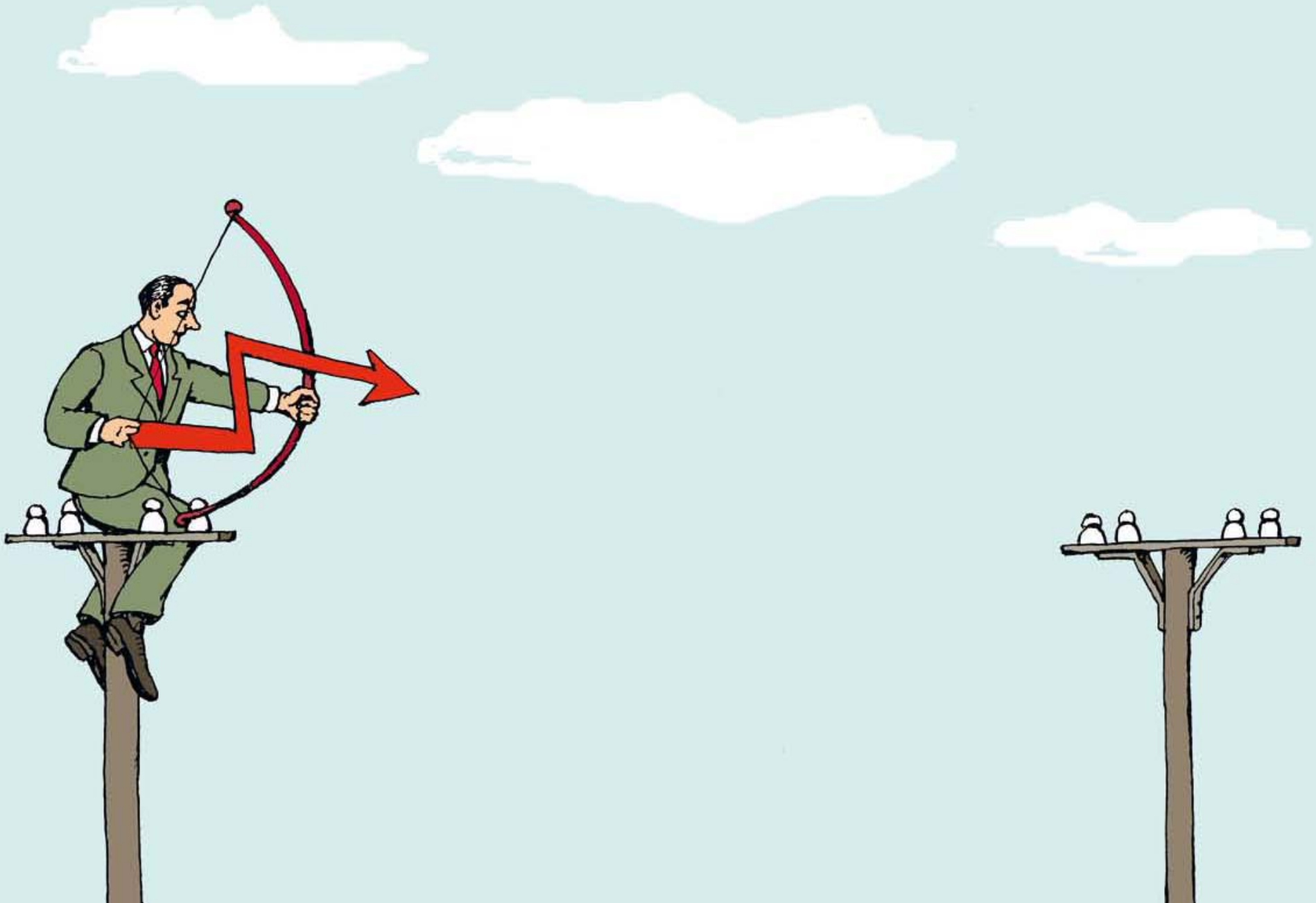
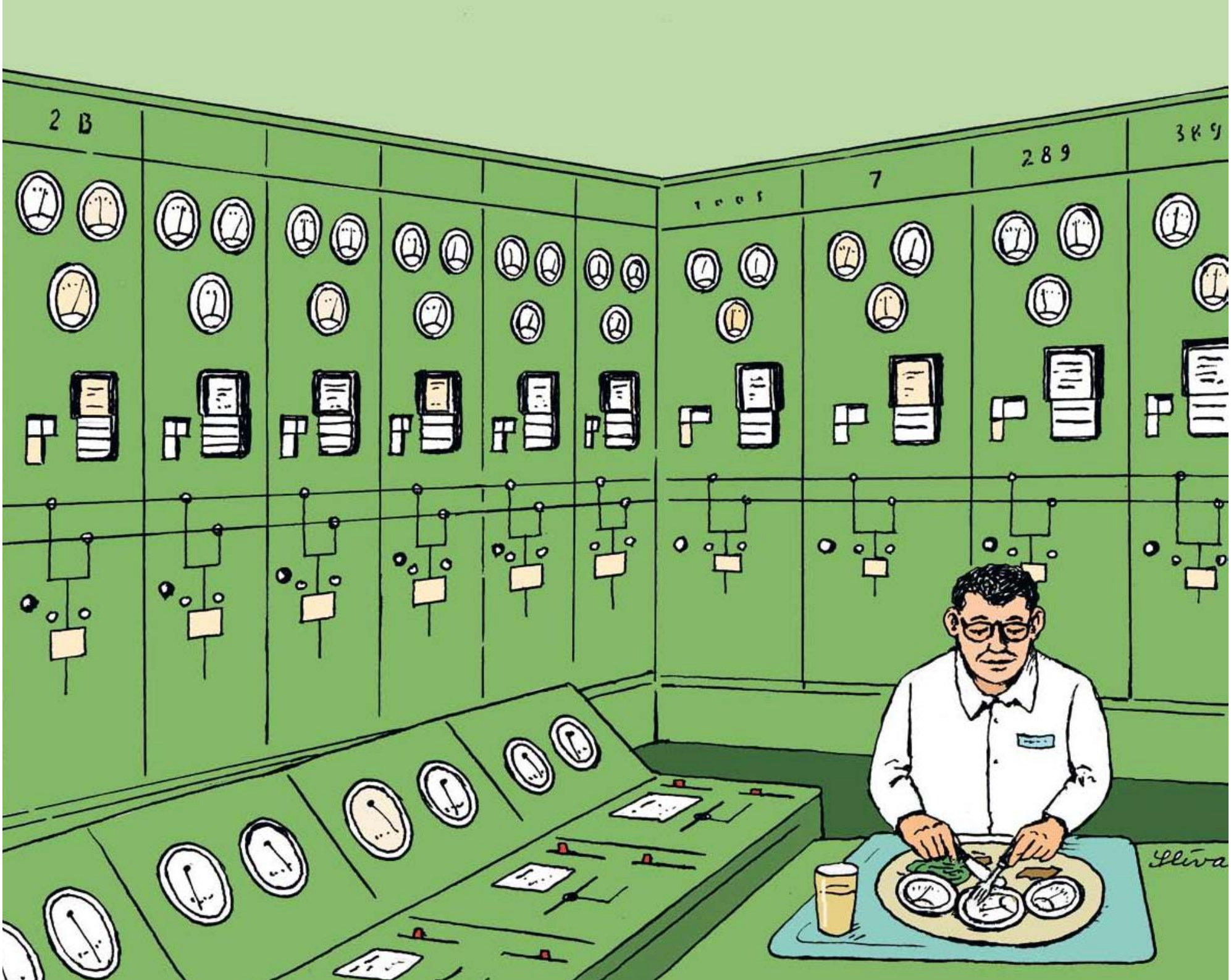
Annual Report 2007 | PREdistribuce, a.s.

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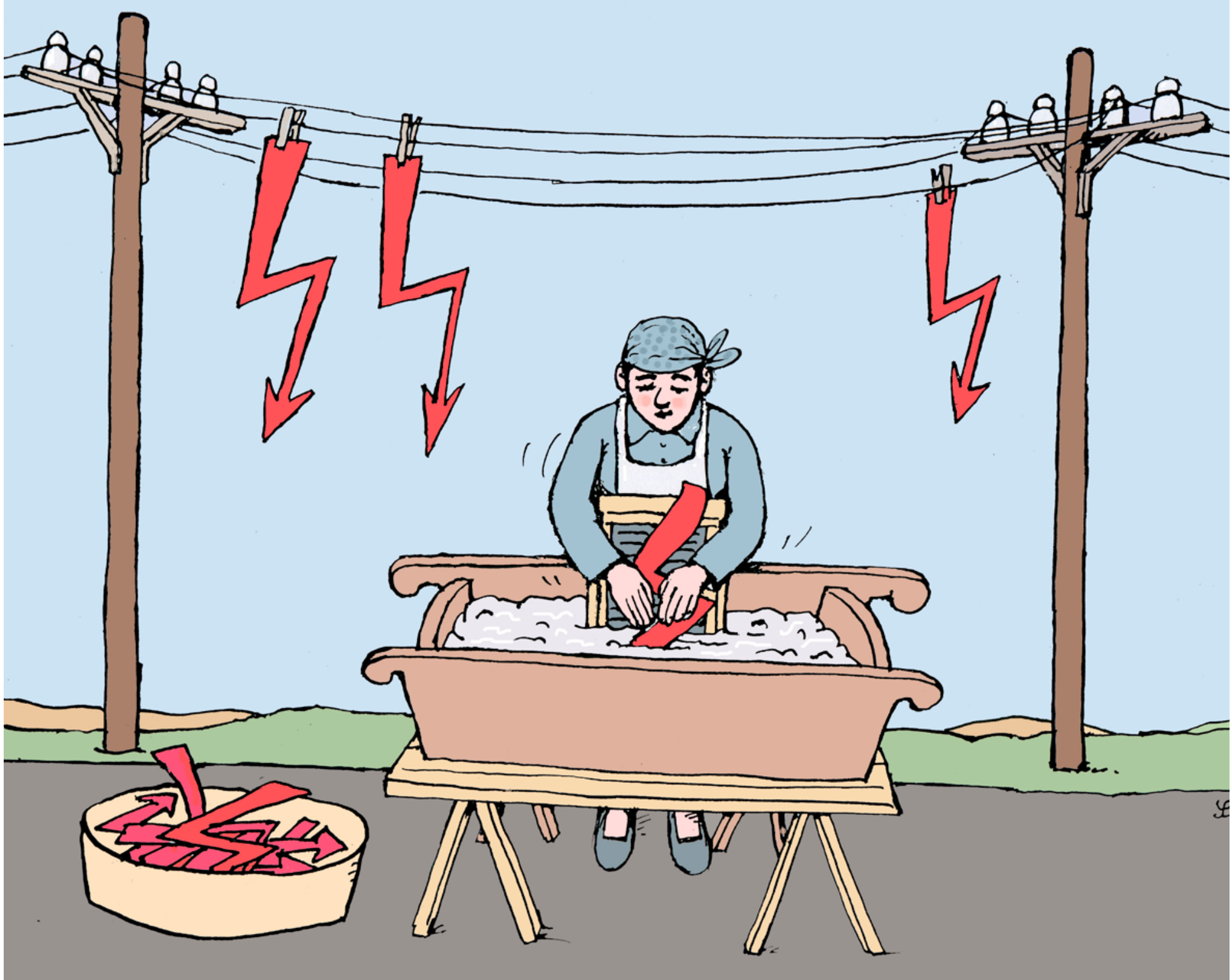
Changes which have occurred since the end of the accounting period (31 December 2007) to the deadline for the issue of this Annual Report (22. 4. 2008) are highlighted in ***bold italics***.



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 entered in:	**Commercial Register at the Municipal Court in Prague, Section B, Insert 10158**
Account:	**ČSOB Praha-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.

