



PREdistribuce, a.s. / Annual Report 2011



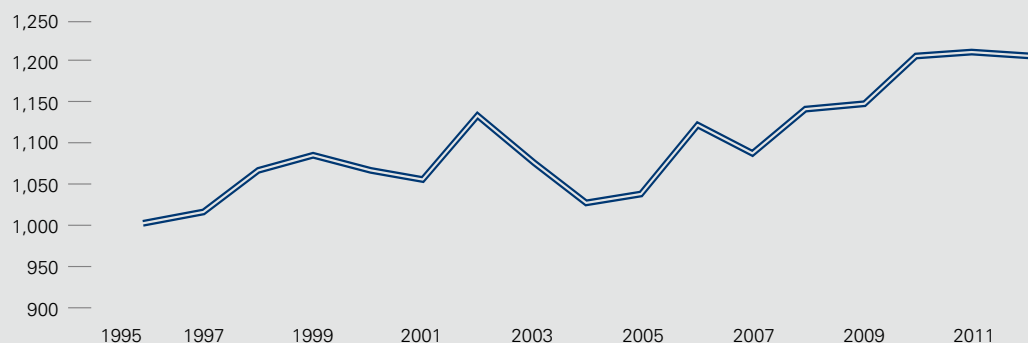
Main Trends

Main financial indicators (MCZK)

	2011*	2010*	2009	2008	2007	2006
Total assets	27,505	27,148	26,624	26,314	24,864	24,494
Distribution equipment	22,862	22,465	21,989	21,721	20,880	20,643
Other fixed assets	2,108	2,079	2,136	1,997	2,322	2,315
Group cash looping receivables	0	0	0	0	339	317
Trade receivables	2,285	2,575	2,367	2,498	1,274	1,157
Other assets	249	29	132	98	49	62
Total liabilities	27,505	27,148	26,624	26,314	24,864	24,494
Equity	19,202	18,933	18,673	18,850	19,582	18,456
Deferred tax liability	2,947	2,953	2,958	2,968	2,995	3,806
Group cash pooling payables	752	254	192	874	0	0
Trade payables	522	235	124	133	156	160
Deferred revenues	1,861	1,863	1,810	1,743	1,675	1,599
Provisions	219	179	158	157	176	169
Loans	1,800	2,600	2,600	1,500	0	0
Other liabilities	202	131	109	89	280	304
Gross profit from distribution services sales	4,447	4,119	4,695	4,699	4,621	4,187
Routine trade activity before tax	1,444	1,133	847	1,080	1,293	1,025
Routine trade activity after tax	1,167	910	685	880	1,742	776
Extraordinary profit/loss	(34)	0	0	0	0	(28)
Profit after tax	1,133	910	685	880	1,724	748

* In view of the more faithful picture of gross profit from the sales of distribution services, except for the distribution and system services purchase expenses, the electricity purchase expenses for personal consumption and coverage of the Company energy losses have also been reported since 2011. The data for 2010 have been revised likewise.

Highest achieved annual load profile (MW)

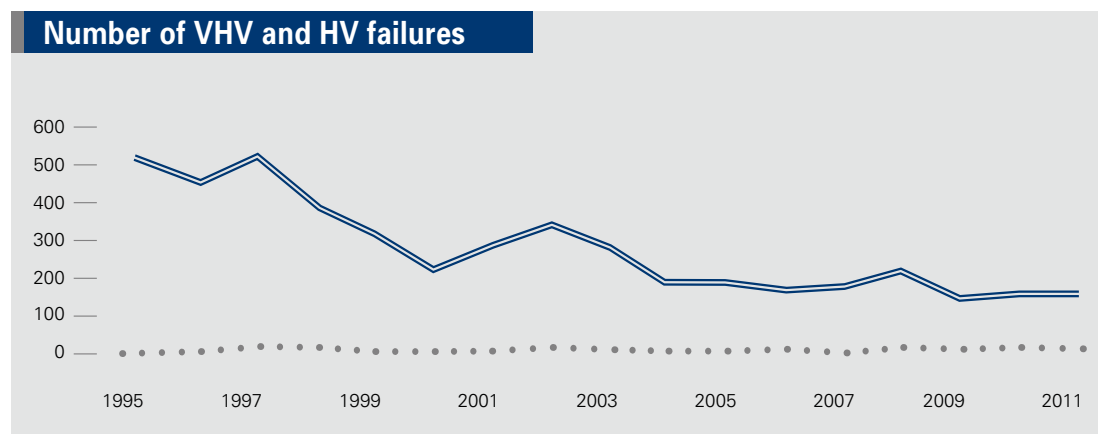


Note 1: Load decrease in 2002–2003 was caused by floods and long-term distribution equipment shutdown from 8. 8. 2002.

Note 2: On 1.12.2010 the historically highest load of 1,209 MW was achieved.

Other indicators

		2011	2010	2009	2008	2007	2006
Total distribution (balance)	GWh	6,310.7	6,450.5	6,339.1	6,372.5	6,172.0	6,085.0
Total number of consumption points	number	754,593	749,513	744,998	735,779	726,366	713,474
of which: large customers	number	1,970	1,947	1,948	1,929	1,854	1,916
retail-small businesses	number	134,679	136,275	137,682	136,089	136,320	132,323
retail-households	number	617,944	611,291	605,368	597,761	588,192	579,235
Total length of electricity networks	km	11,901	11,781	11,675	11,552	11,544	11,229
of which: VHN	km	202	202	202	206	196	196
HV	km	3,863	3,829	3,780	3,701	3,670	3,476
LV	km	7,836	7,750	7,693	7,645	7,678	7,557
Number of employees – full time average	persons	507	504	514	515	555	583



• • • VHV failures
 — HV failures

Note: Increase of failure rate in 2002–2003 was caused by floods and long-term distribution equipment shutdown from 8.8.2002. The increase of VHV failure rate in 2008 was caused by short-term failures of worn 110 kV transformers which have been already replaced. These failures had a minimum impact on power supply to end customers.

We are the energy of this city

PRE Group: Corporate Strategy

- is a stable and prosperous entrepreneurial group with a longstanding tradition,
- ensures reliable, ecological and innovative supplies of energy and energy services throughout the Czech Republic while focusing on the Capital City of Prague,
- is a reliable distributor on the licensed territory,
- by using the latest technologies and procedures it fully meets the requirements and expectations of its customers,
- the Group's strategic focus responds to present challenges on the energy market which wholly reflects its liberalisation, increase of competition and price fluctuations.

PRE Group Strategic Vision – to be a strong energy company which ensures sustainable, reliable, ecological and innovative supply of energy and energy services throughout the Czech Republic while focusing on Prague and its vicinity; a Company that is economically and socially responsible to shareholders, citizens, customers and employees.

Contents

Basic Company Data	2
PRE Group	4
Foreword of the Chairman of the Board of Directors	6
Company Strategy	9
Company Bodies	12
Important Decisions of the parent Company Pražská energetika, a.s. affecting the Incorporation and Structure of PREdistribuce, a.s.	14
Important Events	16
Brief History and Current Situation in the Power Industry – unbundling	20
Human Resources	22
Investments	24
Financial Report	28
Ecology, Environmental Protection, Safety and Protection of Health at Work	30
Risk Management System in the Company, in the PRE Group respectively	32
The PRE Group and Company Management	33
Company Organization Chart	34
Report on General Meetings held during the Year	35
The Company Line of Business	36
Information required in accordance with Legislation in Force	37
Report on Relations between Connected Persons	38
Supervisory Board Report	42
Independent Auditor's Report	43
Separate Financial Statements in Full Version as at 31.12.2011	45
Affidavit	63
List of Abbreviations	64
Address of the Company and its Workplaces	66

Changes which have occurred since the end of the accounting period (31.12.2011) to the deadline for the issue of this Annual Report (31.3.2012) are marked ***in bold italics***.

Basic Company Data

Commercial name:	PREDistribuce, a.s.
Registered office:	150 00 Prague 5, Svornosti 3199/19a
Identification No.:	27376516
Tax ID:	CZ27376516
Legal form:	joint stock company
The Company is registered in :	the Commercial Register maintained at the Municipal Court in Prague, Section B, File 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 2003/54/ES on common rules for the national electricity market was incorporated into the Czech rule of law. These regulations imposed on so-called vertically integrated entrepreneurs, i.e. concurrent electricity distribution and trading licence holders, which included Pražská energetika, a.s. the duty to legally separate those licensed activities so the electricity distribution licence holder is a legally independent Company.

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

PREDistribuce, a.s. thereby came into effect as of 1 January 2006 in all the rights and obligations of the Pražská energetika, a.s. for securing and operating the distribution system on the licensed territory of the Capital City of Prague, 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.



Olga Dvořáková – Operating Analyses

The department analyses failures and proposes measures for removing the causes of failures; it assesses statistics of operation and the failure rate in the PREdi power network, it processes the recommendation for the restoration and development of the network.



PRE Group



The history of the Group companies dates back to 1897 when the Electricity Works of the Royal Capital City of Prague was established. Its line of business was, beyond electricity supply, also streets lightning and trams operation.

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

- **PREDistribuce, a.s. (PREdi)** – electricity distribution on the territory of Prague and Roztoky u Prahy, planning the renovation and development of the distribution system, construction, operation, management and maintenance of distribution system equipment.
ID No.: 27376516; Prague 5, Svornosti 3199/19a, tel.: 840 550 055, fax: 267 310 817, Internet: www.pre.cz,
e-mail: pre@pre.cz a distribuce@pre.cz
- **PREměření, a.s. (PREm)** – repairs and installation of electricity meters on the PRE supplied territory, generation of electrical energy-FVE.
ID No.: 25677063; Prague 10, Na Hroudě 2149/19, tel.: 840 550 055, fax: 267 056 777, Internet: www.pre.cz,
e-mail: mereni@pre.cz
- **PREleas, a.s.** – leasing operations for the PRE Group members.
ID No.: 25054040; Prague 10, Limuzská 2110/8, tel.: 272 702 305, fax: 272 702 305



Martin Macháček – Distribution Emergency Line

The department receives and provides information to customers about failures and planned interruptions in the distribution of electricity in the VHV, HV and LV networks; it contracts work, prepares and implements contracts for short-term power consumption (KTO).



