	(22,594)
Net cash flow from operating activity before tax and interest		1,045,929	2,227,135
Interest paid	(5)	(53,182)	--
Interest received	(5)	6,621	10,165
Income tax paid		(553,137)	(403,422)
Net cash flow from operating activity		446,231	1,833,878
Investment activity			
Expenditure related to the acquisition of fixed assets		(1,766,441)	(1,427,968)
Income from investment contributions	(15)	211,610	208,703
Income from the sale of fixed assets	(4)	7,775	5,083
Net cash flow from investment activity		(1,547,056)	(1,214,182)
Financial activity			
Change in intercompany financial receivables and payables	(19)	2,712,598	(21,866)
Dividends paid		(1,612,000)	(597,857)
Net cash flow from financial activity		1,100,598	(619,723)
Change in cash and cash equivalents		(227)	(27)
Closing balance of cash and cash equivalents		1,967	2,194

Notes to the financial statements

General Information

Establishment and Description of the Company

PREdistribuce a.s. ("PREdi" or the "Company") was established as a joint-stock company on 16 August 2005 and was entered in the Register of Companies of the Municipal Court in Prague on 7 September 2005. The Company's registered office is at Svornosti 3199/19a, Prague 5, 150 00, corporate ID 27376516.

PREdistribuce a.s. is a public utility company and its principal activity is the distribution of electricity, from which it derives most of its revenues. PREdistribuce a.s. is the main supplier and distributor of electricity in the region of the City of Prague and Rožtoky u Prahy, covering an area of 505 km². PREdistribuce a.s. is the electricity distribution leader in this region. In addition to general legal regulations, Energy Act No. 458/2000 Coll., as amended and the related implementation guidance regulate the delivery of services, which is mostly carried out in the public interest, and associated rights and obligations.

Statutory and Supervisory Bodies as of 31 December 2008

Board of Directors

Milan Hampel	Chairman and Managing Director	since 2 Nov 2006
Petr Dražil	Vice Chairman and Manager of the Network Administration section	since 2 Nov 2006
Christian Franz-Josef Schorn	Member, EnBW, Germany	since 6 Oct 2006
Martin Langmajer	Member of the Board of Directors, Capital City of Prague	since 6 Oct 2006

Supervisory Board

Petr Hulinský	Chairman, Capital City of Prague	since 20 April 2006
Hermann Lüschen	Vice Chairman, EnBW, Germany	since 20 April 2006
Karel Urban	Member, PREdi employee	since 1 March 2006
Vladimír Přáda	Member, PREdi employee	since 1 March 2006
Drahomír Růta	Member, Chairman of the Board of Directors and CEO of Pražská energetika, a.s.	since 1 Feb 2006
Pavel Elis	Member, Vice Chairman of the Board of Directors and Director, Trading and Services, Pražská energetika, a.s.	since 1 Feb 2006

Pražská energetika, a.s. is the sole shareholder of PREdistribuce, a.s.

Accounting Policies

Statement of Compliance

The financial statements were prepared in accordance with the Accounting Act 563/1991 Coll., as amended; the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses.

Basis of the Preparation of Financial Statements

These financial statements are presented in thousands of Czech crowns ('CZK thousand') or millions of Czech crowns ('CZK million'). The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis, the accruals principle, the prudence concept and the going concern assumption.

Foreign Currency Translation

During the year, assets and liabilities denominated in a foreign currency are translated using the daily foreign exchange rate announced by the Czech National Bank. During the year, foreign exchange gains and losses are only recognised when realised. At the balance sheet date, foreign currency assets and liabilities are translated at the Czech National Bank's official rates for that date. Unrealised foreign exchange gains and losses are recognised in the income statement.

Tangible and Intangible Fixed Assets

Assets Held by the Company

Purchased tangible and intangible fixed assets are stated at acquisition cost, which includes the purchase price and costs related to the acquisition. Tangible and intangible fixed assets costing more than CZK 40 thousand and CZK 60 thousand, respectively, with a useful life exceeding one year are recognised in the balance sheet. Acquisition cost does not include investment contributions (see below). Assets acquired through the contribution to the Company are valued based on an expert appraisal. The cost of internally produced tangible and intangible assets includes direct and indirect costs related to the production of the asset.