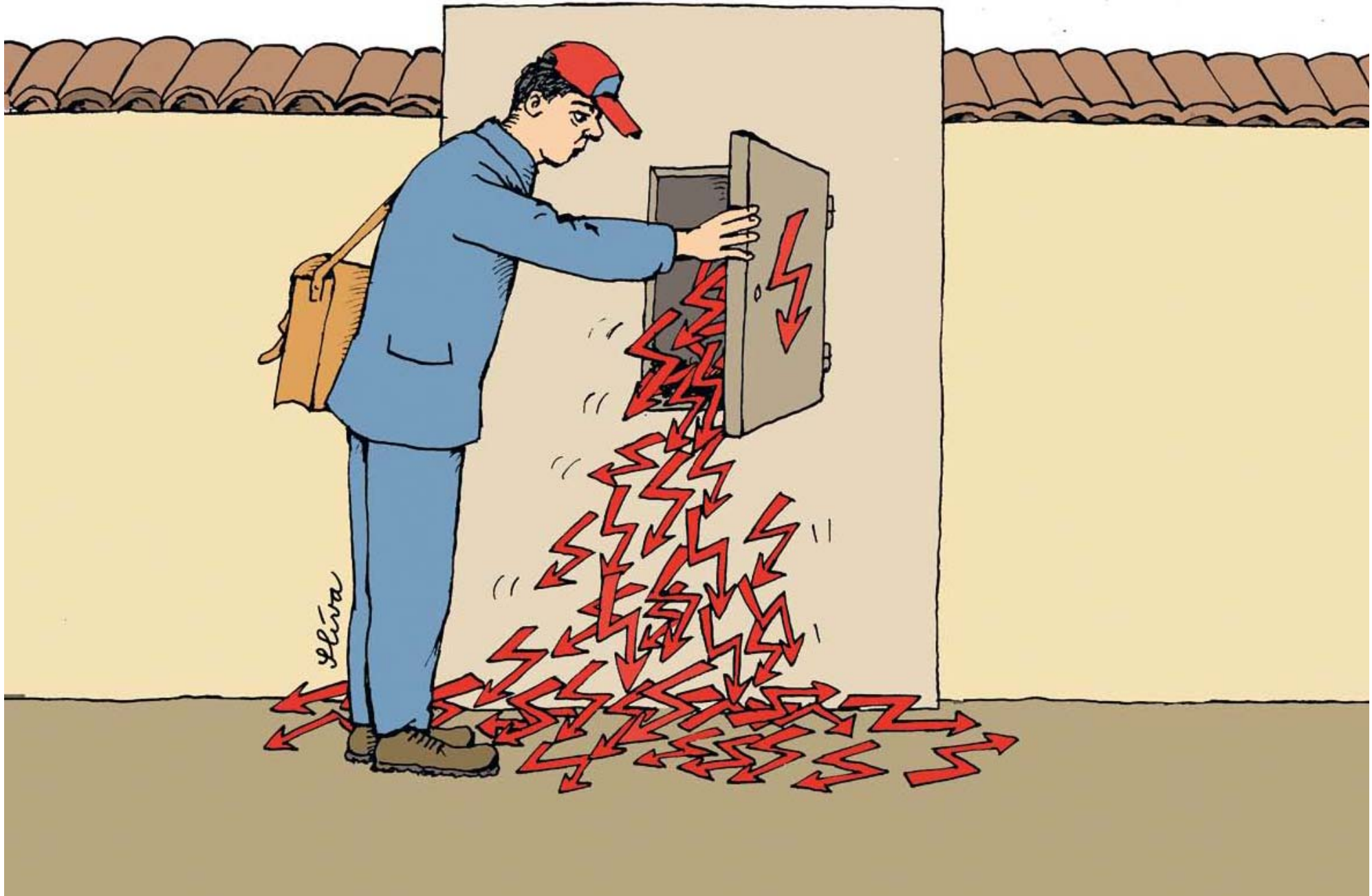
Under Act No. 670/2004 Coll., which amended Act No. 458/2000 Coll., on Business Conditions and Public Administration in the Energy Sectors and on the Amendment to other Acts (the Energy Act), as amended, the Directive of the European Parliament and Council Number 2003/54/ES on common rules for the national 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 company 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 company Pražská energetika, a.s. for securing and operating the distribution system on the licensed territory of the Capital City of Prague, Roztoky 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 Roztoky 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, Roztoky u Prahy and Žalov.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PRE Group, Company Mission and Vision

The company is a member of the **PRE Group**. This Group with its approx. 720,000 customers is the third largest electricity supplier in the Czech Republic. Currently it employs about 1,400 employees; it supplies about 6.2 TWh of electricity to its customers a year; in 2007 the company achieved total consolidated profit of MCZK 1,724.

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.

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 (meters) at customers premises 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.** – 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.elektromer.cz, e-mail: info@cepas.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

**** on 1 March 2008 the company was put into liquidation***
***** from 5 February 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 Trends

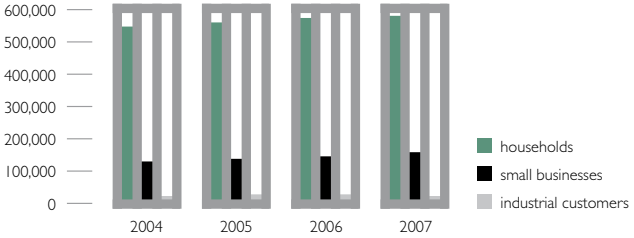
MAIN FINANCIAL INDICATORS (MCZK)

	2007	2006
Total assets	**24,864**	**24,494**
Distribution equipment	**20,880**	20,643
Other fixed assets	**2,322**	2,315
Group cash pooling receivables	**339**	317
Trade receivables	**1,274**	1,157
Other assets	**49**	62
Total liabilities	**24,864**	**24,494**
Equity	**19,582**	**18,456**
Deferred tax liability	**2,995**	3,806
Trade payables	**156**	160
Deferred revenues	**1,675**	1,599
Provisions	**176**	169
Other liabilities	**280**	304
Gross profits from distribution services sale	**4,621**	4,187
Routine trade activities profit before tax	**1,293**	1,025
Routine trade activities profit after tax	**1,724**	776
Extraordinary profit/loss	**0**	(28)
Profit after tax	**1,724**	**748**

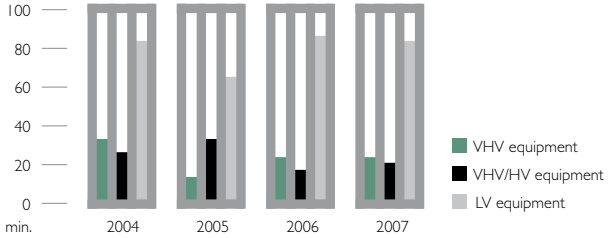
OTHER INDICATORS

			2007	2006
Total distribution (balance)		GWh	**6,172**	6,085
Total number of consumption points:		number	**726,366**	713,474
of which:	industrials/VO	number	**1,854**	1,916
	small businesses/MOP	number	**136,320**	132,323
	households/MOO	number	**588,192**	579,235
Total length of electricity networks		km	**11,544**	11,229
of which:	VHV	km	**196**	196
	HV	km	**3,670**	3,476
	LV	km	**7,678**	7,557
Number of employees – average full time equivalent		persons	**555**	583

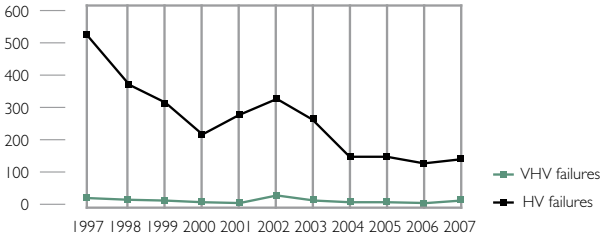
Number of consumption points



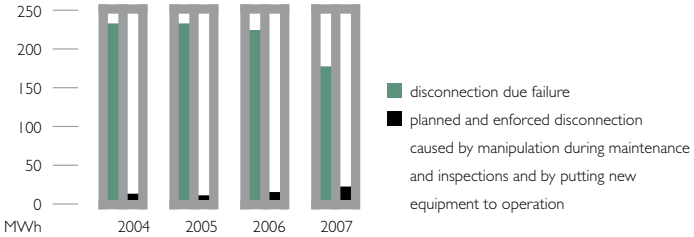
Average time of electricity supply disconnection on VHV, HV and LV equipment



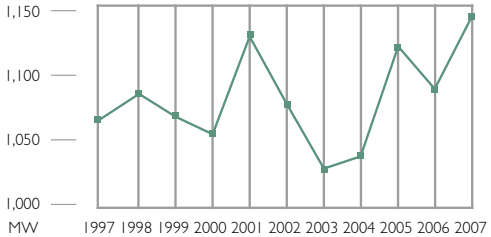
Number of VHV and HV failures



Electricity not supplied due to disconnection

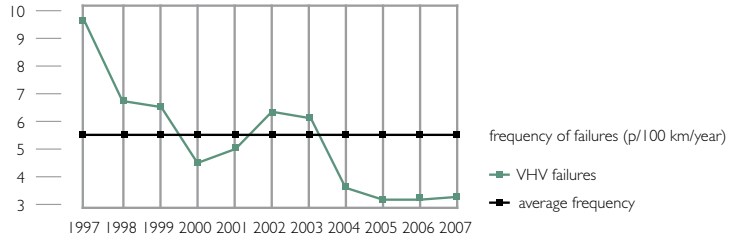


Highest achieved annual load profile



Note: The decrease of load profile in 2002–2003 was caused by the flood and the long-term disconnection of the distribution equipment from 8.8.2002

Frequency of 22kV cable failures



Note: Increase of failures in 2002–2003 was caused by the flood and the long-term disconnection of the distribution equipment from 8.8.2002

Foreword of the Chairman of the Board of Directors

Dear readers,

The company PREdistribuce, a.s. which was formed as a 100% subsidiary distribution company of the sole shareholder Pražská energetika, a.s. completed 2007 as the second year of its existence and performing its main activity which is the distribution of electricity on the territory of the Capital City of Prague and the town of Roztoky u Prahy. PREdistribuce, a.s. has been the holder of a licence on this territory since 1.1.2006 which was issued and is in force until 16.1.2027. The distribution of electricity is subject to price and qualitative regulation performed by the Energy Regulatory Office of the Czech Republic - ERÚ.

The main purpose of the company is to ensure the reliable distribution of electricity from sources – delivery points from the transmission system – to the consumption or delivery points of individual customers through the maintained distribution system. This system consists of a system of 110 kV, 22 kV and 0.4 kV outdoor and cable lines, distribution stations with 110/22 kV transformation and 22/0.4 kV network transformer stations.
Throughout last year 555 company employees cared for all the distribution equipment so that apart from the service and failure management, planned repairs and maintenance of the network could be carried out in accordance with a series of preventive maintenance measures. Likewise, the employees took care of further key activities such as the development, renovation and administration of network assets, connecting new customers and last, but not least, the quality metering of transmitted electricity and transfer of data for billing the distribution services and supplies which meant acquiring the communication skills of the Operátor trhu (Market Operator) systems.

The introduction of an annual reading of the distributor's electricity metering in 0.4 kV networks brought a number of changes. During 2007 it was decided to consolidate all activities connected with energy metering at 0.4 kV level into one company - PREměření, a.s. The structure of this company was modified in accordance with the requirements for ensuring optimum function of an organisation that combines many specialized activities, particularly the purchase and calibration of meters, installation and reading service. The introduction of an annual reading brought a number of subsequent changes in some subsidiaries including PREdistribuce, a.s. This also related to the transfer of all activities linked to metering at 0.4 kV voltage level (including 31 employees who performed these activities) from the company to another subsidiary - PREměření, a.s. PREdistribuce, a.s. only retained its supervisory activity over the activities of PREměření, a.s. in its own accounting metering management.

I would also like to provide some basic information about the output and quantity of transmitted electricity. The total network load reached a maximum of 1,141 MW on 19 December 2007; a total of 6,172 GWh was distributed thereby ensuring the coverage of requirements of both existing and new customers at all voltage levels. The quality standards of the electricity supplies and related services were met for all customers connected to the company's distribution networks during the year in accordance with the ERÚ Decree No. 540/2005 Coll. Customers were being connected throughout the period in accordance with current legislation; and as of 1 March 2006 in accordance with the ERÚ Decree No. 51/2006 Coll. which came into force as of this date.

The company's distribution network was again affected by a natural disaster in early 2007, five years after the destructive floods that passed through Prague in 2002. Hurricane Kyrill struck all of Western and Central Europe on 18 January. Although some several-hour power failures were recorded during this contingency in the company's network caused by the force of the hurricane and affecting the distribution equipment, particularly the outdoor 22 kV lines and remaining 1 kV lines in Eastern part of Prague, the management of the company, as the sole distributor in the Czech Republic, did not have to announce a state of emergency and thereby admit a long-term instability in power supplies! In cooperation with external companies, the company employees managed to relatively quickly restore supply regardless of the weakening windstorm. There were no further extensive system technical emergencies which would significantly affect electricity supply to Prague residents (for several hours) in 2007.

The failure rate and operating results of distribution in Prague monitored for a period of 10 years register a continuous downward trend both in the number of cases of serious failure and supply quality and in reduced rate of unsupplied electricity quantity. The achieved values of the average period of interruption at the 110 kV and 22 kV level are just above the 20 min. limit and are comparable with large cities in the EU. This positive trend was achieved by long-term implemented, highly rational planning, renovation and development of the distribution networks from one centre and finally by the implementation of the latest technology and elements applied in the EU (they show the increased reliability of operation and their aesthetic appearance is acceptable even for the historic environment in Prague).
The company's management is working on further steps towards the gradual increase in network reliability in spheres of network management and operation also this year.

A total of MCZK 1,428 was invested in the distribution network, i.e. network renovation and development including controlling, telemechanization and metering systems; a further amount of MCZK 229.6 was invested in repairs from operating means. However there is increased interest of investors in connecting new buildings and consumption points in hitherto un-built parts of Prague. The quantity of newly connected take-off points is the highest in all of the Czech Republic. Thanks to the specialised knowledge and long-term experience of company employees the distribution network in Prague was maintained in constant operation or with minimum interruption time, although the construction activity of contractors or owners of equipment laid under the street level in built-up parts was constantly high and the duty to report collision with company equipment was sometimes inadequate. This fact had a negative impact (and still has an impact) on the growing number of foreign interference in the electrical equipment of PREdistribuce, a.s. and rise of forced supply failure and decrease in the comfort of Prague residents live. However Prague residents then regard our company as the only guilty party. We thereby assure all network customers that we are taking steps to make sure that preventive information in the GIS digital data system on the laying of distribution equipment is easily accessible to other investors and in case of new buildings, a systematic inspection of network surveillance employees is carried out regarding observance of protection zones. We also try as quickly as possible to receive reports about a failure at the customer call centre, make a correct assessment and restore supply using all technical and human means as quickly as possible and thereby also ensure a repeated customer satisfaction.