Foreword of the Chairman of the Board of Directors

Dear Readers,

our Company reached the sixth year of its existence in 2011; under the Czech accounting standards it achieved a profit after tax of 1,133 MCZK and continues to provide a high quality and continuous supply of electricity to its customer in the Capital City of Prague and the town of Roztoky u Prahy covering a total area of 505 km². I am pleased to say that 2011, in terms of maintaining the high level of operational reliability, high extent of safety and a profit which is due to the amount of transmitted or distributed electricity of 6,310.7 GWh to more than 750,000 consumption points, was another successful year. Electricity distribution in the Czech Republic, as a regulated and permitted profit-making activity, is subject to the regulation of the ERÚ. The Company has an electricity distributor licence issued for the licensed territory in force as of 1 January 2006 to 16 January 2027.

By way of introduction, I would like to inform you of several items of information regarding the distribution system, the number of employees and main activities. The distribution system consists of a system of 110 kV overhead and cable lines of 202 km in length, 22 kV lines (3,863 km) and 0.4 kV lines (7,836 km), 110/22 kV (24) transformer substations and 22/0.4 kV (4,839) grid transformer stations. A total of 507 employees maintained all the distribution equipment, performing high quality work to a high professional standard. Among the main tasks of the employees was the planning of the development and renovation of the distribution equipment, connection of new customers (after the previous construction of investment energy structures and mains), metering of the electricity supplied on the VHV and LV levels and delivery of data for the billing of distribution services and supplies to the Electricity Market Operator system. The Company also manages the grid assets, operations and services; it handles faults including planned repairs and maintenance of the grid according to the regulations of preventive maintenance. Last year the so-called Work Force Management (WFM) system was introduced for the need to manage field grid operation work crews. When selecting a suitable management system the experience was applied of EnBW, reg. Stuttgart which had decided to use this field crew management system earlier. The WFM system was put into trial operation on 1 January 2011; then into routine operation on 1 May 2011. Currently the system is working and all the crews are managed from a centre while the information is passed on directly from the field as on-line information about handling and operating the networks, and information about the condition of the grid to the dispatching centre or directly to their work manager.

In terms of safety, all the networks and operating equipment of PREDistribuce, a.s. are part of the critical infrastructure of Prague and of the entire Czech Republic. A reliable and continuous supply of electricity is really important for the function and operation of the city. Short-term larger scale outages paralyse the city, may result in transport collapse, endanger people's lives if stuck in elevators and restrict the activities of larger entities such as state administration and companies. In 2011 in the PREDistribuce, a.s. 110 kV networks there were 7 short outages in the lines resulting in 4 interruptions to electricity supply at an average duration of 20 minutes. Of these 7 outages, 6 were caused outside the PREDistribuce, a.s. distribution system. The only outage of the PREDi equipment, caused by an error of the system operator at TR Karlov during phasing out part of the substation, lasted 3 minutes. Measures were taken resulting from an analysis of the outage and training to prevent a similar outage caused by human error happening again.

A total of 35 faults (incl. foreign intervention and blackout) were registered in the 22 kV feeding grid. The average duration of all faults in the 22 kV voltage level was 15 minutes. The end customer, connected to the 1 kV network in Prague, was without electricity only for 46.8 minutes last year (including foreign interventions and planned work) which is, in terms of the customer, a figure six times more favourable than in the rest of the Czech Republic. This positive trend was achieved by long-term implemented, rational planning of development and renovation from one centre, renovation carried out according to corporate norms and enforcement of modern technologies and elements used in the EU with high reliability and safety demands. The standards of the quality of electricity supplies and related services in accordance with ERÚ Public Notice No. 540/2005 Coll. were met during the year with regard to most of the end customers connected to the Company's distribution networks.



Ing. Milan Hampl
Chairman of the Board of
Directors and Director

However, so this situation could be constantly maintained, it was also necessary to meet the planned volume of investments (the need to construct all the planned structures and put them into operation by the winter). Last year this particularly involved the completion of the reconstruction of the 110 kV switchgear in the mostly loaded 110/22 kV encapsulated transformer station in Holešovice, the completion of the first stage of the reconstruction of the standard Letňany 110/22 kV transformer station and the replacement of the 63 MVA transformer at TR Střed. Furthermore, a number of simple renovation structures in the 22 kV and 1 kV cable networks and about 120 distribution transformer stations were renovated which were already physically and economically obsolete. I want to promise that we will take further technical measures to maintain this situation and even improve it.

In conclusion, I can state that PREDistribuce, a.s. met its tasks in 2011. It participated in the planned development and by its reliable electricity supply it contributed to the safety of the Capital City and satisfaction of Prague residents and stable operation of the City. Our objective for the next year is to maintain this trend and continue to be one of those corporate entities that are aware of their responsibility to the environment, and attempt to constantly improve the conditions for its protection. PREDistribuce, a.s. continued to be the main support of the PRE Group in 2011 and I trust that by this it also met the views and ideas of the shareholders.

In conclusion, I would like, on behalf of PREDistribuce, a.s., to wish you lots of health, happiness and a successful 2012. I hope that just as you, our customers and business partners, so we, the Company distributing electricity in the Capital City, are successful and will all feel good about the work we perform.



Milan Hampl

Chairman of the Board of Directors and Director

Company Strategy

PREDistribuce, a.s. wants to continue to be a stable company and be regarded by its customers as a reliable partner

PREDistribuce, a.s. wants to continue to be a stable company and be regarded by its customers as a reliable partner; its activities aim to optimise the function of the distribution grid as a whole. The most important strategic point is to increase the efficiency of electricity distribution in operational-technical and investment measures in the grid, and in the optimum layout of processes (both within the Company and externally aimed at cooperating entities). Of course, guaranteed standards of quality supplies and related services laid down by legislation which are in the competence of the distribution licence holder need to be observed.

Conditions, defined in the so-called "Compliance Programme", the task of which is to secure to the maximum possible extent the non-discriminatory behaviour in processes for which the distribution system operator is responsible to all market participants, have been fully observed.

The responsibility for the situation in supplying electricity to the City of Prague is reflected, among other things, in the care for the distribution system which forms the city's critical infrastructure with stricter standards related to the territory conditions and sensitivity to possible distribution failures. The Company exerts maximum efforts with regard to analysis of the system condition, its further renovation and development of the backbone network for the needs of electricity supply to new or developing city districts. After due consideration of the situation, the network is being strengthened by new transformer, disconnecting and distribution transformer stations.

The Company prepares itself systematically and responsibly for new trends in the energy sector. Significant changes can be expected in a relatively short time in the surrounding economic environment whether this applies to legislation, commitments of EU member states, innovation and development of new technologies in the primary and secondary grid, and last but not least in the significant enhancement of the role of ICT support.

A pilot project of the Smart Metering System for metering the electricity consumption of customers, collection of data (metering), remote transmission and processing, and also provision of data has been already implemented for two years. This system enables almost 2,600 customers in Prague to ensure a regular monthly invoicing of supplied or purchased (FVE) electricity, contributes to optimising the coverage of daily load profile of the segment of retail household and retail small businesses end customers and further to this, it also contributes to reduce electricity losses. The Company is getting ready for future necessity to resolve much higher demands related to collection and remote transmission of data.

In the field of distribution system management, the Company prepares itself for a new situation when a significant number of customers are at the same time becoming producers and suppliers of energy. This energy needs to be further processed in distribution networks while balancing the actual demand for energy with the offer so that there are no fluctuations in the supply. Definition of demanded criteria so that they meet the expected requirements was carried out during planned implementation of a new control system.

Together with other distributors in the Czech Republic, the introduction of intelligent networks, so called Smart Grid and the related subsets AMM and E-mobility which are mapping especially the technical possibilities of the distribution network operator, are being monitored.

Procedures for taking-over other distribution systems in the near future (local distribution networks) on the licensed territory of the Company which will increase the assets base within the existing distribution network will represent new challenges for the Company's entrepreneurial activities.

Measures are being prepared to increase the reliability of network, especially in Asset Management, network management and making the maintenance more efficient (implementation of the so called Workforce Management according to experience obtained from network operation in Baden-Württemberg).

The principal mission of the Company is to ensure a reliable transmission of electricity from 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 and in order to provide in cooperation with the other PRE Group companies high quality and non-discriminatory services for network customers.



Pavlína Nestrašilová – Distribution Economy

The department provides a comprehensive economic agenda for all PREDi departments; it provides an economic service and reporting for the Company's top management.



Company Bodies

Board of Directors as at 31.12.2011

Milan Hampl

(47 years) | Chairman | Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

Petr Dražil

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

Christian Franz-Josef Schorn

(47 years) | Member | Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Martin Langmajer

(47 years) | Member | Address: Tichonická 1017/30, 104 00 Prague 10

Supervisory Board as at 31.12.2011

Petr Hulinský

(44 years) | Chairman | Address: MHMP, Mariánské náměstí 2, 110 00 Prague 1

Hermann Lüschen

(58 years) | Vice Chairman | Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Pavel Elis

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

Alexander Manfred Sloboda

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

Karel Urban

(53 years) | Member | Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5

Radek Hanuš

(35 years) | Member | Address: PREdistribuce, a.s., Svornosti 3199/19a, 150 00 Prague 5



Christian Franz-Josef Schorn

Martin Langmajer

Petr Dražil

Milan Hampel

Important Decisions of the parent Company Pražská energetika, a.s. affecting the 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 provision of other 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 himself the entire registered capital which was carried out by monetary investment contribution as follows:

- Pražská energetika, a.s. subscribed 2 shares by a monetary investment contribution which was MCZK 2. The issue price of one share equalled its nominal value and was MCZK 1,
- the investment contributions repaid by the founder were administered by the founder, i.e. Pražská energetika, a.s. until the incorporation of the Company.