Low Value Tangible and Intangible Assets

Tangible assets costing between CZK 2 thousand and CZK 40 thousand with an individual useful life exceeding one year are classified as low value tangible assets and software equipment costing less than CZK 60 thousand is classified as low value intangible assets. The acquisition costs of these assets are charged to expenses and their physical balances are maintained in off-balance sheet records, the only exception being electricity meters that are recognised and depreciated as tangible fixed assets.

Improvements

Major expenses incurred to replace parts of individual items of fixed assets increase the carrying value of the related assets. Other subsequent costs are capitalised only if they result in the increase in the future economic value of the related asset. All costs related to routine repairs and maintenance are charged to expenses.

Depreciation

Fixed assets are depreciated for accounting purposes using the straight-line method over the following depreciation periods:

Asset category	Depreciation period in years
Buildings and halls	50
Cable tunnels, cables and overhead lines	40
Fibre-optics	30
Power structures	25, 30
Working machines and equipment	10, 12 and 20
Telecommunication equipment	15
Machinery and special technology equipment, communication cables	10
Vehicles	4, 8
Electricity meters	10, 12 and 16
Furniture and fixtures	8
HW	0–4

Short-term Receivables

Short-term receivables are stated at their nominal value less provisions.

Investment Contributions

Customers pay part of the cost incurred reasonably by the Company upon being connected to the required power supply. The customers' obligation to pay this charge is stipulated in Act No. 458/2000 Coll. and Regulation 51/2006, as amended. The payment is accounted for as deferred income over 20 years.

Cash and cash equivalents

Cash and cash equivalents include cash, cash in transit, current bank accounts and other current highly liquid financial assets whose value can be easily determined and are easily convertible into cash.

Impairment Losses on Assets

At each balance sheet date, the Company reviews the carrying amounts of its assets (with the exception of deferred tax assets) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, provision is recorded to reflect the impairment of the asset.

Share Capital*Issued Shares*

The Company issued registered ordinary shares (refer to the Note "Equity").

Dividends

Dividends are recognised as payable in the period when the distribution of profit was approved.

Cash pooling

The Company participates in the parent company's cash pooling. The interest arising from cash pooling is recorded as interest income or interest expense as appropriate. The remaining balance of cash pooling is reported as a receivable from or payable to the parent company.

Reserves

Reserves are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and an outflow of cash is likely.

Short-term Payables

Short-term payables are stated at their nominal value.

Revenue Recognition

Revenue from provided services is recognised in the income statement when the services are rendered.

Expense Recognition*Operating Leases*

Operating lease payments are recognised in the income statement evenly over the lease period. Operating leases mostly comprise leases of administrative buildings, cable-tunnels and non-residential premises where high- and low-voltage transformers are placed.

Finance Leases

Instalments for leased assets are amortised and expensed. If the asset is acquired after the termination of the lease, the asset is carried at acquisition or replacement cost.

Income Tax

Income tax is recognised in the income statement and includes current income tax and the deferred tax.

Current income tax comprises the tax payable arising from the Company's performance in the current year and additional payments (or excessive payments) from prior periods arising from the difference between the estimated and actual tax in prior periods.

Deferred tax is accounted for using the balance sheet liability method. Deferred tax arises from all temporary differences between the accounting and tax carrying amounts of all assets and liabilities using the tax rate that is expected to apply when the assets are realised or the liabilities are settled.

A deferred tax asset is recognised only to the extent that it is probable that it will be utilized in the following accounting periods.

Significant Accounting Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates. In the Company's view, determination of the volume of unbilled electricity distribution is the crucial area which is subject to the use of estimates. Additions to it are determined using the balance method, i.e. as a difference between the aggregate electricity inputs and outputs including losses and internal consumption in the relevant period. The aggregate ultimate balance is further reviewed by a cross-check calculation in the client system.