In conclusion, I can declare with a clear conscience that in 2007 the company's employees duly fulfilled all the key tasks of distributor in the Capital City and that PREdistribuce, a.s. provided worthy support in the second year of its existence for its parent company, contributed to the good reputation of the PRE Group and in its work to secure the satisfaction of the residents of Prague. In view of the dramatic development of the Capital City and thereby the increase in the load, the company is becoming an inconspicuous, invisible but irreplaceable part of the life of the Capital City. We will continue in our efforts to fulfil this task and be a good distributor for the Capital City!

Milan Hampl
Chairman of the Board of Directors and Chief Executive Officer

Company Strategy

The company 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 fulfillment 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 fulfillment 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.

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.

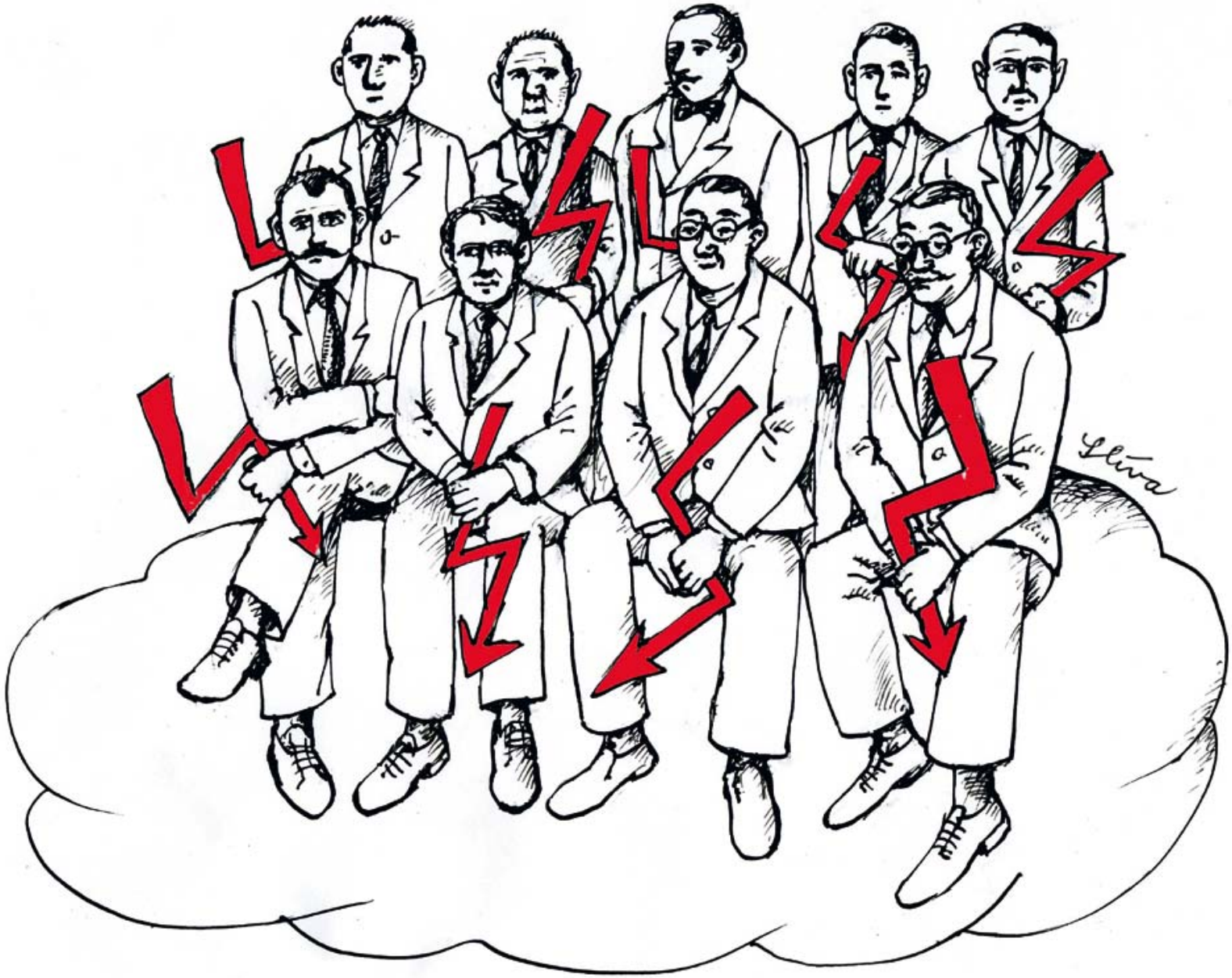
Important Events

2006

1.1.2006 – Milan Hampl was elected a member of the Board of Directors,
27.1.2006 – amendment to the Articles of Association §20 and 24 approved,
31.1.2006 – the membership ended in the Supervisory Board of – Vladimír Šalek, Jan Doležálek and Aleš Staněk,
1.2.2006 – Petr Dražil was elected a member of the Board of Directors,
1.2.2006 – Petr Hulinský, Hermann Lüschen, Drahomír Ruta and Pavel Elis were elected members of the Supervisory Board,
1.3.2006 – Karel Urban and Vladimír Přáda were elected members of the Supervisory Board,
4.4.2006 – amendment to the Articles of Association §11, 14, 21, 25 and 26 was approved,
20.4.2006 – Petr Hulinský was elected Chairman of the Supervisory Board and Hermann Lüschen Vice Chairman,
19.6.2006 – reduction of the registered capital was approved,
6.10.2006 – Christian Franz-Josef Schorm and Martin Langmajer were elected members of the Board of Directors,
– amendment to of the Articles of Association §5, 20 and 22 was approved,
2. 11. 2006 – Milan Hampl was elected Chairman of the Board of Directors; Petr Dražil Vice Chairman.

2007

19.4. 2007 – first ordinary General Meeting assessing economic results of the previous business year was convened.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Company Bodies

BOARD OF DIRECTORS AS AT 31.12.2007

Milan Hampl (43 years)
Chairman
Address: PREdistribuce, a.s., Prague 5, Svornosti 3199/19a, 150 00 Prague 5

Petr Dražil (41 years)
Vice Chairman
Address: PREdistribuce, a.s., Prague 5, Svornosti 3199/19a, 150 00 Prague 5

Christian Franz-Josef Schorn (43 years)
Member
Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Martin Langmajer (43 years)
Member
Address: Municipal Authority of the Capital City of Prague, Mariánské náměstí 2, 110 00 Prague 1

SUPERVISORY BOARD AS AT 31.12.2007

Petr Hulinský (40 years)
Chairman
Address: Municipal Authority of the Capital City of Prague, Mariánské náměstí 2, 110 00 Prague 1

Hermann Lüschen (54 years)
Vice Chairman
Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Drahomír Ruta (61 years)
Member
Address: Pražská energetika, a.s., Na Hroudě 1492/4, 100 05 Prague 10

Pavel Elis (42 years)
Member
Address: Pražská energetika, a.s., Na Hroudě 1492/4, 100 05 Prague 10

Karel Urban (49 years)
Member
Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

Vladimír Přáda (39 years)
Member
Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

Important Decisions of the Parent Company Pražská energetika, a.s. affecting the Incorporation and Structure of the Company 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 (1) 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. the company 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 the company PREdistribuce, a.s. from 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.

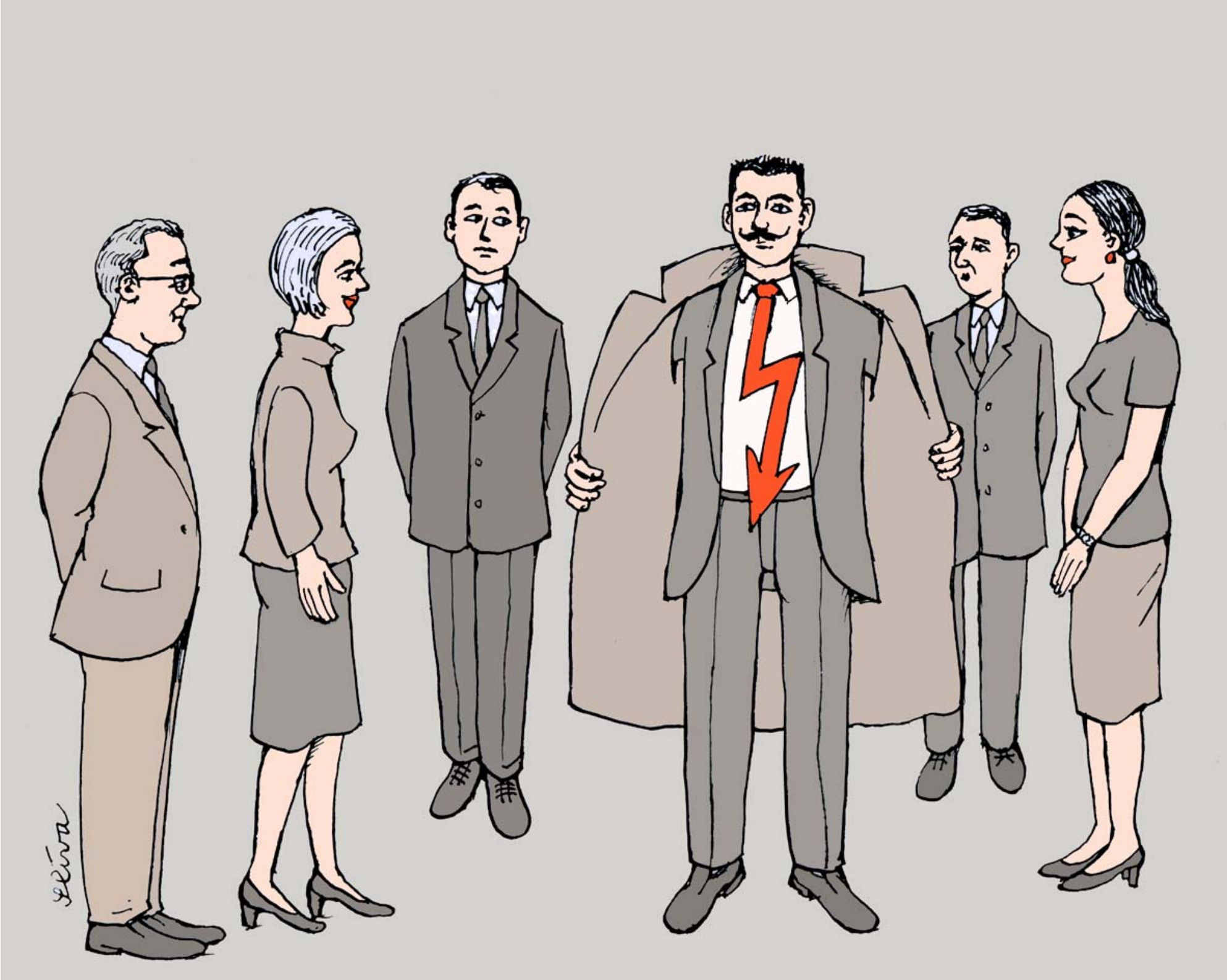
D. On 1 January 2006 the company PREdistribuce, a.s. was taken over with the signing of the Handover and Takeover Protocol between the companies Pražská energetika, a.s. and PREdistribuce, a.s.
The sole shareholder approved the subscription of shares by the non-monetary investment contribution the subject 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 the company 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 the company 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 certificated 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.

In the organizational structure the risk management system defines roles and responsibility of the Risk Management Committee, the PRE Group Risk manager, risk managers of individual companies and other players in the system of risk management. The risk management organizational structure is relatively independent of the line management structure. Identification processes, analyses, 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 ensures 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.

The organizational structure defines the scope of activity and responsibility of the Group's Risk Management Committee, risk managers, risk area managers and risk owners according to the specific arrangement at individual companies and is relatively independent of the line management structure. The risk management committees of the individual companies discuss summarized risk management reports and define the most important measures.

Among the main risk management system tasks are identification processes, analyses, measurement, monitoring and individual risk reporting. Total risk exposure detected during monitoring of individual risks creates a foundation for the Group's own risk consolidation process.

The basis of own functionality of the entire system is a regular, uniformly structured integrated reporting on the most important risks. All the monitored risks are reported from the point of view of the level of expected impact and its relative frequency. The financial and market risk spheres regularly monitor other specific indicators, like e.g. VAR, maximum threatening loss and so on. Mandatory limits are defined for selected indicators. Currently, intensive work proceeds on further specification and improvement of risk management methods in these spheres. The changes of exchange rate and an increase of market risk rank among the most important new risks. Both these risks are related to the opening of the Prague Energy Stock Exchange which performs its business deals in EUR. The value of planned cash flows in foreign currency is ensured according to defined risk limits of these positions.

The risk management processes ensure the function of early warning and at the same time evaluate the efficiency of the remedial measures. The system of risk management focuses mostly on the most important monitored risks the identification of which arises from a regularly updated risk catalogue. An update of catalogued risks and their assessment for identifying a list of the most significant monitored risks is also carried out. The risk owners are regularly trained in the new trends and methods in risk management in order to achieve improved risk management system outputs.

Unlike the earlier period, the risk management activities are associated more with the performance of the function of the parent company's internal audit and help to identify the key interest areas. Two key risks were monitored in the company PREdistribuce, a.s. of the total number of 15 classified ones, these being "Distribution Service Invoicing Risk" and "Regulatory Risk". In both cases essential organizational measures were adopted which reduce or remove the identified risks and create conditions for minimizing these risks in future, e.g. the application of the corresponding SW support.