B. At its meeting on 7 October 2005 (RP-123/2005) the Board of Directors of the parent company decided to change the line of business of PReDistribuce, a.s. as of 1 January 2006 to:

- electricity distribution,
- installation, repairs, inspections and testing of selected electrical devices,
- production, installation and repair of electronic equipment,
- inspection and testing of selected pressure equipment,
- repair and installation of meters,
- testing, measurement, analysis and checks,
- revisions 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 payment of the issue of 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 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 above stated increase.

- D. On 1 January 2006 PREDistribuce, a.s. was taken over with the signing of the Handover and Takeover Record between the companies Pražská energetika, a.s. and PREDistribuce, a.s.**

The sole shareholder approved the subscription of shares by the non-monetary investment contribution, the subject matter of which was part of the enterprise "Distribution Division" valued by an expert opinion at MCZK 21,549.

The registered capital was increased based on a decision of the General Meeting of Pražská energetika, a.s. held on 28 December 2005.

- E. In June 2006 the Board of Directors took note of the approval of the organizational changes by the Board of Directors of PREDistribuce, a.s. applying to the transfer of 50 employees of PREDistribuce, a.s. ensuring the installation of electric meters on LV networks, including the transfer of rights and obligations to PREměření, a.s.**

- F. At its meeting on 19 June 2006 (RP-90/2006) the Board of Directors of the parent company adopted the decision to reduce the registered capital of PREDistribuce, a.s. (this decision was made in view of the fact that the auditors of the subsidiary confirmed the reported accumulated losses from previous years in the value of CZK 3,841,085,719.68 as at 30 April 2006).**

It was decided:

- to reduce the Company 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 registered capital was to compensate the Company accumulated losses from previous years at a total of CZK 3,841,085,719.68 reported in the Company accounting documents in the balance sheet, item A.IV.2.,
- that the sum of CZK 3,841,066,152 corresponding to the reduction in the Company's registered capital will be used for compensation of part of the Company's accumulated losses totalling CZK 3,841,085,719.68. The remaining part of the accumulated losses of CZK 19,567.68 will be left on the account of accumulated losses from previous years,
- the registered capital was reduced by the proportional reduction in the nominal value of all the Company's shares so that the nominal value of one hitherto Company ordinary registered certificated share worth MCZK 1 was reduced by CZK 178,248; i.e. after the reduction of registered capital one Company ordinary registered certificated share had the nominal value of CZK 821,752.

- G. In September 2006 the Board of Directors decided to issue a collective paper No.1 and certified shares No.1 and No. 2 of the issuer PREDistribuce, a.s. replacing 21,549 ordinary registered shares to the nominal value of CZK 821,752 of each share.**

- H. At its meeting on 6 November 2007 the Board of Directors of the parent company (RP-106/2007) decided on the transfer of activities related to meter reading services to a subsidiary PREměření, a.s.**

Important Events

2006

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

2007

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

2008

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

2009**February
March**

- completion of construction and launching of high voltage distribution station 110/22 kV Pankrác,
- the move of the training centre completed from the Novovysočanská building to TR Malešice,
- the Fit for Future project was launched within the Group in cooperation with Facility, s.r.o.,
- third ordinary General Meeting held which assessed the economic results of 2008,

16.4.

April

- completion of the construction of stage II of 110/22 kV TR Smíchov (fully furnished with additional equipment),

June

- activation of anti-flood measures on the territory of the Capital City of Prague, stage I of the flooding activity on the Vltava river,

August

- discussion started on the Collective Agreement for the period of 2010–2013,
- completion of stage II. of the reconstruction of the 110/22 kV Střed substation under full operation of the feeding the city centre without any failure in electricity supply,
- completion of the reconstruction of stage I of VV 2 x 110 kV TR Sever-Roztoky,
- completion of the replacement of the T 102 + T 103 transformers in TR Jinonice,

September

- completion of the reconstruction of the building C in Novovysočanská street to which, in addition to TR Pražáčka, employees of the Network Operations were relocated,

October

- completion of laying the 110 kV cable between TR Malešice and TR Střed,
- Milan Hampl and Petr Dražil re-elected members of the Board of Directors,

December

- completion of Zličín-Jih cable tunnel.

2010**January**

- new Collective Agreement for the period of 2010–2012,
- supervisory audit of EMS system pursuant to ČSN ISO 14001 was successfully carried out,

February

- Milan Hampl was re-elected Chairman of the Board of Directors and also Petr Dražil was re-elected the Vice Chairman for the next term,
- Petr Hulinský, Hermann Lüschen, Drahomír Ruta, Pavel Elis and Karel Urban were elected members of the Supervisory Board for the next term; Radek Hanuš was elected the new member of the Supervisory Board,
- transformer station TR 110/22 kV Smíchov underwent building approval,
- cable duct from TR Zličín-Jih underwent building approval,

22.4.

April

- fourth ordinary General Meeting held assessing the economic results of 2009,

May

- renewal of transformer T 103 40 MVA in TR 110/22 kV Malešice,

June

- for the second time PREDistribuce, a.s. obtained award "Safe Enterprise",

July

- intention to built cable tunnel for leading the cables out from TR Jih towards North approved,
- flexi-time working hours were introduced in the whole Group,

August

- Martin Langmajer and Christian Franz-Josef Schorn were re-elected members of the Board of Directors for the next term,

September

- repair of fault in V 303 + V 304 TR Chodov-TR Řeporyje – section SO01 completed,
- selection of SCADA dispatching system was approved,
- Petr Hulinský was re-elected Chairman of the Supervisory Board and Hermann Lüschen was elected the Vice Chairman for the next term,

October

- renewal of transformer T 102 40 MVA located in TR 110/22 kV Měcholupy,
- Drahomír Ruta resigned from the Supervisory Board with the effect from 1.1.2011, Alexander Sloboda was elected to take over this position,
- repair of breakdown in V 303+ V304 TR Chodov-TR Řeporyje – section SO02 completed,
- laying of 110 kV cable between TR Karlov and TR Pankrác commenced,
- reconstruction of R 110 kV in TR Holešovice,
- replacement of R 22 kV disconnectors in TR Jih completed,
- historic maximum load of 1,209 MW was achieved at 2 p.m.

1.12.

2011**February
March**

- approved upgrade of control system and modifications of R 110 kV in TR Chodov,
- approved contracts for projects: – “Reconstruction of R 110 kV and control system in TR 110/22 kV Prague – Holešovice”,
“Construction of the Bohdalec Cable Tunnel”,
“Reconstruction of R 110 kV and complement to the control system in TR 110/22 kV Letňany”,

April

- work begun on the KT Bohdalec cable tunnel (215m long),
- tender initiated for the purchase of the SCADA dispatching system,
- reconstruction begun of TR Letňany – 1st stage (replacement of the T 101, 110/22 kV transformer (40 MVA, new 110 kV cut-out switches, new disconnectors, new T 101 box),

May

- approved investment plan for the “Kabel 110 kV TR Jih - TR Malešice” project,
- approved investment plan for the “Restoration of TR 110/22 kV Lhotka” project,

June**November**

- work begun on the restoration of the transformer T 101, 63 MVA, 110/22 kV in TR Střed,
- completion of the laying of cable 110 kV Pankrác-Karlov,
- completion of the first stage of the reconstruction of TR Letňany,

December

- work begun on the KT Slavia cable tunnel,
- completion of the modification of T 101 for the new transformer 110/22 kV, 63 MVA,
- acquisition of the ETT Energetika site in Prague 9-Vysočany,
- completion of the 1st stage of reconstruction of TR 110/22 kV Holešovice,
- KT Bohdalec, construction nearing completion, finishing work underway.



Miroslav Barták – Emergency Service

The department removes outages and interruptions in electricity supply in the VHV, HV and LV networks, and marks out faulty parts in cooperation with the relevant dispatching centre.



OVOST

Brief History and current Situation in the Power Industry – Unbundling

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

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

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

Recapitulation of important events in the power industry in 2011; overview of the relevant legal regulations

In 2011 all electricity customers, just as before in 2006–2010, had the opportunity of selecting their supplier upon their own discretion (Act No. 458/2000 Coll.). This year was also the second year of the third regulatory period (from 1 January 2010 to 31 December 2014). The existing methodology was regulated for the needs of the third regulatory period which was the result of the analysis of the original methodology, experiences of the function of regulation methodology in the previous regulatory periods and the conclusions of the consultancy process with market participants in 2009. The aim of the methodology is to determine the appropriate level of profit for the distribution company for the five years of the third Regulatory Period, ensure the adequate quality of the services provided to customers while being cost effective, support future investments, ensure sources for the renewal of the network and continue to increase efficiency from which customers will also profit.

The following Acts were issued and became effective in 2011:

During the year Act No. 211/2011 Coll. which amends Act No. 458/2000 Coll. on business conditions and public administration in the energy sectors and on amendment of other laws /the "Energy Act"/ was issued. The amendment applies to the regulation of the execution of state administration, particularly the activity of the ERÚ and continues with the further regulation of relations between the electricity trader and the customer (it came into effect from 18 August 2011 with the exception of Section 17d /charge for ERÚ activity/ which came into force only from 1 January 2012).

On 1 January 2011 Act No. 402/2010 Coll., of 14 December 2010 came into force amending Act No. 180/2005 Coll. on the promotion of electricity generation from renewable energy sources and amendment of certain laws (Renewable Sources Exploitation Promotion Act), as amended.