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1. Revenues (CZK thousand)

Revenues and Expenses Relating to the Supply of Distribution Services	2008	2007
Sale of distribution and system services to wholesale customers	2,276,805	1,993,044
Sale of distribution and system services to retail customers	4,369,072	4,277,199
Other income	16,799	15,306
Total income	6,662,676	6,285,549
Costs of the purchase of distribution and system services	(1,963,955)	(1,664,470)
Total costs	(1,963,955)	(1,664,470)
Gross profit from the sale of distribution services	4,698,721	4,621, 079
Other income	2008	2007
Income from services rendered in the Group *)	6,480	6,817
Income from services rendered outside the Group	32,035	30,398
of which: relocation of distribution equipment	7,447	5,419
repair and assembly	17,126	18,305
lease of real estate	4,108	4,257
Capitalisation of fixed assets	4,169	4,812
Total	42,684	42,027
*) Primarily maintenance of fibre optics for the parent company (CZK 4,580 thousand and CZK 4,253 thousand in the years ended 31 December 2008 and 2007, respectively).		
Other operating income	2008	2007
Connection fees	143,053	132,583
Compensation for unauthorised consumption	28,483	32,106
Sundry	6,388	5,051
Total	177,924	169,740

2. Personnel Expenses (CZK thousand)

	2008 Staff including management	2007 Staff including management
Average headcount	513	555
Payroll costs	225,087	225,044
Salaries paid depending on the Company's performance	28,802	29,800
Insurance	91,430	96,195
Remuneration of the members of the Company's statutory bodies	2,976	13,128
Other social costs (according to the collective agreement) *)	24,226	31,347
Total	372,521	395,514

*) Change in reserves for compensation and employee benefits defined in the Collective Agreement, namely bonuses paid to employees in connection with their work and life milestones, retirement and electricity reduction for employees upon their retirement..

3. Costs of Purchase of Material, Services and Energies (CZK thousand)

	2008	2007
Consumed electricity and losses	800,066	579,852
Services of the parent company according to the management contract	577,356	586,178
Operating lease of vehicles	21,253	20,975
Lease of equipment, vehicles and construction machinery	71,964	87,635
Lease of non-residential premises	64,854	65,993
Assembly work and reading of meters	200,235	139,598
Sundry	14,610	14,215
Costs of purchase of material, services and energies in the Group	1,750,338	1,494,446
Material and consumed energies	68,279	111,846
Repairs of fixed assets	212,865	184,383
Lease of cable tunnels	84,813	82,293
Lease of non-residential premises	29,663	27,464
Construction-assembly work	7,447	5,419
Training, conferences	3,416	3,036
Sundry	52,083	51,788
Costs of purchase of material, services and outside of the Group	458,566	466,229
Total	2,208,904	1,960,675

4. Sales of Assets (net) (CZK thousand)

	2008	2007
Sales of electricity meters	155	72
Sales of other assets and materials	1,417	38
Net book value of electricity meters	(3,339)	(2,633)
Net book value of other assets	(190)	(35)
Loss from the sale of assets within the Group	(1,957)	(2,558)
Sales of assets	6,233	4,977
Sales of material (primarily from metal waste)	250	704
Net book value of sold material	(13,803)	(8,013)
Scrapping of old assets	--	--
Loss from the sale of assets outside the Group	(7,320)	(2,332)
Total	(9,277)	(4,890)

5. Financial Expenses and Income (CZK thousand)

Interest income and expenses	2007	2006
Interest income arising from cash pooling	5,711	10,462
Interest expenses from cash pooling	(31,173)	--
Interest expenses from intercompany loans	(28,308)	--
Interest expenses from employee benefits *)	(2,437)	(2,617)
Total (net)	(56,207)	7,845

*) The increase in the present value of payables from defined employee benefits between periods arises from the fact that the pay day will be one period earlier.

6. Income Taxes (CZK thousand)

Effective tax rate	2008		2007	
Profit or loss for the period after tax	879,592		1,724,302	
Income tax from ordinary activity	200,103		(431,175)	
Profit before tax	1,079,695		1,293,127	
Income tax using the applicable income tax rate	226,736	21.00%	310,350	24.00%
Impact of items that are never tax-deductible	4,223	0.39%	6,193	0.48%
Corrections of estimates of prior years' taxes	(11,333)	(1.05%)	16,092	1.24%
Impact of the change in the deferred tax rate	(19,523)	(1.81%)	(763,810)	*)
Total income tax/effective tax rate	200,103	18.53%	(431,175)	*)

*) The value of the effective tax rate carries no information as it is influenced by the release of the deferred tax in connection with changes in the income tax rate to a substantial extent..

Payables to the State	2008	2007
Payables arising from social security and health insurance contributions	8,234	9,179
State - tax payables *)	25,101	250,851

*) Includes personal income tax and anticipated corporate income tax.