The task for the next period is particularly the further perfection and standardization of outputs, implementation of the more advanced methods of risk exposure measurement such as VAR, Stress testing and so on to a wider scope of the main monitored risks.

Report on General Meetings held during the Year

Four general meetings were held in the course of the year.

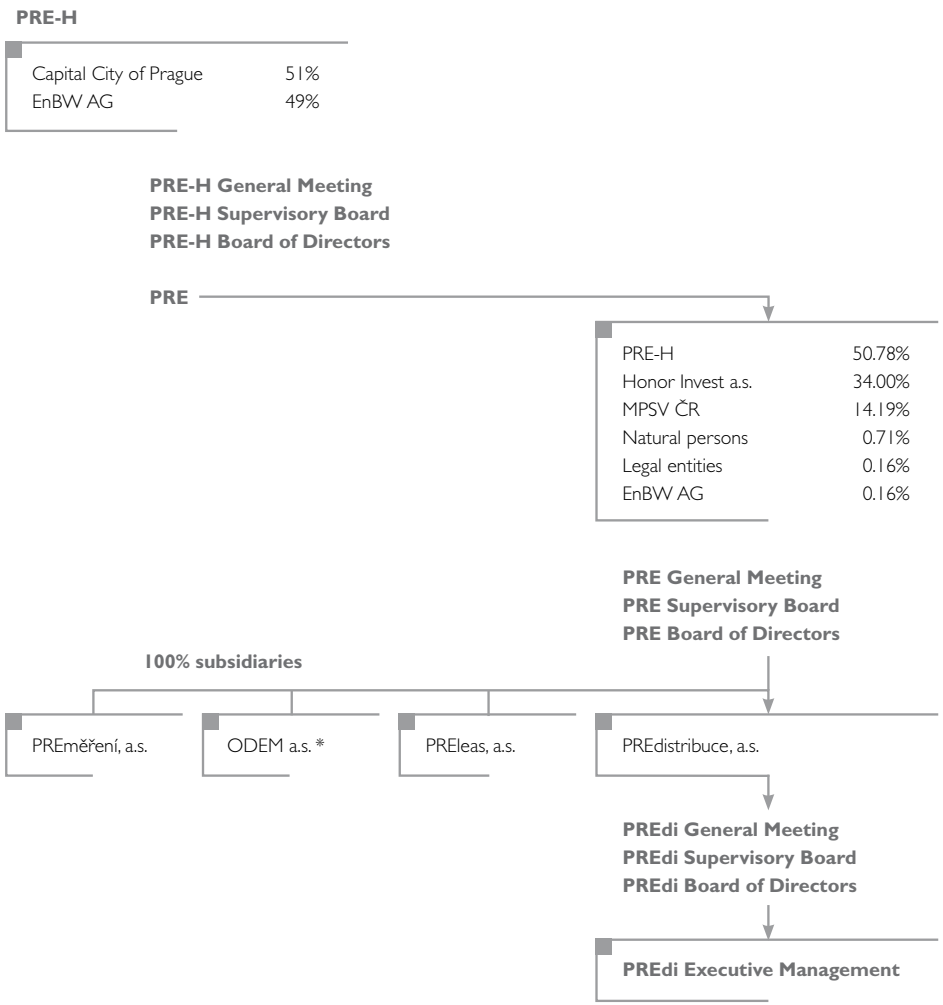
A. General meeting (decision of the parent company as the sole shareholder) held on 20 February
The agenda of the meeting was to approve the amendments to the Articles of Association - § 21 (5) and § 24 (modification of the scope of activity of the Board of Directors and the Supervisory Board).

B. Ordinary General meeting (decision of the parent company as the sole shareholder) held on 19 April
The agenda of the meeting was to approve the report of the Board of Directors on economic results of the company in the year 2006 and condition of its assets, report on the relation between the connected persons, regular financial statements for the year 2006, division of profit, remuneration of Company bodies members and subsidies to funds, the Annual Report for the year 2006.

C. General meeting (decision of the parent company as the sole shareholder) held on 6 November
The agenda of the meeting was the transfer of a part of activities and employees who performed them to PREměření, a.s. (see the article on the Company line of business).

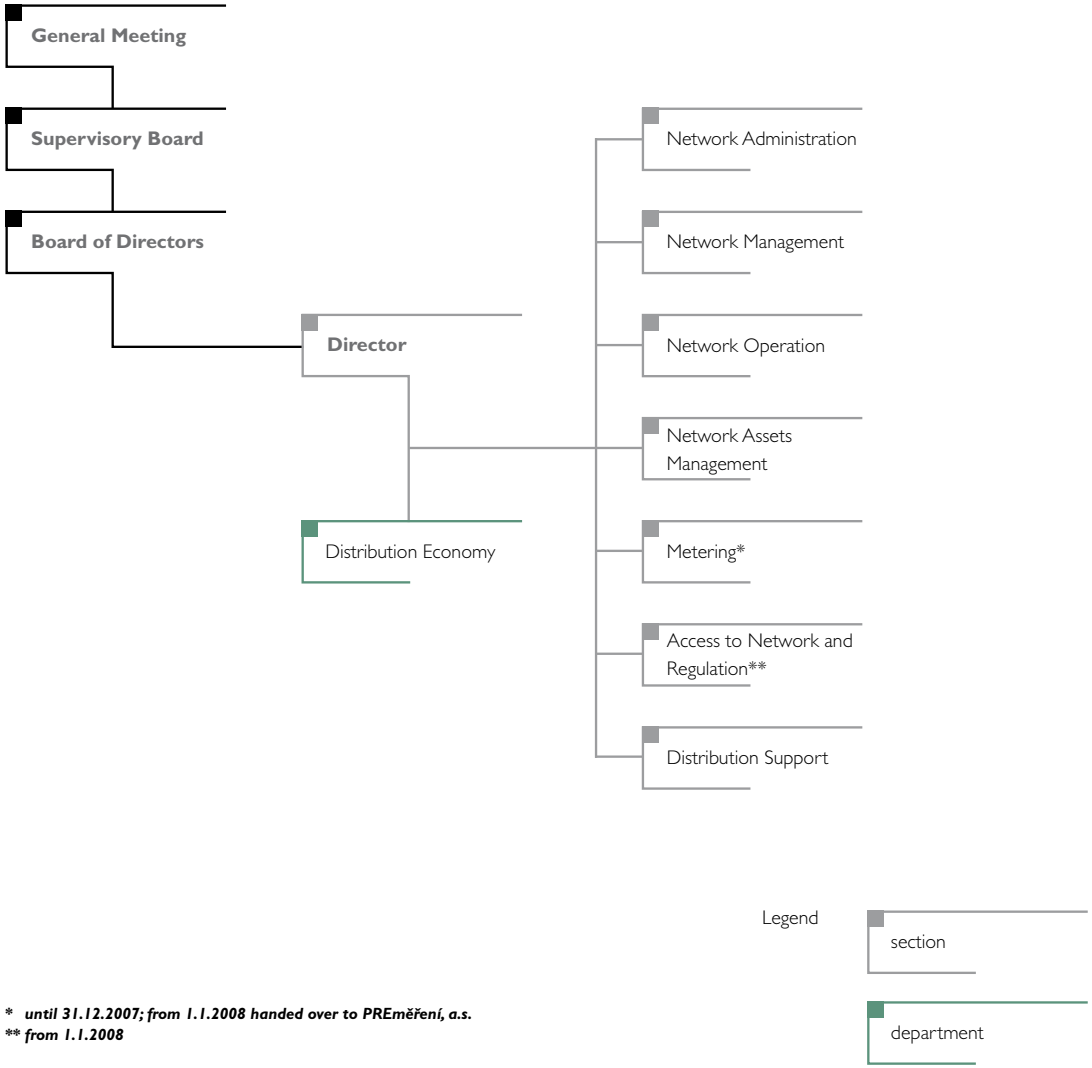
D. General meeting (decision of the parent company as the sole shareholder) held on 27 November
The agenda of the meeting was the modification to § 3 of the Articles of Association – elimination of two subjects of business (see the article on the Company line of business).

PRE Group and Company Management Chart



**** on 1 March 2008 the company was put into liquidation***

Company Organization Chart



** until 31.12.2007; from 1.1.2008 handed over to PREměření, a.s.*
*** from 1.1.2008*

The line of business defined in the Articles of Association is as follows:

– 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 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 non-energy 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 the system),
- clearing of submissions, complaints, objections and other requirements related to metering equipment and its readings,
- activities related to mounting, dismounting and checking of metering equipment,
- activities related to the purchase, delivery and registry of metering devices,
- providing opinion on projects and applications, and consultancy 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 equipment and consumption electric equipment,
- central registry of sealing pliers,
- organisation, providing for installation, changes of metering devices, their readings and data processing for evaluation of sample daily profiles of electricity supply (TDD).

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 the company PREdistribuce, a.s. with the signing of the Handover and Takeover Procotol 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 ERO and simultaneously based on an application made, the ERO cancelled the electricity distribution licence of Pražská energetika, a.s. from 31 December 2005.

RECAPITULATION OF THE IMPORTANT EVENTS IN 2007; OVERVIEW OF THE RELEVANT LEGAL REGULATIONS

In 2007 all electricity customers were able, as well as in 2006, to select their own supplier according to their judgement (Act No. 670/2004 Coll.).
This year was also the third year of II. Regulation period (2005–2009).

In order to implement the Act on support of electricity generation from renewable energy resources and on changes of certain other Acts, No. 180/2005 Coll., the Ministry of the Environment issued the Decree **No. 5/2007 Coll.**, of 21 December 2006, with the effective date of 5 January 2007, changing the Decree No. 482/2005 Coll., on determination of types, manners of use and parameters of biomass for the purposes of the support of electricity generation from biomass, defining first of all types of biomass being the object of the support concerned.

The issue of the Decree **No. 150/2007 Coll.**, of 19 June 2007, on the manner of regulation of prices in energy sectors and procedures for price regulation, was important matter for regulated entity in energy sectors. The Decree was issued by the Energy Regulatory Office and it came into effect on 1 July 2007. The Decree concerned cancelled the Decree No. 438/2001 Coll., stipulating the content of economic data and procedures for price regulation in energy sector, last updated in 2004. Regulation procedure in the energy sector according to this new Decree was reflected in the reduction of permitted revenues for distribution by a part of income from connection charges.

Decree **No. 195/2007 Coll.**, of 17 July 2007, effective as of 1 September 2007, issued by the Ministry of Industry and Trade in order to implement § 13, (2, 3) and 4 of Act No. 406/2000 Coll., in the effective wording, determined the scope of statements in respect to the territorial development policy and land-use planning documentation issued in the case of protection of interests specified by the Act concerned.

On 24 October 2007, the Energy Regulatory Office issued the Decree **No. 280/2007 Coll.**, on Energy Regulatory Fund, effective as of 1 December 2007 and cancelling the Decree No. 377/2001 Coll. in the effective wording. The Decree concerned regulates the manner of selecting a determined licence holder satisfying holder's duties over and above the frame of the licence, the manner of calculation of its documented loss and the rules for creation and use of the fund.

On 28 December 2007, the Decree **No. 363/2007 Coll.**, of 18 December 2007, issued by the Energy Regulatory Office, came into effect, changing the Decree **No. 425/2005 Coll.**, on details concerning granting licences for business activities in energy sectors.

On 6 December 2007, the Ministry of Industry and Trade issued the Act **No. 393/2007 Coll.**, effective as of 1 January 2008, changing the Act. **No. 406/2000 Coll.**, On Energy Management, in the wording of Act No. 359/2003 Coll., Act No. 694/2004 Coll., Act No. 180/2005 Coll., Act No. 177/2006 Coll., Act No. 186/2006 Coll., Act No. 214/2006 Coll., and Act No. 574/2006 Coll. The new Act contains authorization for the Prime Minister to promulgate the full wording of the Act No. 406/2000 Coll. in the Collection of Laws, however, the date by which it is to happen is not stated there.

Decree of the Energy Regulatory Office, No. 364/2007 Coll. is effective as of 1 January 2008, changing the Decree No. 475/2005 Coll., implementing certain provisions of the Act on support of renewable resources use.

Except for certain provisions, Decree of the Energy Regulatory Office, No. 365/2007 Coll., issued on 18 December 2007, is effective as of 1 January 2008, changing the Decree No. 541/2005 Coll., on Electricity market rules, principles of creation of prices for electricity market operator activities and implementation of certain other provisions of the Energy Act, in the wording of the Decree No. 552/2006 Coll.

Human Resources

The parent company performs the personnel administration and wage calculations (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 30 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.

Two amendments to the Collective Agreement for the period of 2007–2009 were concluded.

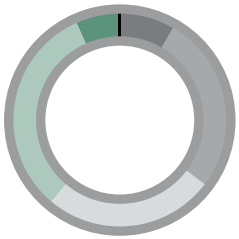
Comprehensive works health care, including dental care, is also ensured for employees as was the case in previous years. A health prevention care programme is taking place in the Company meeting the requirements of the National Health Promotion Programme.

The following four projects were implemented for company employees beyond this scope:
– oncology programme aimed at prevention and breast cancer treatment,
– osteoporosis detection programme,
– 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.

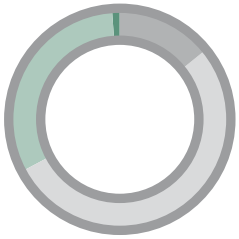
A total of 539 employees, i.e. 97.1% of the total number of employees took advantage of the benefits of employee canteen.