On 14 November 2011 Act No. 299/2011 Coll. came into force amending Act No. 406/2000 Coll. on energy management, as amended.

In 2011 a Government Regulation was issued and came into force:

Just as in 2010 so in 2011 Government Regulation No. 316/2011 Coll. was issued laying down the limit of state budget funds for providing subsidies for covering additional costs related to promotion of electricity from renewable sources for 2012. It came into force from 27 October 2011.

In 2011 the following decrees were issued and came into force:

On 1 January 2011 Decree No. 400/2010 Coll. came into effect on electricity market rules, principles of pricing for the electricity market operator's activities and implementation of certain other provisions of the Energy Act, as amended, which amends Decree No. 541/2005 Coll.

On 6 December 2011 the amended ERÚ Decree No. 371/2011 Coll. came into force on electricity market rules (superseding the abovementioned Decree No. 400/2010 Coll.). The most substantial parts of the amendment of the Decree ***is the fundamental regulation of the principle of change of the electricity supplier in 2012*** which responds not just to the current experience with the existing system, but unifies, to the maximum possible extent, the principles of change of the supplier for the electricity and gas market. However, the new principles of change of supplier were substantially based on the existing process of change of gas supplier.

On 1 January 2011 Decree No. 401/2010 Coll. of 20 December 2010 came into effect on the particulars of the contents of the Transmission System Operation Rules, Distribution System Operation Rules, Transmission System Operator Code, Distribution System Operator Code, Gas Underground Storage Operator Code and Market Operator Business Terms and Conditions.

On 1 April 2011 Decree No. 82/2011 Coll. came into force on electricity metering and method of determining compensation for damage due to unauthorised consumption, unauthorised supply, unauthorised transmission or unauthorised electricity distribution.

As of 1 July 2011 Decree No. 158/2011 Coll. came into force amending Decree No. 352/2005 Coll. on details concerning the disposal of electrical devices and electrical waste and on more specific conditions of financing their disposal.

On 24 November 2011 Decree No. 338/2011 Coll. was promulgated and came into force amending Decree No. 475/2005 Coll. which implements some provisions of the Renewable Sources Exploitation Promotion Act, as amended.

On 12 December 2011 Decree No. 393/2011 Coll. came into effect amending Decree No. 140/2009 Coll. on the method of the regulation of prices in the energy sectors and procedures for price regulation as amended by Decree No. 264/2010 Coll. The amendments arose from the experience of the first year of the third regulatory period and applied to price calculation and corrective factors.

As of 15 December 2011 Decree No. 210/2011 Coll. came into force on the extent, requirements and dates of billing supplies of electricity, gas or thermal energy and related services.

On 27 December 2011 Decree No. 392/2011 Coll. of 1 December 2011 came into effect amending Decree No. 426/2005 Coll. on the granting of licences for business in the energy sectors, as amended.

In 2011 the following ERÚ Price Decisions for 2011 were issued and come into force:

On 1 January 2011 ERÚ Price Decision No. 2/2010 came into force laying down promotion of electricity generation from renewable energy sources, combined electricity and heat generation and secondary energy sources. ***Price Decision No. 7/2011 for 2012 was issued on 23 November 2011 for this area of promotion and prices.***

On 1 January 2011 ERÚ Price Decision no. 4/2010 and No. 6/2010 came into force laying down the price of regulated services related to electricity supply and from 26 September 2011 ERÚ Price Decision No. 3/2010 came into force amending ERÚ Price Decision No. 4/2010 and No. 6/2010. ***Price Decision No. 5/2011 for 2012 was issued on 21 November 2011 for this area of prices.***

On 1 January 2011 ERÚ Price Decision No. 5/2010 came into force laying down prices of regulated services related to the supply of electricity from the low voltage network. ***Price Decision No. 6/2011 for 2012 was issued on 21 November 2011 for this area of prices.***

Human Resources

The parent company performs the personnel administration and wage calculation (payroll). The module used for managing personnel administration is SAP HR version ECC 6.0.

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. During the year 11 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 management of all entities within the Group. A wage regulation is, among other things, a part of the Collective Agreement; 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 manager or director.

It is also one of the Company 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.

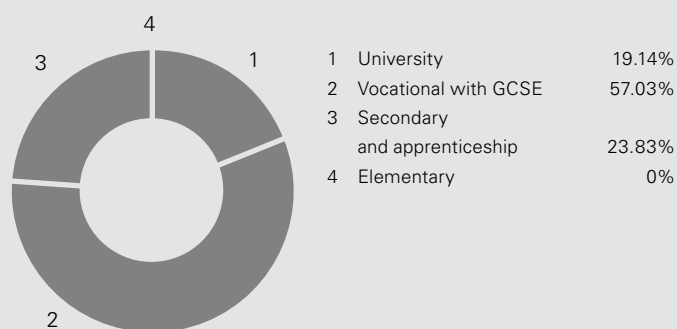
The Company applies a Collective Agreement which is valid for the period of 2010–2012, the third amendment to this collective Agreement was concluded at the end of the year.

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 are being carried out for employees beyond this scope: oncology programme (aimed at prevention and treatment of breast cancer), preventive check-up of thyroid gland, preventive urology programme, vaccination against tick-borne encephalitis, type A hepatitis and influenza.

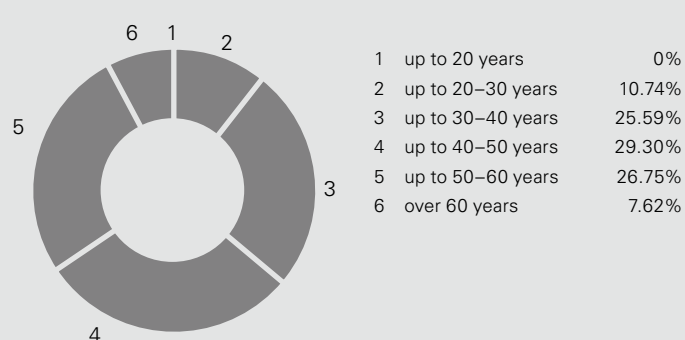
The concept of the Company social policy is based on the need to motivate employees both morally and in the form of financial contributions, remunerations and other forms of appraisal of their work. Great attention is paid to care of employees, improvement of their working and living conditions, housing,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

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

Qualification structure



Age structure



Number of enquiries answered by the Distribution Emergency Line

Year	2011	2010	2009	2008	2007
Total	38,484	32,860	28,800	34,260	31,200
of which breakdowns	17,364	22,160	18,650	23,300	22,300

Number of e-mails answered by the Distribution Emergency Line

Year	2011	2010	2009	2008	2007
Total	1,156	1,577	1,230	679	100

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 very important for reliable operation of the distribution system because their failure would have a greater impact on the network customers.

The investment plan, in segmentation to individual distribution equipment categories, dealt with the extended reproduction of network systems on the one hand based on the available data and with respect to mutual links, while taking into account the expected customer requirements and corresponding development of the load in the individual locations. On the other hand, the investment plan also dealt with the simple reproduction of distribution equipment ensuring with the planned repairs the operating reliability and required level of distribution services expected by the customers in the Capital City. The level of supply quality and the services associated with this was determined by secondary ERÚ (Energy Regulatory Office) 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 Decree of the ERÚ No. 540/2005 Coll. as amended.

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

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

The part of the investment programme dealing with so-called strategic investments deserves special attention as this particularly involves the construction of new 110/22 kV transformer points and their system connection at the 110 kV level. They also involve additional equipment and extension of the capacity of these stations resulting from the development of load profile in areas which they supply including the construction of new connection lines ensuring the optimal feeding of output to lower levels of the network.

Strategic Investments

Based on the approved investment plan, in 2011 the Company continued especially with the trend in extending new backbone networks and careful renovation of the existing VHV and HV networks which are part of the city's critical infrastructure. There also continued optimization related to simplification of HV and LV networks including the renovation of distribution transformer stations. Maintaining the backbone network and its technical level is the best means of preventing large breakdowns which could result in large territorial supply cuts and could ensue in the collapse of part of the city.

The biggest strategic constructions in 2011 were:

- commencement of reconstruction of standard 110/22 kV distribution station in TR Letňany,
- completion of laying of 110 kV cable from TR Karlov to TR Pankrác, operated "in the line end",
- completion of reconstruction of the encapsulated 110 kV distributor in TR Holešovice in the city centre,
- replacement of old 110 kV transformers of MVA in TR Střed,
- complete renovation of additional equipment in five other disconnecting TR 22/0.4 kV stations.

Simultaneously with main constructions in the 110 kV backbone networks or 110/22 kV distribution stations, in 2011 the reconstruction works continued in distribution stations and the HV and LV cable network.

Since the foundation of the Company in 2005, many large investment projects were completed which have proved beneficial to the electricity distribution reliability in the Capital City and Roztoky u Prahy. These investments are a guarantee for continuing trend in the high quality, uninterrupted and safe supply of electricity to the Capital city. All constructions are coordinated with the planning departments of Prague City Council and respect the zoning plan. The Company will continue to be able to fulfil its functions in the field of development and renovate both morally and physically obsolete equipment of the distribution system in the Capital City.

Main strategic constructions planned until 2015 are as follows:

- construction of encapsulated 110/22 kV Karlín substation and provision of output through 22 kV cables for new locations in the area of Rohanský ostrov, part of district Libeň (Švábky) and strengthening the existing part of Karlín,
- complete reconstruction of TR Lhotka including the control system (ŘS),
- completion of reconstruction of 110 kV and complement to the control system in TR 110/22 kV Letňany,
- renewal of the control system (ŘS) and extension of TR Chodov by four 110 kV fields.