None of the above-mentioned payables were carried past their due dates.

7. Property, Plant and Equipment (CZK mil.)

	Land	Power structures	Cables and overhead lines	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
Cost								
Balance at 31 Dec 2006	337.9	17,957.9	15,512.4	1,329.7	1,952.3	285.0	480.2	37,855.4
Additions	2.2	646.3	370.1	71.9	87.5	9.3	238.2	1,425.5
Disposals	(0.1)	(30.6)	(40.8)	(47.4)	(121.9)	(16.1)	(4.4)	(261.3)
Reclassification	4.2	61.3	51.4	4.2	53.3	7.7	(182.1)	--
Balance at 31 Dec 2007	344.2	18,634.9	15,893.1	1,358.4	1,971.2	285.9	531.9	39,019.6
Accumulated depreciation								
Balance at 31 Dec 2006	--	(7,394.3)	(5,433.5)	(981.1)	(913.7)	(178.3)	--	(14,900.9)
Depreciation	--	(502.1)	(384.3)	(77.8)	(187.7)	(16.6)	--	(1,168.4)
Accumulated depreciation on disposals	--	23.3	40.8	47.5	119.2	16.1	--	246.8
Reclassification	--	1.9	--	--	--	(1.9)	--	--
Balance at 31 Dec 2007	--	(7,871.2)	(5,777.0)	(1,011.4)	(982.2)	(180.7)	--	(15,822.5)
Net book value at 31 Dec 2006	337.9	10,563.6	10,078.9	348.6	1,038.6	106.7	480.2	22,954.5
Net book value at 31 Dec 2007	344.2	10,763.7	10,116.1	347.0	989.0	105.2	531.9	23,197.1

	Land	Power structures	Cables and overhead lines	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
Cost								
Balance at 31 Dec 2007	344.2	18,634.9	15,893.1	1,358.4	1,971.2	285.9	531.9	39,019.6
Additions	3.6	733.9	656.6	91.0	84.4	7.3	139.4	1,716.2
Disposals	(0.4)	(53.2)	(50.2)	--	(98.6)	(32.7)	(1.5)	(236.6)
Reclassification	0.2	264.5	124.1	(25.1)	41.3	6.7	(411.7)	--
Balance at 31 Dec 2008	347.6	19,580.1	16,623.6	1,424.3	1,998.3	267.2	258.1	40,499.2
Accumulated depreciation								
Balance at 31 Dec 2007	--	(7,871.2)	(5,777.0)	(1,011.4)	(982.2)	(180.7)	--	(15,822.5)
Depreciation	--	(527.4)	(397.4)	(74.5)	(168.3)	(19.8)	--	(1,187.4)
Accumulated depreciation on disposals	--	40.4	49.8	--	95.3	38.4	--	223.9
Reclassification	--	--	--	--	--	--	--	--
Balance at 31 Dec 2008	--	(8,358.2)	(6,124.6)	(1,085.9)	(1,055.2)	(162.1)	--	(16,786.0)
Net book value at 31 Dec 2007	344.2	10,763.7	10,116.1	347.0	989.0	105.2	531.9	23,197.1
Net book value at 31 Dec 2008	347.6	11,221.9	10,499.0	338.4	943.1	105.1	258.1	23,713.2

None of the Company's assets are pledged or used as a guarantee.

8. Intangible Fixed Assets (CZK mil.)

	Software	Other	Investments under construction	Total
Cost				
Balance at 31 Dec 2006	0.9	3.5	0.2	4.6
Additions	--	--	2.4	2.4
Disposals	(0.2)	0.1	--	(0.1)
Reclassification	--	0.2	(0.2)	--
Balance at 31 Dec 2007	0.7	3.8	2.4	6.9
Accumulated amortisation				
Balance at 31 Dec 2006	(0.9)	(0.5)	--	(1.4)
Amortisation	--	(0.9)	--	(0.9)
Accumulated amortisation on disposals	0.2	(0.1)	--	0.1
Reclassification	--	--	--	--
Balance at 31 Dec 2007	(0.7)	(1.5)	--	(2.2)
Net book value at 31 Dec 2006	--	3.0	0.2	3.2
Net book value at 31 Dec 2007	--	2.3	2.4	4.7