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 University of Technology 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.



PREdi Age Structure

to 20 years	0.18%
20–30 years	8.28%
30–40 years	26.98%
40–50 years	25.90%
50–60 years	32.19%
over 60 years	6.47%



PREdi Qualification Structure

University	14.39%
Vocational with GCSEs	53.06%
Secondary and Apprecenticeship	31.47%
Elementary	1.08%

Investments

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 the key factor to the reliable operation of the distribution system because their failure would have a greater impact on the network customers.

Overview of investment funds allocation in 2006–2007 (MCZK)

	Total Investments	Distribution equipment			Electric meters
		VHV	HV	LV	
2006	1,282.2	398.2	452.4	271.7	159.9
2007	**1,428.0**	**412.2**	**665.1**	**221.8**	**128.8**

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 ERO 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 ERO No. 540/2005 Coll.

Another important area to which a significant volume of investments has been allocated is information technology the function of which is one of the essential conditions for the reliable operation of the distribution network, for ensuring all the associated services to customers and for which the distribution licence holder is responsible. Informatics services within the PRE Group (informatics, telecommunications) are secured centrally for the parent company and the rest of the PRE Group members.

All investment expenses for information technology are therefore allocated to the parent company budget.

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 ERO 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 transition 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 2007or which are being prepared for implementation in 2008 and next years.

STRATEGIC INVESTMENTS

Reconstruction of 110/22 kV transformer station Běchovice, which is the oldest 110/22 kV substation station operating in the territory of Prague continued during year 2007. Operation in one part of the substation was commenced in 2006. In the year 2007 the reconstruction of the 22 kW substation and of the control system equipment continued. At the end of the year 2007 the entire substation was put into service and incorporated into the 110 kV system between distribution systems operators – companies PREdistribuce, a.s. and ČEZ Distribuce, a.s.

Due to the increasing power input in the northern part of the city mainly related to the extension of Metro line C there was commenced the reconstruction and additional equipment for another section in the 110/22 kV substation Letňany during the year of 2007. In 2008 the 110/22 kV transformer station Letňany will be enhanced with the 3rd section and the 1st and 2nd sections will be modified, including deployment of automated control system for 110 kV and 22 kV substation. Transformer station 110/22 kV Lhotka, which has been in service since 1973, will be completely reconstructed in years 2011 to 2012.

Anticipated consumption increase in the Pankrác location will require enhancement of the available transformation output in this area. Construction of the 110/22 kV transformer station Pankrác next to the highway at Pankrác Plain continued in year 2007. This distribution equipment will cater for the feeding necessitated by increasing requirements of investors in the Prague 4 territory – from Pankrác Plain to the new complex of buildings below the Budějovické Square. During the whole year 2007 there was a shell construction carried out for the transformer station as well as ground works for cable tunnel intended for taking out the 22 kV output to the Pankrác Plain. Technological part of constructing the 110/22 kV transformer station Pankrác fed by 110 kV cable line from the 110 kV substation Lhotka will be finished in the year of 2008. Thus in year 2010 the reliability criterion (n-1) will be satisfied by means of enhancing the link of the transformer station Pankrác to the 110 kV distribution system through additional cable line to the 110 kV substation Prague-Karlov.

In the year of 2007 there also continued the ground works for construction of cable tunnels under the Vltava riverbed in parts of Prague 2 district for the 110/22 kV transformer station Karlov, and in Prague 5 district, next to the transformer station Smíchov. Subsequent interconnection of transformer stations by the 110 kV cable in both the cable ducts and the dug out rout will ensure that the so-called "bottleneck" in the 110 kV distribution in Prague is removed and thus the operational liability of the city centre will be considerably increased. Cable ducts were completed from the construction point of view already at the end of the year and the mounting of cable trays for 110 kV, 22 kV, 1 kV cables and optical cables was started. Construction of the 110 kV transformer station Smíchov, especially its technological equipment, will be finalised in 2008. Once the 110 kV cable line and full transformer station Smíchov are put into operation at the end year 2008 the reliability criterion (n-1) will be satisfied.

The 110 kV substation Prague – Střed represents another large strategic construction, which will undergo complete renovation in years 2008 to 2009 and along with the substation there will be renovated also the first 110 kV oil-filled cables of K 101 and K 102 types that date back to 1970´s.

Distribution system at the 22 kV voltage level will incorporate (in relation to completion of transformer stations Pankrác and Smíchov in 2008) new 22 kV substations (two sections in substation Pankrác and additional one section in substation Smíchov).

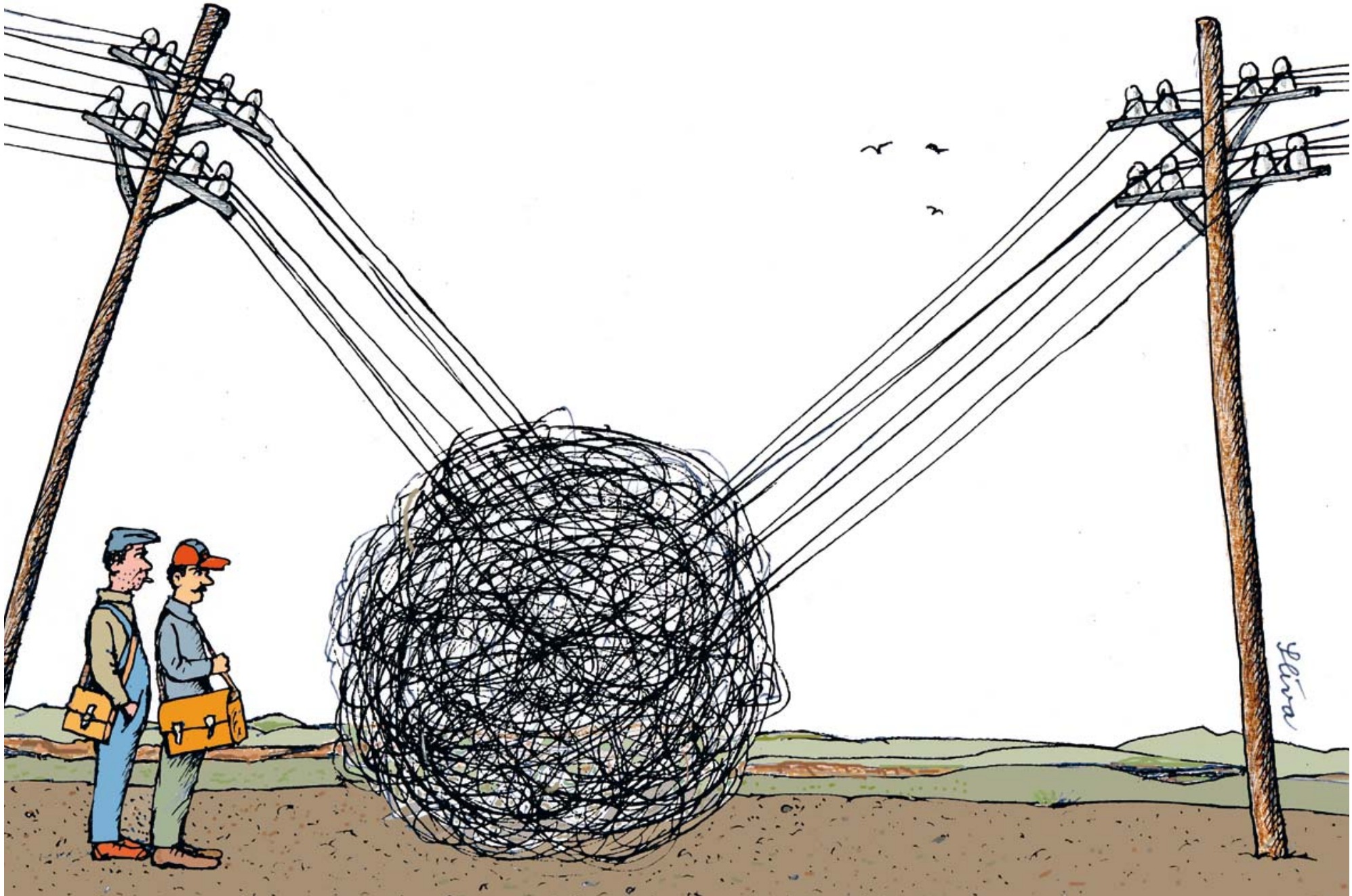
Concurrently with works for construction of new feeding transformer stations, reconstructions and overhauls of existing feeding transformer stations there were also carried out reconstruction works in switching stations, distribution stations and the HV cable network and they will continue in 2008. Reconstruction of distribution stations will prevail, as 80% of switching stations are already rebuilt. Modernization of distribution stations in the sphere of industrial customers requires challenging cooperation with these customers. The LV network in the areas of extensive change of voltage from 3 times 120 V to 3 times 400/230 V, which was carried out between years 1973 and 1993, is approximately 35 years old now and nowadays (considering the originally used cross section of 120 mm2) it is unsuitable from the transmission capability perspective. Therefore it is necessary to start en-masse reconstruction of this network in the nearest future, and that is namely in the Prague 1 territory and gradually in the way the original change of voltage was carried out.

Automation of the VHV/HV transformer stations and 22 kV switching stations is fully completed. In the future period the smoothness of supply will get special attention, in particular the possibility of utilising automatic transfers executed by means of modern control, or telemetric (telemechanization) systems in stations within the distribution system installed at the important industrial customers.

Overview of the development of selected network indicators

Indicator	unit	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Achieved maximum	MW	**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	**196**	196	196	196	194	194	202	181	174	174	174
Number of VHV/HV stations	Unit	**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	**3,670**	3,476	3,556	3,581	3,632	3,546	3,535	3,570	3,575	3,530	3,469
Number of HV/LV stations Total	unit	**4,750**	4,693	4,656	4,635	4,578	4,626	4,640	4,522	4,500	4,562	4,398
Number of distribution stations HV/LV	unit	**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	**7,678**	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.


Elira

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

PRE Group companies rank among modern organizations which prioritize their responsibility for the environment and endeavour to constantly improve the conditions for its protection.

Considerable funds are invested in the environmental protection policy to modernize the distribution network equipment. Older oil transformer stations are continuously being replaced with hermetically sealed ones or those without an oil tank, so-called dry transformer stations. 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. In accordance with the implementing decree, oil-filled power equipment is sampled to prove the absence of PCB. So far the presence of PCB has not been detected in any of the equipment tested. Old environmental burdens were dealt with and removed already in 2003.

A working system of sorting and collection of dangerous and other waste was created at the Group's workplaces. All employees are trained in a whole scope of issues concerning environmental protection and nominated employees are also trained how to handle dangerous chemical substances and preparations.

The ISO 14 001 – EMS system has been introduced at PRE and PREdistribuce, a.s. A certification audit took place in both companies in February 2006.

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 delivering 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. 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. During this year 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 Safety and Protection of Health at Work Policy above all Favours

– safety and protection of health at work as an integral part of the Company's activity management,
– a 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.

The year 2007 was the third year of the second regulatory period, the second year of complete liberalization of the energy market and of separate functioning of the distribution system operator, the company PREdistribuce, a.s. The Company line of business was determined by regulatory rules set in the energy legislation which correspond with common standards of other European countries.

Creation of profit/loss

Last year the Company created economic result after tax amounting to MCZK 1,724; thus, the Company net profit increased year-on-year by MCZK 976. This growth was significantly influenced by specific impacts, namely by tax reform when the economic profit/loss after tax was influenced by the deferred tax liability in the amount of MCZK 811. The operating profit/loss amounting to MCZK 1,285 increased year-on-year by MCZK 261. The Company managed to increase the total revenues to the value of MCZK 6,514, while the total expenses amounting to MCZK 5,220 increased by MCZK 116 only. The sales margin from the distribution services achieved the value of MCZK 4,621, the value added increased year-on-year to MCZK 2,702. The profit from financial operations involving disposable financial resources amounted to MCZK 8.

Expenses and Revenues

The most significant expense items in the assessed year were expenses concerning transmission and distribution services, amounting to MCZK 1,664, depreciation MCZK 1,169, services and repairs MCZK 1,121, purchase of energies MCZK 639, personnel expenses MCZK 396 and rent MCZK 115. The total revenues were mostly formed by revenues from the sale of distribution services amounting to MCZK 6,286, operating revenues MCZK 170, and other revenues MCZK 58.

ASSETS STRUCTURE

Assets

The total value of the Company assets amounted to MCZK 24,864. A significant part of the value was formed by long-term assets amounting to MCZK 23,202 and further by current and other assets MCZK 1,639. Trade receivables amounting to MCZK 1,612 were mainly formed by receivables within the Group amounting to MCZK 1,575. Accruals amounted to MCZK 23.

Liabilities

In addition to the profit/loss, within the frame of the equity amounting to MCZK 19,582, only the reserve fund was augmented by the amount of MCZK 150. Foreign resources amounting to MCZK 3,606 comprised in particular the deferred tax liability amounting to MCZK 2,995, other payables amounting to MCZK 435 and reserves amounting to MCZK 176. Accruals amounting to MCZK 1,675 represented the value of accrued revenues thanks to applicants seeking connection.

Company financing

Within the entire year, the company PREdistribuce, a.s. was included in the system of joint financial resources management within the frame of the entire Group PRE. The Cash flow statement resumes values of resources and financial expenses allocation in 2007. Main resources of the Company generated financial resources were revenues from distribution services and income ensuing from contributions of applicants seeking connection, amounting to MCZK 209. These resources were used in particular to cover expenses related to investment activity and amounting to MCZK 1,428, dividends amounting to MCZK 598 and income tax payment in the amount of MCZK 403.