Other constructions which have been already designed and prepared for realization with a deadline by the end of 2016 are:

- construction of a new outdoor 110/22 kV distribution station at Uhřetěves including connection through 110 kV lines between TR Chodov and TR Malešice,
- renovation of outdoor 110/22 kV distribution station at Třeboradice which PREDistribuce, a.s. bought in 2010 from Pražská teplárenská, a.s.,
- construction of outdoor 110/22 kV distribution station at Písnice in line with the construction of the underground,
- renovation of overhead 110 kV lines in the North of Prague from TR Sever up to TR Východ,
- replacement of overhead 110 kV lines between TR Malešice and TR Jih by cable lines.

Except for these activities, in the area of completed automated operation of 110/22 kV transformer stations and 22/0.4 kV switching stations, the attention will be focused on the continuity of supply with the possibility to use the automatic substitutes made possible by state-of-the-art control and telemetric (tele-mechanisation) systems of distribution system stations, especially at important large customers.

Also the preparation of PREDistribuce, a.s. networks and equipment for smart grids deployment (the so-called Smart Grid), including the intelligent AMM metering by the year 2020 are already now a big challenge for Company employees, especially as regards economic efforts and maximisation of benefits related to energy saving and customer servicing.

Overview of investment funds allocations in 2006-2011 (MCZK)

	Total investments	Distribution equipment			
		VHV	HV	LV	Electric meters
2006	1,282.2	398.2	452.4	271.7	159.9
2007	1,428.0	412.2	665.1	221.8	128.8
2008	1,723.6	851.3	438.9	341.5	91.9
2009 ¹	1,632.2	604.5	636.1	299.7	92.0
2010 ²	1,652.8	464.3	833.5	268.4	86.7
2011³	1,701.3	493.7	772.4	371.7	63.5

Note: ¹ Without interest capitalisation 2009 (MCZ 21,281).

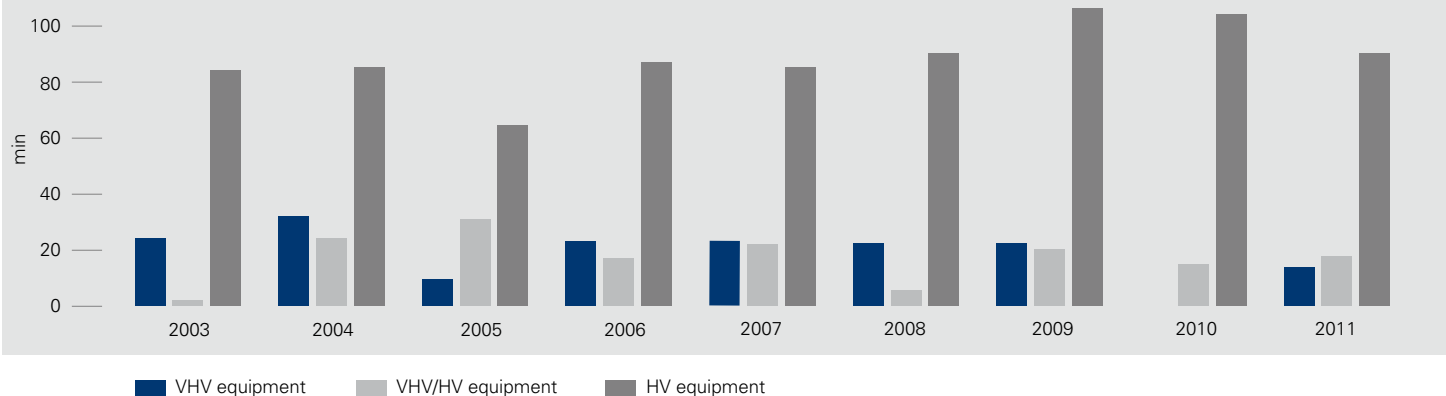
² Without interest capitalisation 2010 (MCZK 27,009).

³ Without interest capitalisation 2011 (MCZK 26,334).

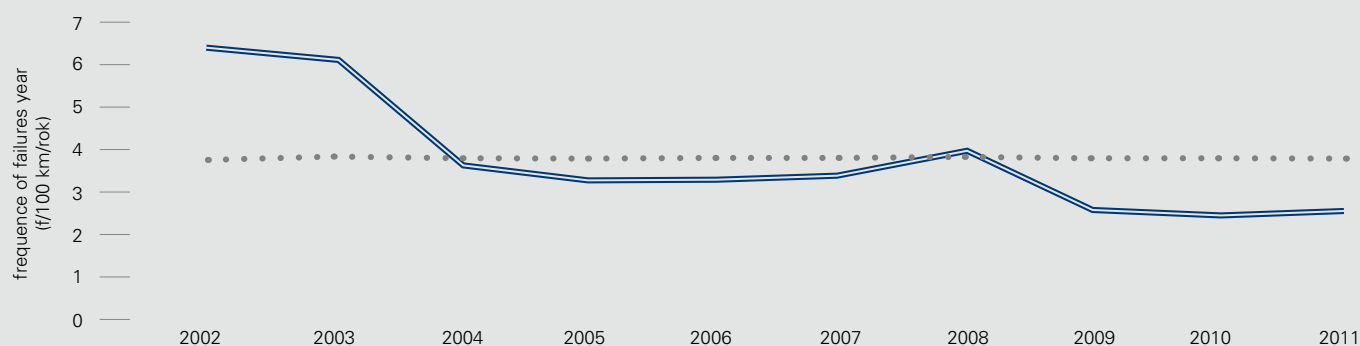
Overview of the development of selected network indicators

Indicator	Unit	2011	2010	2009	2008	2007	2006
Network load maximum	MW	1,205	1,209	1,207	1,147	1,141	1,090
Length of VHV network	km	202	202	202	206	196	196
Number of VHV/HV stations	Unit	22/24	22/24	21/24	21/24	20/23	20/23
Length of HV lines	km	3,863	3,829	3,780	3,701	3,670	3,476
Total number of HV stations	Unit	4,839	4,778	4,796	4,783	4,750	4,693
Number of HV/LV distribution stations	Unit	3,295	3,254	3,277	3,281	3,272	3,258
Length of LV network	km	7,836	7,750	7,693	7,645	7,678	7,557

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

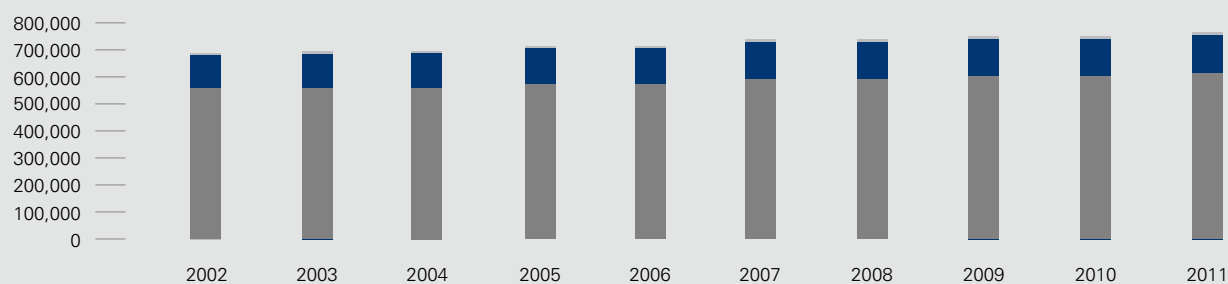


Frequency of 22 kV cable failures



..... Average frequency in 2002-2011 was 3.8 failure/100 km/year

Number of electricity consumption points



Large customers
(1,970*)

Retail-small businesses
(134,679*)

Retail-households
(617,944*)

*Figure 2011

Development of electricity distribution in 2007-2011 (GWh)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
2007	580	515	548	475	476	462	450	459	469	543	590	604	6,172
2008	607	552	574	524	489	473	471	470	495	546	570	603	6,373
2009	644	564	587	488	485	471	464	465	464	545	554	608	6,339
2010	640	565	578	505	501	476	480	472	482	542	563	647	6,450
2011	620	565	576	493	499	476	454	475	467	532	570	584	6,311

Financial Report

In 2011 PREDistribuce, a.s. created a profit after tax of MCZK 1,133.2 which means, if compared with the previous year, an increase of MCZK 222.9. Gross profit from distribution services sales (trade margin) achieved a value of MCZK 4,446.7 and showed an increase of MCZK 327.6 compared with last year.

The income from operations reached the value of MCZK 1,497.5 which means a year-on-year increase of MCZK 294.3; the produced added value compared with last year increased to the value of MCZK 2,936.8 (increase of MCZK 245.7). The financial income showed a loss of MCZK 53.3.

The most important cost items influencing the profit in 2011 were the costs of transmission and distribution services of MCZK 4,666.1. The year-on-year increase of MCZK 1,040.6 was predominantly caused by the statutory support of the combined generation of electricity and heat (MCZK 966.7). Another item was purchased services (within and outside the Group) of MCZK 1,497.8 (year-on-year increase by MCZK 92.5), depreciation of long-term intangible and tangible assets of MCZK 1,265.8 (year-on-year increase by MCZK 24.1) and personnel expenses of MCZK 388.5 (year-on-year fall by MCZK 14.5). A methodical change resulted in regulating the item Material and Energy Consumption (within and outside the Group), because the item Electricity for Personal Consumption and Loss is reported from 2011 as part of the trading margin (energy expenses to cover technical losses in the distribution system fell year-on-year by MCZK 72.4). Total revenues were the same as last year, revenues from the sales of distribution services (MCZK 9,112.8) accounted for 97% and other operating revenues (MCZK 206.5) accounted for 2%. Their total value compared with 2010 increased by MCZK 1,432 with the item Renewable Sources and Cogeneration contributing to this increase.