	Software	Other	Investments under construction	Total
Cost				
Balance at 31 Dec 2007	0.7	3.8	2.4	6.9
Additions	--	--	7.5	7.5
Disposals	--	--	(6.5)	(6.5)
Reclassification	--	0.2	(0.2)	--
Balance at 31 Dec 2007	0.7	4.0	3.2	7.9
Accumulated amortisation				
Balance at 31 Dec 2007	(0.7)	(1.5)	--	(2.2)
Amortisation	--	(0.9)	--	(0.9)
Accumulated amortisation on disposals	--	--	--	--
Reclassification	--	--	--	--
Balance at 31 Dec 2008	(0.7)	(2.4)	--	(3.1)
Net book value at 31 Dec 2006	--	2.3	2.4	4.7
Net book value at 31 Dec 2007	--	1.6	3.2	4.8

Pursuant to accounting policies (refer to Accounting Policies), low value fixed assets are expensed upon acquisition. The purchase cost of these assets at the balance sheet date is shown in the following table:

Low value fixed assets (CZK mil.)	2008	2007
Low value tangible assets with cost lower than CZK 40 thousand	77,153	71,322
Low value intangible assets with cost lower than CZK 60 thousand	--	--
Total	77,153	71,322

9. Deferred Tax Liability (CZK thousand)

Deferred tax assets and liabilities recognised in the balance sheet:

Deferred tax assets (-) and liabilities (+) resulting from the temporary differences between the accounting and tax value relate to the following items:

	31 Dec 2008	Charging to profit or loss	31 Dec 2007	Charging to profit or loss	31 Dec 2006
Fixed assets	2,994,497	(29,688)	3,024,185	(823,306)	3,847,491
Receivables	(922)	(187)	(735)	(294)	(441)
Reserves	(16,425)	2,164	(18,589)	5,393	(23,982)
Liability arising from the collective agreement	(9,285)	200	(9,485)	7,140	(16,625)
Total	2,967,865	(27,511)	2,995,376	(811,067)	3,806,443

10. Trade Receivables (CZK thousand)

As of 31 December 2007, trade receivables amounted to CZK 54,074 thousand (2007: CZK 45,240 thousand), of which receivables of CZK 8,522 thousand (2007: CZK 15,749 thousand) were six months past due, receivables of CZK 4,881 thousand (2007: CZK 4,014 thousand) were 6 to 12 months past due and receivables of CZK 6,685 thousand (2007: CZK 3,688 thousand) were more than 12 months past due. A provision of CZK 9,323 thousand (2007: CZK 6,220 thousand) was created.

11. Equity (CZK thousand)

Share Capital and Types of Shares as of 31 December 2008

Share capital of the Company consists of 21,549 registered shares (2007: 21,549 registered shares) with a nominal value of CZK 821,752 (2007: CZK 821,752).

Registered Shares

Shares with full voting rights, transferable with the consent of the General Meeting.

Distribution of Profit

The General Meeting will decide on the distribution of profit of CZK 879,592 thousand (2007: CZK 1,724,302 thousand).

Statement of Changes in Equity (CZK thousand)

	Share capital	Reserve fund	Profit or loss	Retained earnings	Changes in equity
Balance at 31 Dec 2006	17,707,934	--	747,876	(20)	18,455,790
Creation of the reserve fund	--	150,000	(150,000)	--	--
Dividends paid	--	--	(590,856)	--	(590,856)
Directors' fees paid	--	--	(7,000)	--	(7,000)
Retained earnings	--	--	(20)	20	--
Net profit for 2007	--	--	1,724,302	--	1,724,302
Balance at 31 Dec 2007	17,707,934	150,000	1,724,302	--	19,582,236
Creation of the reserve fund	--	86,500	(86,500)	--	--
Dividends paid	--	--	(1,600,000)	--	(1,600,000)
Directors' fees paid	--	--	(12,000)	--	(12,000)
Retained earnings	--	--	(25,802)	25,802	--
Net profit for 2008	--	--	879,592	--	879,592
Balance at 31 Dec 2008	17,707,934	236,500	879,592	25,802	18,849,828

12. Earnings per Share (CZK thousand)

The calculation of earnings per share is based on net retained earnings of CZK 879,592 thousand (2007: CZK 1,724,302 thousand) attributable to 21,549 shares, i.e. earnings per share amount to CZK 41 thousand (2007: CZK 80 thousand).