Last year the Company created economic result after tax amounting to MCZK 1,724; thus, the Company net profit increased year-on-year by MCZK 976.

	Unit	2007	2006	index 2007/2006	Calculation formula
Level of liquidity					
Total revenues	**MCZK**	**6,513.6**	**6,128.5**	**1.06**	**Total revenues**
Sales margin from the sales of electricity	MCZK	**4,621.1**	4,186.8	1.10	Sales margin from distribution
Profit after tax	MCZK	**1,724.3**	747.9	2.31	Profit after tax
Profit after tax without VOD*	MCZK	**913.2**	725.5	1.26	Profit after tax – deferred tax
Level of profit of the revenues					
Sales margin from the distribution sale per CZK 1 of revenue	%	**73.5**	70.9	1.04	Sales margin from the distribution sale: sale of electricity x 100
Added value per CZK 1 of revenue	%	**41.5**	41.1	1.01	Added value: total revenues x 100
Profit before tax per CZK 1 of revenue	%	**19.9**	17.2	1.15	Profit/loss for regular activity before tax: revenues x 100
Profit without VOD* after tax per CZK 1 of revenue	%	**14.0**	11.8	1.18	Profit after tax: total revenues x 100
Level of liquidity					
Regular liquidity	%	**376.4**	313.6	1.20	Short-term assets: short-term payables x 100
Turnover of short-term receivables	Number of turnovers	**4.0**	4.1	0.97	Total revenues: status of short-term receivables at the end of year
Turnover of short-term payables	Number of turnovers	**15.0**	12.8	1.17	Total revenues: status of short-term payables at the end of year
Equity interest in total invested capital	%	**78.76**	75.35	1.05	Equity: total invested capital x 100
Equity interest to foreign capital	%	**370.8**	305.6	1.21	Equity: total liabilities x 100
Level of return					
Sales margin from distribution per CZK 1 of long-term	%	**18.9**	17.4	1.09	Sales margin from distribution sale: (Equity + long-term payables) x 100
Return on sale – ROS without VOD*	%	**14.0**	11.8	1.18	Profit after tax: total revenues x 100
Return on total assets – ROA without VOD*	%	**3.7**	3.0	1.24	Profit after tax: total assets x 100
Return on equity – ROE without VOD*	%	**4.9**	3.9	1.24	Profit after tax: equity x 100
Return on total invested capital	%	**5.2**	4.0	1.29	(Profit before tax + expense interest): total invested capital x 100
Turnover of total invested capital	Number of turnovers	**0.3**	0.3	1.05	Total revenues: total invested capital
Added value labour productivity	TCZK/employee	**4,869.2**	4,199.1	1.16	Added value: average adjusted number of employees
Total revenues labour productivity	TCZK employee	**11,736.2**	10,219.9	1.15	Total revenues: average adjusted number of employees
Average adjusted number of employees	Persons	**555**	583	0.95	Number of persons

*Note.: without the impact of deferred tax

ESTIMATED ECONOMIC RESULTS IN THE YEARS 2008–2011

The continuity is expected of the legal environment and updated preconditions of trends of the future development of the economy of the Czech Republic to such an extent to which it is known to the Company. The fundamental precondition for achieving the planned indicators is that significant deviations will not arise in the development of macroeconomic indicators of GDP, inflation of living costs and prices of industrial producers, interest rate, foreign exchange rates and income tax rates.

The long-term company plan assumes a maintenance of high efficiency throughout the whole planned period of 2008–2011 also for the third regulatory period from the year 2010 under uncertain regulatory rules.

The company will systematically monitor the fulfilment of planned assumptions and will flexibly react on changing conditions of the external environment by correcting its strategy which will be reflected in the future Company plans in a continuous update of this document.

The estimated profit for the period of 2008–2011 (MCZK)

2008	2009	2010	2011
949	955	837	900

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 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, 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 abovementioned 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
"Lease Contract" No. PS20000007/003 – in force as of 1.1.2007 for indefinite period
"Lease Contract" No. PS20000007/004 – in force as of 1.1.2007 for indefinite period
"Lease Contract" No. P200006/04 – in force as of 1.1.2006 for indefinite period
Amendment No.1 – in force as from 1.12.2006 until 31.3.2008
"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
"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
"Lease Contract " No. P200006/07 – in force as of 1.1.2006 for indefinite period

Amendment No. 1 – in force as of 29.9.2006
Amendment No. 2 – in force as of 1.4.2007
"Lease Contract" No. P200006/08 – 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
"Contract on the Lease of Non-residential Premises " No. P200006/09 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 1.12.2007
"Contract on the Lease of Garage Parking Lot" No. P200006/10 – in force as of 1.1.2006 for indefinite period
"Contract on the Lease of Non-residential Premises" No. P200006/11 – in force as of 1.1.2006 for indefinite period
„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 1.1.2006 for indefinite – in force as of 1.1.2006 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
"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 a Work – Thermo-vision Metering" No. PS23310206/006 – in force as of 16. 10. 2006 up to 31. 12. 2008
"Purchase Contract" No. S250007/002 – in force as of 21.12.2007

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
"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. S252007/001, C00245/06 – in force as of 20.10.2006 for definite period until 31.12.2007
"Contract for a Work" No. P20006/19, C00203/06 – in force as of 1.3.2006 for indefinite period
"Mandate Contract for SOD" No. P20006/18, C00202/06 – in force as of 1.2.2006 until 31.12.2007
"Contract for a Work" No. PS23310207/008, C00278/07 – in force as of 1.1.2007 for indefinite period (inspection and tests of stationary pressure tanks)
"Contract for a Work" No. PS23310207/010, C00279/07 – in force as of 1.1.2007 for indefinite period (inspection and tests of lifting equipment)
"Purchase Contract "No. S250007/001 – in force as at 21.12.2007

ODEM a.s.
"Contract on Meter Readings Execution" No. P421200/3 – in force as of 1.1.2000 for indefinite period
Amendment No. 1/2000 – in force as of 23.8.2000
Amendment No. 2/2000 – in force as of 1.12.2000
Amendment No. 3/2000 – in force as of 8.12.2000
Amendment No. 4/2002 – in force as of 2.1.2002
Amendment No. 5/2003 – in force as of 1.1.2004
Amendment No. 6/2006 – in force as of 1.6.2006

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 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 person and the controlled and connected persons, the companies PREměření, a.s., ODEM a.s. a 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 2007 to the companies Pražská energetika, a.s., PREměření, a.s., ODEM a.s., a PREleas, a.s.
The abovementioned business contracts were concluded under the usual business custom practice with no advantage to one or the other contractual party.

In Prague, 29 January 2008

Milan Hampl
Chairman of the Board of Directors

Petr Dražil
Vice Chairman of the Board of Directors

Supervisory Board Report

In 2007 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 2007 the Supervisory Board met seven times altogether. The year 2007 was the second year of the Company's real activity.

The Supervisory Board at its meetings above all discussed its investment plans essential for fulfilling the Company's tasks including specific constructions exceeding the limit. This concerned namely: renovation of the front elevation of TR Holešovice and reconstruction of external lines 110 kV between TR Malešice – TR Východ.

The Supervisory Board discussed and approved 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 CEO,
– text of the Annual Report for the year 2007.

The Supervisory Board states that the Company's economic results in 2007 were very good and expresses its thanks to the Company Board Members and employees.

In Prague on 16 April 2008

Petr Hulinský
Chairman of the Supervisory Board

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 22 February 2008 on the financial statements which are included in this annual report in Section "Regular Financial Statements":

"We have audited the accompanying financial statements of PREdistribuce, a.s., which comprise the balance sheet as of 31 December 2007, 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 2007, 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 in Section "Report on Relations between Connected Persons". 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 business secrecy restrictions.

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 21 April 2008

Deloitte

Audit firm:
Deloitte Audit s.r.o.
Certificate no. 79
Represented by:

Václav Loubek, authorised employee

Statutory auditor:

Václav Loubek, certificate no. 2037

Profit and loss account full version as at 31.12.2007 (TCZK)

Note.	TEXT	Note	2007	Reporting period 2006
a	b		1	2
I. 1.	Sales of goods within the Group		5,836,726	5,650,015
I. 2.	Sales of goods outside the Group		448,823	253,940
A.	Costs of distribution and system services		(1,664,470)	(1,717,201)
+	**Gross margin**	**(1)**	**4,621,079**	**4,186,754**
II.	Other income	(1)	42,027	51,857
II. 1.a.	Other income within the Group		6,817	8,965
II. 1.b.	Other income outside the Group		30,398	40,112
II. 3.	Own work capitalised		4,812	2,780
B.	Purchased consumables and services	(3)	(1,960,675)	(1,790,513)
B.1.1.	Consumed material and energy within the Group		(585,873)	(509,250)
B.1.2.	Consumed material and energy outside the Group		(113,390)	(130,149)
B.2.1.	Purchased services within the Group		(908,573)	(805,359)
B.2.2.	Purchased services outside the Group		(352,839)	(345,755)
+	**Added value**		**2,702,431**	**2,448,098**
C.	Staff costs	(2)	(395,514)	(381,591)
C. 1.	Payroll costs		(254,844)	(246,870)
C. 2.	Remuneration to members of statutory bodies		(13,128)	(2,132)
C. 3.	Social security and health insurance costs		(96,195)	(90,254)
C. 4.	Social costs		(31,347)	(42,335)
D.	Taxes and charges		(4,507)	(3,426)
E.	Depreciation of intangible and tangible fixed assets	(7, 8)	(1,169,298)	(1,145,867)
III.	Sales of fixed assets	(4)	5,790	5,152
III. 1.	Sales of fixed assets within the Group		107	19
III. 2.	Sales of fixed assets outside the Group		4,977	4,174
III. 3.	Sales of material		706	959
F.	Net book value of sold fixed assets	(4)	(10,680)	(56,971)
F. 1.	Net book value of sold fixed assets within the Group		(2,668)	(39,830)
F. 2.	Net book value of sold fixed assets outside the Group		(8,012)	(17,141)
G.	Change in reserves and provisions		833	3,858
IV.	Other operating income	(1)	169 740	163 784
H.	Other operating expenses		(13,313)	(8,079)
*****	**Operating profit or loss**		**1,285,482**	**1,024,958**

Note.	TEXT	Note	2007	Reporting period 2006
X.	Interest income	(5)	10,462	3,737
N.	Interest expenses	(5)	(2,617)	(4,353)
XI.	Other financial income		1	1
O.	Other financial expenses		(201)	(121)
*	**Financial profit or loss**		**7,645**	**(736)**
Q.	Income tax on ordinary activities	(6)	431,175	(248,610)
Q. 1.	- due		(379,892)	(271,000)
Q. 2.	- deferred		811,067	22,390
* *	**Profit or loss from ordinary activities**		**1,724,302**	**775,612**
R.	Extraordinary expenses		0	(38,173)
S.	Income tax on extraordinary activities		0	10,437
S. 2.	- deferred		0	10,437
*	**Extraordinary profit or loss**		**0**	**(27,736)**
* * *	**Profit or loss for the current period (*/-)**		**1,724,302**	**747,876**

Balance sheet full version as at 31.12.2007 (TCZK)

Note		ASSETS	Note	2007 Gross	2007 Adjustment	2007 Net	2006 Net
		TOTAL ASSETS		**40,694,484**	**(15,830,950)**	**24,863,534**	**24,494,336**
A.		**Receivables for subscribed capital**				**0**	**0**
B.		**Fixed assets**		**39,026,620**	**(15,824,730)**	**23,201,890**	**22,957,737**
B. I.		Intangible fixed assets	(8)	6,862	(2,206)	4,656	3,202
B. I.	2.	Research and development		3,732	(1,487)	2,245	2,956
	3.	Software		719	(719)	0	0
	7.	Intangible fixed assets under construction		2,411	0	2,411	246
B. II.		Tangible fixed assets	(7)	39,019,658	(15,822,524)	23,197,134	22,954,535
B. II.	1.	Land		344,157	0	344,157	337,883
	2a.	Cable and external wiring		15,893,134	(5,776,964)	10,116,170	10,078,992
	2b.	Power structures		11,878,320	(5,069,903)	6,808,417	6,627,093
	3a.	Transformer station and switching station technologies		6,756,557	(2,801,345)	3,955,212	3,936,460
	3b.	Logistics and management equipment/technology		1,358,378	(1,011,412)	346,966	348,613
	3c.	Other fixtures and equipment		286,014	(180,755)	105,259	106,718
	6.	Other tangible fixed assets - electricity meters in the network		1,971,202	(982,145)	989,057	1,038,621
	7a.	Electricity meters on stock - tangible fixed assets under construction		41,349	0	41,349	53,298
	7b.	Tangible fixed assets under construction		345,223	0	345,223	277,558
	8.	Prepayments for tangible fixed assets		145,324	0	145,324	149,299
B. III.		Non-current financial assets		100	0	100	0
C.		**Current assets**		**1,644,961**	**(6,220)**	**1,638,741**	**1,501,429**
C. II.		Long-term receivables		24	0	24	24
	5.	Long-term prepayments made		24	0	24	24
C. III		Short-term receivables		1,642,743	(6,220)	1,636,523	1,499,184
C. III.	1.	Trade receivables	(10)	45,240	(6,220)	39,020	30,080
	2.	Receivables - controlling entity	(20)	809,226	0	809,226	718,607
	6.	State - tax receivables		4,280	0	4,280	20,918
	7.	Short-term prepayments made		17,773	0	17,773	1,672
	8.	Estimated receivables	(20)	764,203	0	764,203	725,425
	9.	Other receivables		2,021	0	2,021	2,482
C. IV.		Current financial assets		2,194	0	2,194	2,221
C. IV.	1.	Cash on hand		2,194	0	2,194	2,221
	2.	Cash at bank		0	0	0	0
D. I.		**Deferred expenses and accrued income**		**22,903**	**0**	**22,903**	**35,170**
D. I.	1.	Deferred expenses		21,993	0	21,993	34,557
	3.	Accrued income from securities		910	0	910	613