The Company's total assets value reached MCZK 27,504.5 which results namely from the increase of long-term assets value by MCZK 404.8 thanks to the investments to the distribution network. Current assets of MCZK 2,531.9 decreased year-on-year by MCZK 66.5, especially due to a decrease of item Short-term Receivables – controlling and managing entity (by MCZK 451.5); there was an increase in item Estimated Accrued Revenues (by MCZK 132.5) due to an increase in unbilled distribution services to lost customers (by MCZK 124.4) and item Bank Accounts also increased (by MCZK 182.2). Accruals reached the value of MCZK 2.5.

In terms of liabilities, there was not just an increase of current profit (loss) by MCZK 222.9 but also an increase of the reserve fund to MCZK 361 in the equity of MCZK 19 202.2. Foreign capital of MCZK 6,416.4 consisted of Long-term Payables of MCZK 3,646.9 (year-on-year decrease by MCZK 406.5) and Short-term Payables of MCZK 2,550.9 (year-on-year increase by MCZK 457.4). These items changed year-on-year due to repayment of one of the parent company loans, the draw of a new loan and transfer of a long-term loan to short-term payables. Reserves increased by MCZK 39.8. Accruals of MCZK 1,885.9 represented namely the value of deferred revenues as shares from applicants for new connections. 70% of the Company's financing was secured from its own sources; 23% came from foreign funds and 7% from other liabilities.

Net cash flow from operating activities increased year-on-year by MCZK 599.6. The main sources of the Company's funds in terms of cash flow were accounting profit (income) before tax of MCZK 1 444.2, depreciation worth MCZK 1,265.8, change in trade receivables (MCZK 416.1) and income from applicants' payments for connection of MCZK 173.5. These sources were used for investment activity expenses (MCZK 1,728, including interest capitalisation), for the payment of dividends (MCZK 864) and payment of income tax (MCZK 216). Just as in previous years cash flow had to be secured through loans in connection with an earlier change to the meter reading system.

	Unit	2011	2010	2009	2008	Index 2010/ 2011	Calculation formula
Level of liquidity							
Total revenues	MCZK	9,416.0	7,984.0	7,086.2	6,897.1	1.18	Total revenues
Sales margin from the distribution sales**	MCZK	4,446.7	4,119.1	4,694.8	4,698.7	1.08	Sales margin from distribution
Profit after tax	MCZK	1,133.2	910.2	684.6	879.6	1.24	Profit after tax
Profit after tax without VOD*	MCZK	1,126.6	905.3	675.1	852.1	1.24	Profit after tax – deferred tax
Level of profitability of revenues							
Sales margin from the distribution sales per CZK 1 of revenues	%	48.8	53.2	68.5	70.5	0.92	Sales margin from electricity sales / sales of electricity x 100
Added value per CZK 1 of revenues	%	31.2	33.7	34.0	36.7	0.93	Added value / total revenues x 100
Profit before tax per CZK 1 of revenues	%	15.3	14.2	12.0	15.7	1.08	Profit/loss from regular activity before tax / total revenues x 100
Profit without VOD* after tax per CZK 1 of revenues	%	12.0	11.3	9.5	12.4	1.06	Profit after tax / total revenues x 100
Level of liquidity							
Regular liquidity	%	97.3	123.2	594.4	234.1	0.79	Short-term assets / short-term payables x 100
Turnover of short-term receivables	Number of turnovers	3.7	3.1	2.8	2.7	1.21	Total revenues / status of short-term receivables at the end of the year
Turnover of short-term payables	Number of turnovers	3.6	3.8	16.9	6.3	0.96	Total revenues / status of short-term payables at the end of the year
Equity interest in total invested capital	%	69.81	69.74	70.14	71.63	1.00	Equity / total invested capital x 100
Equity interest to foreign capital	%	231.3	230.5	234.8	253.0	1.00	Equity / total foreign capital x 100
Level of return							
Sales margin from distribution per CZK 1 (long-term + long-term payables) x 100	%	17.9	16.5	19.9	19.8	1.09	Sales margin from distribution / (Equity + long-term payables)
Return on sales – ROS without VOD*	%	12.0	11.3	9.5	12.4	1.06	Profit after tax / total revenues x 100
Return on total assets – ROA without VOD*	%	4.1	3.3	2.5	3.2	1.23	Profit after tax / total assets x 100
Return on equity – ROE without VOD*	%	5.9	4.8	3.6	4.5	1.23	Profit after tax / equity x 100
Return on invested capital	%	5.4	4.4	3.5	4.3	1.23	(Profit before tax + expense interest) / total invested capital x 100
Turnover of total invested capital	Number of turnovers	0.3	0.3	0.3	0.3	1.16	Total revenues / total invested capital
Added value labour productivity	TCZK/employee	5,792.5	5,339.6	4,684.7	4,917.5	1.08	Added value / average adjusted number of employees
Total revenues labour revenues	TCZK/employee	18,571.9	15,841.2	13,786.4	13,392.4	1.17	Total revenues/average adjusted number of employees
Average adjusted number of employees	persons	507	504	514	515	1.01	Number of employees

Note: * Without the impact of deferred tax.

** In view of the more faithful picture of gross profit from the sales of distribution services, except for the distribution and system services purchase expenses, the electricity purchase expenses for personal consumption and coverage of the Company energy losses have also been reported since 2011. The data for 2010 have been revised likewise.

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

The companies of the PRE Group rank among those modern organizations which prioritise their care and responsibility for environmental protection and attempt to constantly improve the conditions for its protection.

In the framework of environment protection policy, considerable funds are invested to modernisation of distribution system equipment. Older oil transformers are constantly being replaced by hermetically sealed transformers or ones without oil tanks, so-called dry transformers. This reduces the risk of possible contamination of surface and groundwater.

A functional system has been created at the Group workplaces of sorting and collecting dangerous and other waste including communal waste and re-collection of products. Employees are continuously trained in the entire sphere of environmental protection; selected employees are also trained in how to manage dangerous chemical substances and preparations. An instruction presentation is available for training on the Intranet.

The ISO 14 001–EMS system has been introduced in PRE and PREdistribuce, a.s. In 2011 a surveillance audit was carried out in both companies.

Environmental Protection Policy

The following requirements in the field of environmental protection have been defined within the Group:

- observe legal regulations in all areas 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 of all other kinds of waste and packaging, and sorting selected kinds of waste which can be freely returned for recollection,
- consistently observe the system of handling of dangerous substances and dangerous waste; return waste to firms authorised for its disposal,
- systematically train employees handling dangerous chemical substances and preparations with due regard to health and environmental protection,
- increase the awareness of employees for the need of environmental protection and the efforts to constantly improve it through the system of information and education.

Safety and Protection of Health at Work Policy

PREdistribuce, a.s. as an independent entity is a holder of “Safe Enterprise” Award. This system of safety and health protection management system is based on the responsibility of managers and ordinary employees for their health, creation of safe work procedures, technologies and observance of legal regulations in all work activities. From the very beginning, the introduction of the system brought good results, specifically in work injuries. As early as in 2005 there was a fall in the rate of work injuries, especially serious. Currently injuries while walking have been reported. In 2011 the number of injuries increased if compared with 2009 and 2010; five injuries were reported.

The companies of the PRE Group have been awarded the title of “Third Level Health Supporting Enterprise” for the third time which is the highest award in this area.

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

- safety and protection of health at work as an integral part of the Company’s activity management,
- common objective of the Group’s management members and all employees—to avoid risk situations and threats by consistent observance of occupational safety principles,
- 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 are observed.





Jiří Ullrich – Technical Controlling

The department updates and maintains the network elements in the form of Elements Catalogue, coordinates and issues PREdi norms, settles complaints and damage compensation of PREdi customers related to the operation of the distribution system.



Risk Management System in the Company, in the PRE Group respectively

The risk management system within the PRE Group is an organized process based on a two-level arrangement. A unified methodical mechanism ensuing from common normative framework is bounding for each company of the Group. Every company nominates its own Risk Management Committee which discusses in detail monitored risks within individual companies. Consequently, a consolidation of risks is carried out within the Group and the Group Risk Management Committee based on Overall Consolidated Report on Risk Management sets the strategy of the risk management within the overall risk exposure of the Group.

Principle roles and responsibilities of key players of the risk management system have been explicitly assigned and defined, namely of the Risk Management Committee, the PRE Group Risk Manager, risk managers of individual companies and other persons involved in it. The risk management organizational structure is relatively independent of the line management structure.

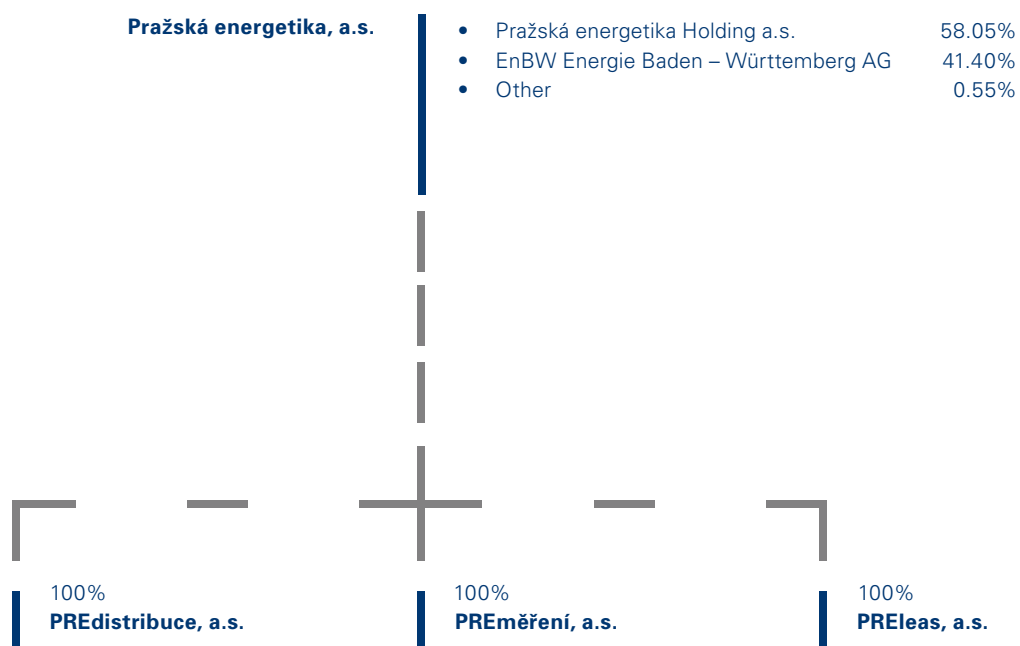
Identification processes, analyses, measuring, monitoring and reporting of individual risks specifically form the basic pillars of the risk management system. The basis of reporting is formed by regular, uniformly structured reporting which involves assessment of individual monitored risks and the most important measures serving to reduce the risk exposure. Systematic risk monitoring is performed in the market, financial, credit, legislative-regulatory categories, operating risk and other risk categories.