13. Reserves (CZK thousand)

	Business risks*)	Severance pay	Employee benefits **)	Other	Total
Balance at 31 Dec 2006	93,017	6,909	69,271	--	169,197
Creation of reserves in the current period	1,552	6,293	12,735	10,400	30,980
Use of reserves in the current period	(6,031)	(6,909)	(11,641)	--	(24,581)
Balance at 31 Dec 2007	88,538	6,293	70,365	10,400	175,596
Creation of reserves in the current period	--	--	7,811	--	7,811
Use of reserves in the current period	(3,817)	(5,096)	(6,728)	(10,400)	(26,041)
Balance at 31 Dec 2008	84,721	1,197	71,448	--	157,366
Long-term reserves	84,721	--	59,623	--	144,344
Short-term reserves	--	1,197	11,825	--	13,022
Total	84,721	1,197	71,448	--	157,366

*) Provision for risks arising from the operation of fixed assets.

**) These are reserves for future liabilities arising from the collective agreement, principally retirement benefits, benefit for work anniversaries, birthdays and electricity discount for pensioners. These are long-term payables and their maturity date is known, which is why they were discounted at the balance sheet date.

14. Trade Payables (CZK thousand)

The Company records trade payables of CZK 97,452 thousand (2007: CZK 141,751 thousand), of which payables of CZK 29 thousand (2007: CZK 723 thousand) were past their due dates. All payables past their due dates were settled in January 2009.

15. Temporary Liabilities (CZK thousand)

Deferred income – investment contributions	
Balance at 31 Dec 2006	1,598,765
Contributions received	208,703
Released to income	(132,583)
Balance at 31 Dec 2007	1,674,885
Contributions received	211,610
Released to income *)	(143,053)
Balance at 31 Dec 2008	1,743,442

*) Disclosed in "Other operating income" in the income statement.

16. Leased Assets (CZK thousand)

Operating Leases

As disclosed in the accounting policies, assets held by the Company under operating leases include cable conduits for ultra-high voltage and high voltage lines, non-residential premises for high and low voltage transformers and administrative buildings. The lease contracts have been concluded for an indefinite period of time.

The below table shows the aggregate annual costs of these leases:

	2008	2007
Administrative buildings	64,854	65,993
Cable conduits	83,169	81,068
Non-residential premises	29,663	27,464
Vehicles	21,253	20,975
Total	198,939	195,500

Finance Leases

Finance leases include technological equipment, vehicles and construction machinery. In the years ended 31 December 2008 and 2007, the Company paid CZK 71,964 thousand and CZK 87,635 thousand, respectively, in lease instalments.

17. Expenditure on Acquisition of Fixed Assets

The Company anticipates incurring total expenditure of CZK 1,634 million for the year ending 31 December 2009, of which approximately CZK 676 million has been contracted as of the balance sheet date. The Company is not involved in individual research and development but co-operates with other companies and institutions on innovation processes. It actively works to improve support operations (licence and know-how acquisition, maintenance, procurement, and IT systems).

18. Related Parties (CZK thousand)

The Company's Managing Director and members of the Board of Directors are considered the executive management. The management contract contains a non-competition clause extending to 12 calendar months after the termination of employment. This fact is offset by cash compensation in the amount of the average monthly pay for each month of the obligation's performance. Members of the Company's Board of Directors and Supervisory Board entered into the Contract for the Terms and Conditions of the Job Performance for the period of the performance of their position. Remuneration is paid for the position's performance as approved annually by the General Meeting – the sole shareholder. The Contract does not provide for any non-standard benefits. Members of the senior management can use company cars for private purposes.

Total remuneration of the members of the statutory bodies and executive management:

	2008		2007	
	Executive management and Board of Directors	Supervisory Board	Executive management and Board of Directors	Supervisory Board
Number	5	6	5	6
Amounts received due to the existence of an employment *)	5,838	--	4,486	--
Amounts received due to the existence of the membership in statutory/ supervisory bodies **)	7,240	7,76	5,144	4,624

*) Salaries and contribution to the life insurance.

**) Bonuses to members of bodies, paid director's fees and contributions for the healthcare.

Transactions with Board members and executive management

As of 31 December 2008, the Company recorded a receivable from the members of its Board of Directors and Supervisory Board totalling CZK 42 thousand (2007: czk 22 thousand). These receivables were settled during January 2009.