Note		LIABILITIES	Note	2007	2006
		TOTAL LIABILITIES & EQUITY		**24,863,534**	**24,494,336**
A.		**Equity**	**(11)**	**19,582,236**	**18,455,790**
A. I.		Share capital		17,707,934	17,707,934
A. I. 1.	1.	Share capital		17,707,934	17,707,934
A. III		Funds from profit		150,000	0
A. III	1.	Statutory reserve fund		150,000	0
A. IV.		Retained earnings or accumulated losses		0	(20)
	2.	Accumulated losses brought forward		0	(20)
A.V.		Profit or loss for the current period (+/ -)		1,724,302	747,876
B.		**Liabilities**		**3,606,413**	**4,439,781**
B. I.		Reserves	(13)	175,596	169,197
	4.	Other reserves		175,596	169,197
B. II.		Long-term liabilities		2,995,408	3,806,475
	9.	Other payables		32	32
	10.	Deferred tax liability	(9)	2,995,376	3,806,443
B. III.		Short-term liabilities		435,409	464,109
B. III.	1.	Trade payables	(14)	141,751	130,608
	2.	Payables - controlling entity	(20)	14,342	17,484
	5.	Payables to employees		13,135	12,338
	6.	Social security and health insurance payables		9,179	9,247
	7.	State-tax payables and subsidies		250,851	274,472
	8.	Short-term prepayments received		5,051	12,182
	10.	Estimated payables		1,100	7,778
	11.	Other payables		0	0
C. I.		**Other liabilities**	**(15)**	**1,674,885**	**1,598,765**
	2.	Deferred income		1,674,885	1,598,765

Cash Flow Statement (CZK thousand)

	Note	2007	2006
Opening balance of cash and cash equivalents		2,221	1
Operating activity			
Accounting profit from ordinary activity before tax		**1,293,127**	**1,024,222**
Amortisation and depreciation	(7, 8)	1,169,298	1,145,867
Write-off of bad debts and other assets		297	7
Non-monetary personnel expenses		8,260	13,227
Change in provisions, reserves and temporary accounts	(10, 13)	15,355	4,259
Release of investment contributions to income	(15)	(132,583)	(122,085)
Profit (loss) from the sale and disposal of fixed assets	(4)	9,433	54,702
Interest recognised in the income statement	(5)	(10,462)	616
Net cash flow from operating activity before changes in working capital		**2,352,725**	**2,120,815**
Change in trade receivables (increase)		(102,996)	(126,506)
Change in trade payables (decrease)		(22,594)	(648,814)
Net cash flow from operating activity before tax and interest		**2,227,135**	**1,345,495**
Interest paid	(5)		(1,773)
Interest received	(5)	10,165	3,737
Income tax paid		(403,422)	
Net cash flow from operating activity		**1,833,878**	**(1,347,459)**
Investment activity			
Expenditure related to the acquisition of fixed assets		(1,427,968)	(1,282,266)
Income from investment contributions	(15)	208,703	247,417
Income from the sale of fixed assets	(4)	5,083	4,194
Net cash flow from investment activity		**(1,214,182)**	**(1,030,655)**
Financial activity			
Change in intercompany financial receivables and payables	(19)	(21,866)	(315,700)
Dividends paid		(597,857)	
Contributions to share capital*)			1,116
Net cash flow from financial activity		**(619,723)**	**(314,584)**
Change in cash and cash equivalents		(27)	2,220
Closing balance of cash and cash equivalents		**2,194**	**2,221**

*) In the year ended 31 December 2006, contributions to share capital included cash equivalents and the contributed part of the business.

Notes to the Regular Financial Statements – for the year ended 31 December 2007

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 Roztoky u Prahy, covering an area of 505 km^2. 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 2007

Board of Directors

Milan Hampl	Chairman and Managing Director
Petr Dražil	Vice Chairman and Manager of the Network Administration section
Christian Franz – Josef Schorn	Member, EnBW, Germany
Martin Langmajer	Member, the Capital City of Prague

Supervisory Board

Petr Hulinský	Chairman, the Capital City of Prague
Hermann Lűschen	Vice Chairman, EnBW, Germany
Karel Urban	Member, PREdi employee
Vladimír Přáda	Member, PREdi employee
Drahomír Ruta	Member, Chairman of the Board of Directors and CEO of Pražská energetika, a.s.
Pavel Elis	Member, Vice Chairman of the Board of Directors and Director, Trading and Services, Pražská energetika, a.s.

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 40,000 and CZK 60,000, 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 2,000 and CZK 40,000 with an individual useful life exceeding one year are classified as low value tangible assets and software equipment costing less than CZK 60,000 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 external wiring	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
Electricity meters	10, 12 and 16
Furniture and fixtures	8
HW – SW	3–4

Short-term receivables

Short-term receivables are stated at their nominal value less provisions (see below).

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 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.

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 utilised 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 at the client centre.

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1. Revenue Recognition
2. Personnel Expenses
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(1) REVENUES (CZK thousand)

Revenues and Expenses Relating to the Supply of Distribution Services	2007	2006
Sale of distribution and system services to wholesale customers	1,993,044	1,828,140
Sale of distribution and system services to retail customers	4,277,199	4,062,214
Other income	15,306	13,601
Total income	6,285,549	5,903,955
Costs of the purchase of distribution and system services	(1,664,470)	(1,717,201)
Gross profit from the sale of distribution services	**4,621,079**	**4,186,754**

Other income	2007	2006
Income from services rendered in the Group *)	6,817	8,965
Income from services rendered outside the Group	30,398	40,112
of which: relocation of distribution equipment	5,419	17,556
repair and assembly	18,305	14,833
lease of real estate	4,257	4,156
Capitalisation of fixed assets	4,812	2,780
Total	**42,027**	**51,857**

*) Primarily maintenance of fibre optics for the parent company (CZK 4,253 thousand and CZK 5,609 thousand in the years ended 31 December 2007 and 2006, respectively).

Other operating income	2007	2006
Connection fees	132,583	122,085
Compensation for unauthorised consumption	32,106	37,176
Sundry	5,051	4,523
Total	**169,740**	**163,784**

(2) PERSONNEL EXPENSES (CZK thousand)

	2007 Staff including management	2006 Staff including management
Average headcount	555	583
Payroll costs	225,044	216,870
Salaries paid depending on the Company's performance	29,800	30,000
Insurance	96,195	90,254
Remuneration of the members of the Company's statutory bodies	13,128	2,132
Other social costs (according to the collective agreement) *)	31,347	42,335
Total	**395,514**	**381,591**

*) 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)

	2007	2006
Consumed electricity and losses	579,852	503,070
Services of the parent company according to the management contract	586,178	542,823
Operating lease of vehicles	20,975	20,650
Lease of equipment, vehicles and construction machinery	87,635	99,634
Lease of non-residential premises	65,993	63,510
Assembly work *)	139,598	69,292
Sundry	14,215	15,630
Costs of purchase of material, services and energies in the Group	**1,494,446**	**1,314,609**
Material and consumed energies	111,846	128,605
Repairs of fixed assets	184,383	180,352
Lease of cable tunnels	82,293	79,896
Lease of non-residential premises	27,464	25,743
Construction-assembly work	5,419	17,556
Training, conferences	3,036	3,490
Sundry	51,788	40,262
Costs of purchase of material, services and outside of the Group	**466.229**	**475,904**
Total	**1,960,675**	**1,790,513**

*) The increase is due to outsourced assembly work since 2007.

(4) SALES OF ASSETS (NET) (CZK thousand)

	2007	2006
Sales of electricity meters	72	19
Sales of other assets and materials	38	--
Net book value of electricity meters*)	(2,633)	(39,733)
Net book value of other assets	(35)	(97)
Loss from the sale of assets within the Group	**(2,558)**	**(39,811)**
Sales of assets	4,977	4,174
Sales of material (primarily from metal waste)	704	959
Net book value of sold material	(8,013)	(10,781)
Scrapping of old assets	0	(6,360)
Loss from the sale of assets outside the Group	**(2,332)**	**(12,008)**
Total	**(4,890)**	**(51,819)**

*) When valuing electricity meters for the purpose of contribution of a part of the business, the expert also revalued electricity meters whose useful lives were about to end at a higher value. Their net book value upon disposal in 2006 was higher than usual.

(5) FINANCIAL EXPENSES AND INCOME (CZK thousand)

Interest income and expenses	2007	2006
Interest income arising from cash pooling	10,462	3,737
Interest expenses from cash pooling	--	(1,773)
Interest expenses from employee benefits *)	(2,617)	(2,580)
Interest expenses (net)	**(7,845)**	**(616)**

*) 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	2007		2006	
Profit or loss for the period after tax	1,724,302		747,876	
Income tax from ordinary activity	(431,175)		248,610	
Income tax from extraordinary activity	--		(10,437)	
Profit before tax	1,293,127		986,049	
Income tax using the applicable income tax rate	310,350	24,00%	236,652	24,00%
Impact of items that are never tax-deductible	22,285	1,72%	1,521	0,15%
Impact of the change in the deferred tax rate	(763,810)	*)	--	--
Total income tax/effective tax rate	**(431,175)**	***)**	**238,173**	**24,15%**

*) 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	2007	2006
Payables arising from social security and health insurance contributions	9,179	9,247
State - tax payables *)	250,851	274,472

*) 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 External wiring	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
Cost								
Balance at 31 Dec 2005	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Contribution	327.3	17,554.4	15,047.7	1,239.8	1,922.9	291.3	421.9	36,805.3
Balance at 1 Jan 2006	**327.3**	**17,554.4**	**15,047.7**	**1,239.8**	**1,922.9**	**291.3**	**421.9**	**36,805.3**
Additions	10.7	327.5	347.8	59.3	106.5	11.4	417.0	1,280.2
Disposals	(0.1)	(77.8)	(22.6)	(6.6)	(120.7)	(2.3)	--	(230.1)
Reclassification	--	153.8	139.5	37.2	43.6	(15.4)	(358.7)	--
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**
Accumulated depreciation								
Balance at 31 Dec 2005	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Contribution	--	(6,968.6)	(5,083.1)	(875.2)	(834.1)	(167.8)	--	(13,928.8)
Balance at 1 Jan 2006	**--**	**(6,968.6)**	**(5,083.1)**	**(875.2)**	**(834.1)**	**(167.8)**	**--**	**(13,928.8)**
Depreciation	--	(487.4)	(372.5)	(105.6)	(160.5)	(19.1)	--	(1,145.1)
Accumulated depreciation on disposals	--	61.7	22.1	6.4	80.9	1.9	--	173.0
Reclassification	--	--	--	(6.7)	--	6.7	--	--
Balance at 31 Dec 2006	**--**	**(7,394.3)**	**(5,433.5)**	**(981.1)**	**(913.7)**	**(178.3)**	**--**	**(14,900.9)**
Net book value at 1 Jan 2006	327.3	10,585.8	9,964.6	364.6	1,088.8	123.5	421.9	22,876.5
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**

	Land	Power structures	Cables and External wiring	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
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	238.3	1,425.6
Disposals	(0.1)	(30.6)	(40.8)	(47.4)	(121.9)	(16.1)	(4.5)	(261.4)
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**
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)	--	(1,168.5)
Accumulated depreciation on disposals	--	23.3	40.8	47.5	119.2	16.1	--	246.9
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**

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 2005	--	--	0.8	0.8
Contribution	2.1	--	2.7	4.8
Balance at 1 Jan 2006	**2.1**	**--**	**3.5**	**5.6**
Additions	--	2.1	--	2.1
Disposals	(1.2)	--	(1.9)	(3.1)
Reclassification	--	1.4	(1.4)	--
Balance at 31 Dec 2006	**0.9**	**3.5**	**0.2**	**4.6**
Accumulated amortisation				
Balance at 31 Dec 2005	--	--	--	--
Contribution	--	--	--	--
Balance at 1 Jan 2006	**(1.8)**	**--**	**--**	**(1.8)**
Amortisation	(0.2)	(0.6)	--	(0.8)
Accumulated amortisation on disposals	1.1	0.1	--	1.2
Reclassification	--	--	--	--
Balance at 31 Dec 2006	**(0.9)**	**(0.5)**	**--**	**(1.4)**
Net book value at 1 Jan 2006	0.3	--	3.5	3.8
Net book value at 31 Dec 2006	**--**	**3.0**	**0.2**	**3.2**

	Software	Other	Investments under construction	Total
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**
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**

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.)	2007	2006
Low value tangible assets with cost lower than CZK 40,000	71,322	17,676
Low value intangible assets with cost lower than CZK 60,000	--	10
Total	**71,322**	**17,686**

(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 2007	Charging to profit or loss	31 Dec 2006	Charging to profit or loss	1 Jan 2006	Contribution Recognition in equity	31 Dec 2005
Fixed Assets	3,024,185	(823,306)	3,847,491	(14,926)	3,862,417	3,862,417	--
Receivables	(735)	(294)	(441)	(441)	--	--	--
Reserves	(18,589)	5,393	(23,982)	(835)	(23,147)	(23,147)	--
Liability arising from the collective agreement	(9,485)	7,140	(16,625)	(16,625)	--	--	--
Total	**2,995,376**	**(811,067)**	**3,806,443**	**(32,827)**	**3,839,270**	**3,839,270**	**--**

(10) TRADE RECEIVABLES (CZK thousand)

As of 31 December 2007, trade receivables amounted to CZK 45,240 thousand (2006: CZK 32,653 thousand) of which receivables of CZK 15,749 (2006: CZK 14,982 thousand) were six months past due, receivables of CZK 4,014 thousand (2006: CZK 4,383 thousand) were 6 to 12 months past due and receivables of CZK 3,688 thousand (2006: CZK 50,000) were more than 12 months past due. A provision of CZK 6,220 thousand (2006: CZK 2,573 thousand) was created.