Monitored risks are projected with regard to their expected level of impact and relative frequency. Other specific measurement indicators have been introduced for financial and market risks such as VaR, CFaR, maximum loss and the like. Binding limits are set for selected indicators.

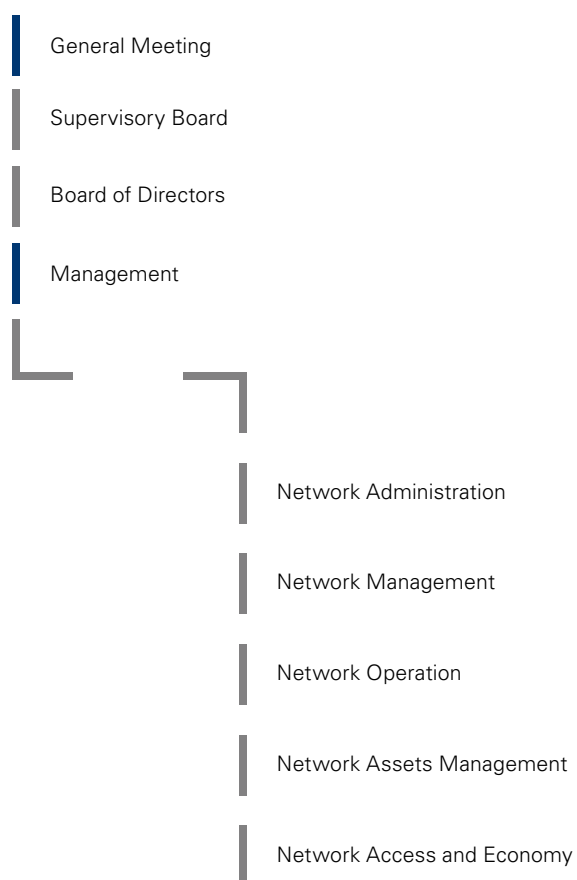
One of the most significant tasks of the risk management system is to also ensure the function of timely warnings and assessment of remedy measures efficiency. The risk management system focuses above all on the main monitored risks the impact of which, according to the assessment, represents potentially the greatest threat. An effort to identify all actual risks which are listed in the catalogue of risks is proceeded continuously. The Risk Management closely cooperates with the functions of the Group internal audit and thus helps to identify key interest areas.

Further development of the risk management system arises from the need of tighter cooperation in the framework of the EnBW shareholders group and utilization of shared know-how in this field.

The PRE Group and Company Management



Company Organization Chart



Report on General Meetings held during the Year

During 2011 one General Meeting was held (in the form of a decision of the parent company as the sole shareholder).

General Meeting on 12 May 2011

The subject of meeting was the approval of the Board of Directors Report on Company management for 2010 and the state of its assets, the Report on the relations between the related persons, the Regular Financial Statements for 2010, distribution of profit, remuneration of members of the Company bodies, allocations to funds and the Annual Report for 2010. The General Meeting also took note of the Report of the Board of Directors on the entrepreneurial activity of the Company in 2010 and the state of its assets. The General Meeting also approved the texts of contracts about the conditions for executing the position of a member of the Board of Directors and a member of the Supervisory Board.

The Company Line of Business

**The line of business is as follows:**

- electricity distribution,
- assembly, repairs, revision and testing of electrical equipment,
- production, installation, repair of electrical machinery and instruments, electronic and telecommunications equipment,
- production, trade and services not stated in Annexes 1 to 3 of the Trade Licensing Act in the fields:
 - repairs and maintenance of household equipment, objects of a cultural nature, fine mechanical products, optical instruments and meters,
 - advisory and consulting activity, processing of expert studies and opinions,
 - leasing and renting of movables,
 - preparation and drafting of technical designs, graphic and draftsman work,
 - real estate activity, property administration and maintenance,
 - testing, metering, analyses and checking.

Information Required in accordance with Legislation in force

Information about facts which occurred after the balance sheet day

The data are continuously shown in the text of the Annual Report and are marked in bold italics.

Registered office of the organisational unit contributing at least 10% to the Company's turnover

– registered office of the organizational unit contributing at least 10% to the Company total turnover, production or services the issuer provides

The Company has no organizational unit which would meet the prescribed criteria. The parent company has an organizational unit in Slovakia but its share in total parent company's turnover is less than 10%.

Research and development policy

– the Company will state information on research or development policy of new products or procedures in the current accounting period should these be significant

In view of the line of business, the Company does not conduct development policy or any new product research.

Information about the interruption of business

– information about the interruption of business which may have or had a significant effect on the financial situation in the current period

The Company did not interrupt its business in 2011.

Significant change of the Company's financial situation

– no significant change in the Company's financial situation occurred since the last financial period

Realization of redemption offer

– the Company did not receive any redemption offer

Assumed economic results of the Company

– information may be found in following chapters of the Annual Report – “Foreword of the Chairman of the Board of Directors”, “Company Strategy” and “Investments or Strategic Investments”

Information about activities in the field of environmental protection, legal and labour relations

The data are found in chapters “Ecology, Environmental Protection, Safety and Protection of Health at Work” and “Human Resources”.

Information about objectives and methods of the Risk Management in the Company

The data are found in the chapter “PRE Group Risk Management System”.

Information about price, credit and liquidity risks and risks related to cash flow to which the accounting unit is exposed

The data are found in the financial statements.

Report on Relations between Connected Persons

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 by the Municipal Court in Prague, Section B, File 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 by the Municipal Court in Prague, Section B, File 10158.

List of Persons controlled by the same Controlling Person:

The Controlled Person: PREměření, a.s.

with registered office: Prague 10, Na Hroudě 2149/19, PCN 100 05, ID No.: 25677063, entered in the Commercial Register kept at the Municipal Court in Prague, Section B, File 5433.

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, File 4033.

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

I. Contractual Relations between the Controlled Person PREDistribuce, a.s. and the Controlling Person Pražská energetika, a.s.

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

- Amendment No. 1 – in force as of 28.12.2006
- Amendment No. 2 – in force as of 31.12.2007
- Amendment No. 3 – in force as of 31.12.2008
- Amendment No. 4 – in force as of 1.4.2009
- Amendment No. 5 – in force as of 15.12.2009
- Amendment No. 6 – in force as of 21.12.2010
- Amendment No. 7 – in force as of 21.6.2011

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

- Amendment No. 1 – in force as of 1.1.2008
- Amendment No. 2 – in force as of 1.3.2009

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

- Amendment No. 1 – in force as of 1.1.2008
- Amendment No. 2 – in force as of 1.3.2009

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

- Amendment No. 1 – in force as of 1.9.2006
- Amendment No. 2 – in force as of 1.3.2008
- Amendment No. 3 – in force as of 1.4.2011

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

- Amendment No. 1 – in force as of 1.9.2006
- Amendment No. 2 – in force as of 1.4.2007
- Amendment No. 3 – in force as of 31.12.2007

"Contract on the Lease of Non-residential Premises" No. P200006/09 – in force as of 1.1.2006 for indefinite period

Amendment No. 1 – in force as of 1.12.2007

Amendment No. 2 – in force as of 1.9.2008

Amendment No. 3 – in force as of 1.4.2010

Amendment No. 4 – in force as of 1.4.2011

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

Amendment No. 1 – in force as of 31.12.2007

Amendment No. 2 – in force as of 1.1.2010

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

Amendment No. 1 – in force as of 1.11.2007

Amendment No. 2 – in force as of 1.1.2008

Amendment No. 3 – in force as of 1.4.2010

Amendment No. 4 – in force as of 1.2.2011

"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 for the Distribution System Operator Own Needs" No. P200006/14
– in force as of 1.1.2006 for indefinite period

"General Contract on Electricity Distribution to Customers' Consumption Points of the Trader with Electricity" No. PS20000011/011 – in force as of 1.1.2011 for indefinite period

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

Amendment No. 1 – in force as of 25.1.2006

Amendment No. 2 – in force as of 17.6.2008

Amendment No. 3 – in force as of 25.6.2008

Amendment No. 4 – in force as of 13.10.2008

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

"Licence Contract" No. PS20000011/029 – in force as of 3.1.2011 for indefinite period

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

Amendment No. 1 – in force as of 31.12.2008

Amendment No. 2 – in force as of 9.12.2009

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

Amendment No. 1 – in force as of 1.1.2010

Amendment No. 2 – in force as of 1.1.2011

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

"Contract for Work Administration, Operation and Maintenance of Optical Networks" No. PS21000111/079 – in force as of 1.7.2011 for indefinite period

"Contract for Work" No. PS23310209/012 – in force as of 1.1.2009 for indefinite period

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

Amendment No. 1 – in force as of 1.1.2009

"Contract on Loan No. 1/2009" No. PS20000009/017 – in force from 6.6.2009 to 30.6.2012