19. Group Relationships (CZK thousand)

	PREdi receivables as of 31 Dec		PREdi payables as of 31 Dec	
	2008	2007	2008	2007
Pražská energetika, a.s.	2,405,841	1,557,907	2,380,208	--
of which: Trade receivables/ payables	410,075	470,510	--	--
Trade receivables (cash pooling)	--	338,688	873,910	--
Accrued income (cash pooling)	--	910	2,238	--
Long-term lan*)	--	--	1,500,000	--
Accrued expenses (long-term loan)	--	--	4,060	--
Estimated receivables – unbilled distribution services	1,995,766	747,799	--	--
PREleas, a.s.	11,608	17,381	--	--
PREměření, a.s.	11	6	35,206	10,474
ODEM a.s.	0	23	0	3,868
Total	2,417,460	1,575,317	2,415,414	14,342

	PREdi income		PREdi expenses/ costs	
	2008	2007	2008	2007
Pražská energetika, a.s.	6,052,266	5,854,286	(1,537,625)	(1,267,249)
of which: Distribution services	6,038,535	5,836,726	--	--
Other services, material consumed	6,480	6,816	(678,073)	(687,362)
Consumed electricity and losses	--	--	(800,066)	(579,852)
Fixed assets	888	38	--	(35)
Other expenses	--	--	(5)	--
Other income	652	244	--	--
Cash Pooling	5,711	10,462	(31,173)	--
Interest on loans	--	--	(28,308)	--
PREleas, a.s.	--	--	(71,965)	(87,637)
of which: Services - leases	--	--	(71,964)	(87,635)
Fixed assets	--	--	(1)	(2)
PREměření, a.s.	804	72	(303,411)	(241,296)
of which: Services	--	--	(200,236)	(96,370)
Electricity meters	155	72	(102,985)	(144,926)
Other assets	529	--	(190)	--
Contractual fines	120	--	--	--
ODEM a.s.	--	336	--	(43,228)
of which: Services	--	--	--	(43,228)
Contractual fines	--	336	--	--
Total	6,053,070	5,854,694	(1,913,001)	(1,639,410)

*) Loan provided by Pražská energetika, a.s., with the maturity on 30 November 2011 and interest rate of PRIBOR + 0.3 percent p.a. for the funding of the debtor's operating needs.

The increase in estimated receivables is due to the change in the billing period for customers who receive invoices for distribution services from Pražská energetika a.s. Until 2007, the meter reading cycle was 4 months, in 2008, the Company adopted the cycle of 12 months.

The Company's management believes that all transactions with Group entities were performed under ordinary business conditions. The Company incurred no loss in connection with related-party transactions.

20. Post Balance Sheet Events

No significant events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.



We hereby declare that data stated in the Annual Report for the year 2008 comply with the real facts and that no known circumstances which could affected the accurate and correct assessment of the Company PREdistribuce, a.s. were omitted.