(11) EQUITY (CZK thousand)

Share capital and types of shares as of 31 December 2007
Share capital of the Company consists of 21,549 registered shares (2006: 21,549 registered shares) with a nominal value of CZK 821,752 (2006: 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 1,724,302 thousand (2006: CZK 747,876 thousand).

Statement of Changes in Equity (CZK thousand)

	Share capital	Reserve Fund	Profit or loss	Loss carried forward	Changes in equity
Balance at 31 Dec 2005	**2,000**	**--**	**(1,816)**		**184**
Contribution of a part of the business	21,547,000	--	--	(3,839,270)	17,707,730
Balance at 1 Jan 2006	**21,549,000**	**--**	**(1,816)**	**(3,839,270)**	**17,707,914**
Decrease of share capital	(3,841,066)	--	1,816	3,839,250	--
Net profit for 2006	--	--	747,876	--	747,876
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**

(12) EARNINGS PER SHARE (CZK thousand)

The calculation of earnings per share is based on net retained earnings of CZK 1,724,302 thousand (2006: CZK 747,876 thousand) attributable to 21,549 shares, i.e. earnings per share amount to CZK 80,000 (2006: CZK 35,000).

(13) RESERVES (CZK thousand)

	Business risks*)	Severance pay	Employee benefits **)	Other	Total
Balance at 31 Dec 2005	**--**	**--**	**--**	**--**	**--**
Contribution of a part of the business	96,448	3,000	--	--	99,448
Balance at 1 Jan 2006	**96,448**	**3,000**	**--**	**--**	**99,448**
Creation of reserves in the current period	--	3,909	69,271	--	73,180
Use of reserves in the current period	(3,431)	--	--	--	(3,431)
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**
Long-term reserves	88,538	--	58,746	--	147,284
Short-term reserves	--	6,293	11,619	10,400	28,312
Total	**88,538**	**6,293**	**70,365**	**10,400**	**175,596**

*) 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 recorded trade payables of CZK 141,751 thousand (2006: CZK 130,608 thousand) and has no past due payables.

(15) TEMPORARY LIABILITIES (CZK thousand)

Deferred income – investment contributions	
Balance at 31 Dec 2005	**--**
Contribution of a part of the business	1,473,433
Balance at 1 Jan 2006	**1,473,433**
Contributions received	247,417
Released to income	(122,085)
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**

*) Disclosed in "Other operating income" in the profit and loss account.

(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:

	2007	2006
Administrative buildings	65,993	63,510
Cable conduits	81,068	79,112
Non-residential premises	27,464	25,743
Vehicles	20,975	15,484
Total	**195,500**	**183,849**

Finance Leases

Finance leases include technological equipment, vehicles and construction machinery. In the years ended 31 December 2007 and 2006, the Company paid CZK 87,635 thousand and CZK 99,634 thousand, respectively, in lease instalments.

(17) EXPENDITURE ON ACQUISITION OF FIXED ASSETS

The Company anticipates incurring total expenditure of CZK 1,524 mil. (2007: CZK 1,288 mil.) for the year ending 31 December 2008, of which approximately CZK 934 mil. (2006: CZK 265 mil.) 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 is 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 included in 'Personnel Expenses' (refer to Note "Personnel Expenses"):

	2007		2006	
	Executive Management and Board of	Supervisory Board	Executive Management and Board of	Supervisory Board
Number	5	6	5	6
Payroll costs	4,348	--	2,924	--
Social security and health insurance	1,522	--	1,023	--
Fees paid to Board members	1,104	1,624	640	1,492
Directors' fees including health insurance	5,943	4,457	4,000	--
Life insurance	138	--	137	--
Management scheme	40	--	0	--
Total	**13,095**	**6,081**	**8,724**	**1,492**

Transactions with Board members and executive management

As of 31 December 2007, the Company recorded receivable from members of its Board of Directors and Supervisory Board totalling CZK 22,000 (2006: CZK 16,000). These receivables were repaid during January 2008.

(19) GROUP RELATIONSHIPS (CZK thousand)

	PREdi receivables as of 31 Dec		PREdi payables as of 31 Dec	
	2007	2006	2007	2006
Pražská energetika, a.s.	1,557,907	1,444,606	--	--
of which: Trade receivables/ payables	470,509	401,758	--	--
Trade receivables (cash pooling)	338,688	316,822	--	--
Accrued income (cash pooling)	910	613	--	--
Estimated receivables – unbilled distribution services	747,799	725,413	--	--
PREleas, a.s.	17,381	--	--	--
PREměření, a.s.	6	--	10,474	14,023
ODEM a.s.	23	27	3,868	3,461
Total	**1,575,317**	**1,444,633**	**14,342**	**17,484**

	PREdi income		PREdi expenses / costs	
	2007	2006	2007	2006
Pražská energetika, a.s.	**5,854,286**	**5,662,944**	**(1,267,249)**	**(1,147,463)**
of which: Distribution services	5,836,726	5,650,015	--	--
Other services, material consumed	6,816	8,965	(687,362)	(642,613)
Consumed electricity and losses	--	--	(579,852)	(503,070)
Fixed Assets	38	--	(35)	
Other expenses	--	--	--	(7)
Other income	244	227	--	--
Cash Pooling	10,462	3,737	--	(1,773)
PREleas, a.s.	**--**	**--**	**(87,637)**	**(99,635)**
of which: Services – leases	--	--	(87,635)	(99,634)
Fixed Assets	--	--	(2)	(1)
PREměření, a.s.	**72**	**19**	**(241,296)**	**(241,548)**
of which: Services	--	--	(96,370)	(28,247)
Electricity meters	72	19	(144,926)	(213,301)
ODEM a.s.	**336**	**403**	**(43,228)**	**(41,045)**
of which: Services	--	--	(43,228)	(41,045)
Contractual fines	336	403	--	--
Total	**5,854,694**	**5,663,366**	**(1,639,410)**	**(1,529,691)**

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.

Affidavit

We hereby declare that data stated in the Annual Report for the year 2007 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.

Jan Doležálek
Date of birth: 23.2.1952
Responsible for the Annual Report
page 1–39, 62–64

Roman Tupý
Date of birth: 2.2.1963
Responsible for the Annual Report
page 43–61

Join stock company and its workplaces addresses

	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 at the Municipal Court in Prague, Section B, Insert No. 10158.
The company was founded for indefinite period in compliance with the Czech Republic legal order.

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 Praha-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 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
Metering*	Prague 9, Novovysočanská 696/3	190 00	267 052 500
Distribution Support	Prague 10, Na Hroudě 1492/4	100 05	267 052 600
Access to Network and Regulation	***Prague 10, Na Hroudě 1492/4***	***100 05***	***267 052 500***
PRE Customer Centre	**Prague 4, Vladimírova 18**	**140 00**	**267 054 230**
	Prague 9, Ocelářská 5a	**190 00**	**267 054 250**
	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 2149/19**	**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**

** until 31.12.2007; from 1.1.2008 handed over to PREměření, a.s.*
*** from 1.1.2008*

Jiří Slíva

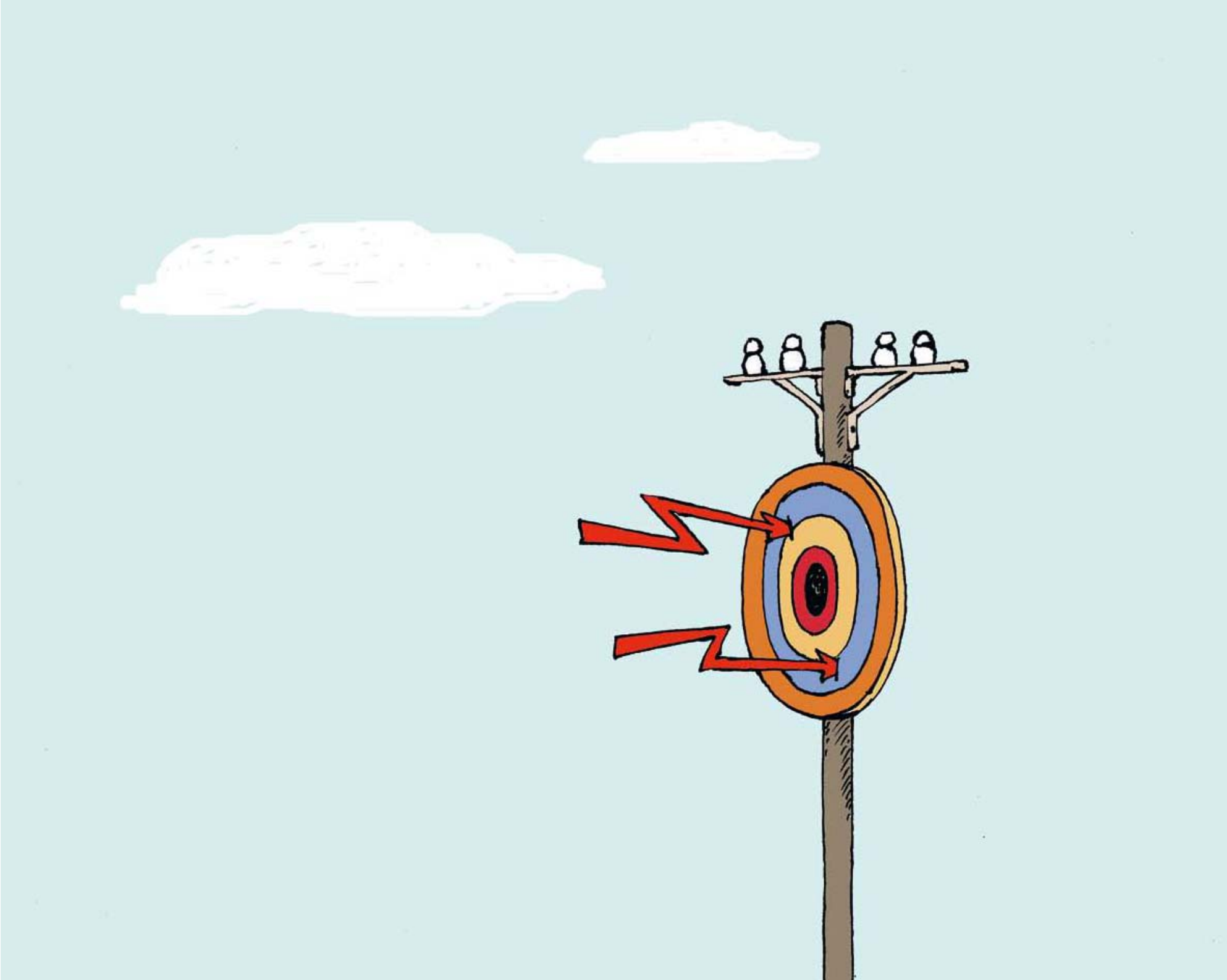
He was born on 4 July 1947 in Pilsen and has lived in Prague since 1966. He studied at the University of Economics, Prague and worked for eight years at the Institute of Philosophy and Sociology of the Czech Academy of Sciences in the Prognosis Department. At the same time as of 1972 he began publishing cartoons in the newspaper daily Mladá fronta. Since 1979 he has worked as a freelance cartoonist, illustrator and graphic artist. He has worked with a number of newspapers and magazines in the Czech Republic and abroad.

He has published ten cartoon books in the Czech Republic, Germany, Switzerland, France and the USA; he has illustrated over one hundred and fifty books. In 2004 the publisher Slovart published his retrospective monograph. Since1980 he has been engaged in the technique of coloured lithography; since 1993 he has been etching and started to paint in 1995.

He had one-man exhibitions of his drawings and graphic work in Prague, Pilsen, Bratislava, Brno, Budapest, Sofia, Warsaw, Hamburg, Mannheim, Munich, Berlin, Moscow, Amsterdam, Naarden, Paris, Havana, New York, Salzburg, Rome, Vienna, Brussels, Utrecht, Zurich, Ottawa and Tel Aviv.

He has received awards at cartoon festivals such as in Knokke, Bordighera, Gabrovo, Tolentino, Istanbul and Legnica. In Eindhoven he was awarded a prize in 1998 for his lifelong work and in 2007 he was presented with the annual prize of the Czech Union of Cartoonists – the Order of the White Monkey.

Since 1980 he has played the guitar in the band Grafičanka (Female Graphic Artist) and in 1993 he became a member of the Hollar Association of Czech Graphic Artists.

He also publishes poetry and aphorisms.

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