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Jan Doležálek

Date of birth: 23.2.1952

Responsible for the Annual Report
page 1-36, 58-60

Roman Tupý

Date of birth: 2.2.1963

Responsible for the Annual Report
page 39-57

List of Abbreviations

ČSRES	České sdružení rozvodných energetických společností /Czech Association of Power Distribution Companies	OC	Business centre
DDZ	Daily load profile	OKO	Organized short-term trade
DLHM	Tangible fixed assets	OPM	Consumption delivery point
DLNHM	Intangible fixed assets	OSNE	System for electricity trading support
DR	Supervisory Board	OK	Commercial centre
DŘT	Dispatching control technology	OTE, a.s.	Operátor trhu s elektřinou, a.s./Electricity market operator
DS	Distribution system	OZ	Eligible customer
DTS	Distribution transformer station	OZE	Renewable resources
ERÚ	Energetický regulační úřad/Energy Regulatory Office	PDS	Provozovatel distribuční soustavy/Distribution system operator
ES ČR	Electrification system of the Czech Republic	PEAS	První energetická akciová společnost/First energy joint stock company
ESČ	Elektrotechnický svaz český/Czech Electrotechnical Union	PIS	Poradenské a informační středisko/Advisory and information centre
EU	European Union	PP	Board of Directors
FNM ČR	Fond národního majetku České republiky/National Property Fund of the Czech Republic	PP, a.s.	Pražská plynárenská, a.s.
FVE	Photovoltaic power station	PP-H, a.s.	Pražská plynárenská Holding, a.s.
GIS	Geographical information system	PRE	Pražská energetika, joint stock company
GWh	Gigawatt-hour	PREdi	PREdistribuce, a.s., 100 % subsidiary
HDO	Mass remote control	PRE-H	Pražská energetika Holding a.s.
HMP	Capital City of Prague	PREleas, a.s.	PREleas, a.s., 100 % subsidiary
Hz	Hertz	PS	Poradenské středisko/Advisory Centre
CHZ	Protected customer	PS, a.s.	Pražské služby, a.s./Prague Services, joint stock company
KT	Cable tunnel	PT, a.s.	Pražská teplárenská, a.s.
kV	Kilovolt	PT-H, a.s.	Pražská teplárenská Holding, a.s.
KVET	Combined generation of electricity and heating	PXE	Pražská energetická burza/Prague Energy Stock Exchange
MF ČR	Ministerstvo financí České republiky/Ministry of Finance of the Czech Republic	R	Distribution station
MHMP	Magistrát hlavního města Prahy/Prague City Council	REAS	Rozvodné energetické akciové společnosti/Power Distribution joint stock companies
MO	Small customer (small businesses and households)	RS	Distribution station
MPO ČR	Ministerstvo průmyslu a obchodu České republiky/Ministry of Industry and Trade of the Czech Republic	TDD	Standard daily profile
MPSV ČR	Ministerstvo práce a sociálních věcí ČR/Ministry of Labour and Social Affairs	TPA	Third party access
MVE	Small hydroelectric power stations	TR	Transformer station
MWh	Megawatt-hour	TWh	terawatt-hour
MW	Megawatt	ÚED ČR	Ústřední energetický dispečink České republiky/Central Power Dispatching of the Czech Republic
MZ ČR	Ministerstvo zdravotnictví ČR/Ministry of Health of the Czech Republic	ÚHOS	Úřad pro ochranu hospodářské soutěže/Office for Protection of Business Competition
NN	Low voltage	VN	High voltage
NT	Low tariff	VVN	Very high voltage
		VO	Large customer

A[↑]Address of the Joint Stock Company and its Workplaces

	Address	PCN	Telephone, fax
PREdistribuce, a.s.	Prague 5, Svornosti 3199/19a	150 00	267 051 111, 267 310 817

The Company is registered in the Commercial Register maintained at the Municipal Court in Prague,, Section B, Insert No. 101 58.

The Company was founded for an indefinite period in compliance with the legal order of the Czech Republic.

The Company does not have any organisational unit abroad.

web: www.pre.cz

e-mail: pre@pre.cz, distribuce@pre.cz

w@p: w@p.pre.cz

ID No.: 27376516

Tax ID: CZ27376516

Bank details:

ČSOB Prague-město

Account No.: 17494043/0300

	Address	PCN	Telephone
Director	Prague 10, Na Hroudě 1492/4	100 05	267 052 000
	Prague 5, Svornosti 3199/19a	150 00	267 052 601
Network Administration	Prague 5, Svornosti 3199/19a	150 00	267 052 100
Network Management	Prague 2, Nitranská 2226/1	120 00	267 052 200
Network Operation	Prague 9, Novovysočanská 696/3	190 00	267 052 300
Network Assets Management	Prague 5, Svornosti 3199/19a	150 00	267 052 400
Access to Network and Regulation	Prague 2, Sokolská 1264/7	120 00	267 052 500
Distribution Support	Prague 10, Na Hroudě 1492/4	100 05	267 052 600
PRE Customer Centre	Prague 4, Vladimírova 18	140 00	267 054 230
	Prague 9, Ocelářská 5a	190 00	267 054 240
	Prague 1, Jungmannova 31	101 00	267 056 363
Emergency Services	Prague 2, Kateřinská 9	120 00	224 915 151
			e-mail: poruchy@pre.cz
Call Centre	Prague 10, Na Hroudě 19	100 05	267 055 555
Advisory Centre	Prague 10, Na Hroudě 1492/4	100 05	267 053 157
Information for Press	Prague 10, Na Hroudě 1492/4	100 05	267 051 102