Amendment No. 1 – in force as of 29.6.2009

Amendment No. 2 – in force as of 29.6.2010

Amendment No. 3 – in force as of 29.6.2011

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

Amendment No. 1 – in force as of 27.11.2008

Amendment No. 2 – in force as of 27.11.2009

Amendment No. 3 – in force as of 29.11.2010

"Lease Contract" No. NO21109/001 – in force from 1.3.2009 to 31.12.2015

"Lease Contract" No. NO21109/006 – in force as of 1.4.2009 for indefinite period

"Contract on Creation of Easement" No. VV/G33/03236/07/3065 – in force as of 26.1.2007 for indefinite period

"Contract on Creation of Easement" No. VV/G33/03502/07/4849 – in force as of 26.1.2007 for indefinite period

"Contract on Creation of Easement" No. VV/G33/03665/07/4394 – in force as of 29.11.2007 for indefinite period

"Contract on Creation of Easement" No. VV/G33/03938/08/5562 – in force as of 2.4.2008 for indefinite period

"Contract on Creation of Easement" No. VV/G33/04067/07/6065 – in force as of 12.11.2007 for indefinite period

"Contract on Creation of Easement" No. VV/G33/04295/08 – in force as of 5.2.2008 for indefinite period

"Contract on Creation of Easement" No. VV/G33/04449/08/5877 – in force as of 13.10.2008 for indefinite period

"Contract on Creation of Easement" No. VV/G33/04457/08 – in force from 2.4.2008 to 2.4.2048

"Contract on Creation of Easement" No. 33200/4793/08/5678 – in force as of 19.1.2009 for indefinite period

"Contract on Creation of Easement" No. 33200/5001/08 – in force as of 12.12.2008 for indefinite period

"Agreement on Future Contract on Creation of Easement" No. VB/S24/1010230 – in force as of 23.11.2010

"Contract on Creation of Easement" No. VV/G33/06487/1006936 – in force as of 21.5.2010

"Purchase Contract" No. KV/G33/07628/1112867 – in force as of 17.8.2011

"Contract on Creation of Easement" No. VV/G33/07210/1110903 – in force as of 12.5.2011

"Lease Contract" No. NO21111/011 – in force as of 1.4.2011 for indefinite period

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

PREměření, a.s.

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

Amendment No. 1 – in force as of 1.1.2008

Amendment No. 2 – in force as of 1.1.2009

Amendment No. 3 – in force as of 1.1.2010

Amendment No. 4 – in force as of 1.1.2011

Amendment No. 5 – in force as of 1.7.2011

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

Amendment No. 1 – in force as of 2.1.2008

"Contract on Lease of Land" No. N21110/016 – in force from 1.4.2010 to 31.12.2030

"Contract on Lease of Land" No. NO21110/004 – in force from 1.9.2010 to 31.12.2030

"Contract on Lease of Land" No. N21110/039 – in force from 1.10.2010 to 31.12.2035

Amendment No. 1 – in force as of 9.12.2010

"Contract on Lease of a Part of Property" No. NO21110/005 – in force from 1.10.2010 to 31.12.2035

Amendment No. 1 – in force as of 9.12.2010

"Contract on Delivery of Metering Equipment" No. C00456/10, PS21000111/038 – in force from 10.1.2011 to 31.12.2011

"Contract on Settlement of Regulated Payments for Electricity Generated from Renewable Sources" No. 65024896/2010, PS25002110/133, PS25002110/033, PS25002110/208, PS25002110/209, PS25002110/210, PS25002110/213, PS25002110/214 – in force as of 20.12.2010 for indefinite period

"Contract on Electricity Supply from Renewable Sources" (C00420/10) (FVE Jinonice) – in force as of 26.5.2010 for indefinite period

Amendment No. 1 – in force as of 1.4.2011

"Contract on Connection to the Distribution System on LV Level" No. 6149169/2010 (C00422/10) (FVE Jinonice) – in force as of 26.5.2010 for indefinite period

"Contract on Connection to the Distribution System on LV Level" No. 6168552/2010 (C00442/10) (FVE Lhotka) – in force as of 4.8.2010 for indefinite period

"Contract on Electricity Supply from Renewable Sources" (C00445/10) (FVE Lhotka) – in force as of 1.10.2010 for indefinite period

Amendment No. 1 – in force as of 1.4.2011

"Contract on Electricity Supply from Renewable Sources" (C00465/10) (FVE Pražáčka TO 03) – in force as of 26.5.2010 for indefinite period

Amendment No. 1 – in force as of 1.4.2011

"Contract on Electricity Supply from Renewable Sources" (C00466/10) (FVE Pražáčka TO 02) – in force as of 28.12.2010 for indefinite period

Amendment No. 1 – in force as of 1.4.2011

Amendment No. 2 – in force as of 1.4.2011

"Contract on Electricity Supply from Renewable Sources" (C00467/10) (FVE Pražáčka TO 04) – in force as of 28.12.2010 for indefinite period

Amendment No. 1 – in force as of 1.4.2011

"Contract on Electricity Supply from Renewable Sources" (C00468/10) (FVE Sever) – in force as of 28.12.2010 for indefinite period

Amendment No. 1 – in force as of 1.4.2011

"Contract on Electricity Supply from Renewable Sources" (C00469/10) (FVE Hrouda) – in force as of 28.12.2010 for indefinite period

Amendment No. 1 – in force as of 1.4.2011

"Purchase Contract" No. PS20000011/010, C00490/11 – in force as of 1.5.2011

"Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200011/003, C00478/11 – in force from 13.4.2011 to 28.2.2013

PREleas, a.s.

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

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

Leasing contracts No. 0200014 to 0200018 – in force as of 1.2.2002

Leasing contracts No. 0300005 to 0300014 – in force as of 1.2.2003

Leasing contract No. 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. and PREleas, a.s.

From performance of these contracts PREDistribuce, a.s. has not incurred any loss of assets and no consideration has been provided that would be disadvantageous from the point of view of PREDistribuce, a.s. It is for these reasons that there is no need to conclude any contract between the companies for compensation of loss of assets and no such loss had to be compensated by the end of 2011 to the companies Pražská energetika, a.s., PREměření, a.s. and PREleas, a.s. The abovementioned business contracts were concluded under the usual business custom practice with no advantage to one or the other contractual parties.

In Prague, 1 March 2012

**Milan Hampl**

Chairman of the Board of Directors

**Petr Dražil**

Vice Chairman of the Board of Directors

Supervisory Board Report

In 2011 the Supervisory Board performed tasks as laid down by the law and the Company's Articles of Association. In accordance with § 197–§ 201 of the 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 plan. In 2011 the Supervisory Board met four times. The year 2011 was the sixth year of the Company's real activity.

The Supervisory Board at its meetings above all discussed the investment plans necessary for fulfilling the Company's objectives. This concerned namely the upgrade of the management system, alterations in R 110 kV in TR Chodov, investments for projects "Cable 110 kV TR Jih - TR Malešice" and "Renovation of TR 110/22 kV Lhotka".

The Supervisory Board discussed and analysed the regular financial statements for the year 2010 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 § 66a, (9) of the Commercial Code.

Thereafter the Supervisory Board also approved:

- explicit tasks of the Company's Director,
- assessment of tasks stipulated by the Company's Director for the year 2010,
- text of the Annual Report for the year 2010.

At its meeting held in 2012, the Supervisory Board discussed and analyzed the regular financial statements for the year 2011 and became acquainted with the auditor's report to the regular financial statements; it approved the text of the Annual Report for the year 2011.

The Supervisory Board states that the Company's economic results in 2011 were very good and expresses its thanks to the members of the Company's Board of Directors and employees.

In Prague 15 March 2012



Petr Hulinský

Chairman of the Supervisory Board

Independent Auditor's Report

To the Shareholders PREdistribuce, a.s.

Having its registered office at: Svornosti 3199/19a, Praha 5, 150 00, Czech Republic
Identification number: 273 76 516

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 21 February 2012 on the financial statements which are included in this annual report on pages 45 to 62:

We have audited the accompanying financial statements of PREdistribuce, a.s., which comprise the balance sheet as of 31 December 2011, 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing 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 about 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 2011, 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 2011 which is included in this annual report on pages 38 to 41. 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 Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires 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 2011 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 of the Company as of 31 December 2011 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 of the Company is consistent, in all material respects, with the financial statements referred to above.

In Prague on 30 March 2012

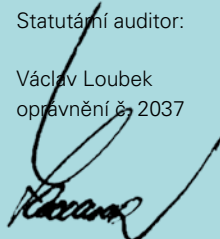
Auditorská společnost:

Deloitte Audit s.r.o.
oprávnění č. 79



Statutární auditor:

Václav Loubek
oprávnění č. 2037



Separate Financial Statements in Full Version as at 31 December 2011

Income Statement (CZK thousand)

Line	Text	Note	2011	2010
I. 1.	Sales of distribution services in the Group		7,118,282	6,547,957
I. 2.	Sales of distribution services outside the Group		1,994,509	1,196,635
A.	Costs of distribution and system services		(4,666,108)	(3,625,467)
+	Gross margin	(1)	4,446,683	4,119,125
II.	Other income	(1)	29,426	27,559
II. 1.	Income from other services		28,161	22,619
II. 3.	Own work capitalised		1,265	4,940
B.	Purchased consumables and services	(3)	(1,539,295)	(1,455,522)
B. 1.	Consumed material and energy		(41,512)	(50,281)
B. 2.	Purchased services		(1,497,783)	(1,405,241)
+	Added value		2,936,814	2,691,162
C.	Staff costs	(2)	(388,545)	(403,013)
C. 1.	Payroll costs		(263,903)	(253,157)
C. 2.	Remuneration to members of statutory bodies		(3,286)	(3,286)
C. 3.	Social security and health instance costs		(94,002)	(92,380)
C. 4.	Social costs		(27,354)	(54,190)
D.	Taxes and fees		(9,274)	(8,342)
E.	Depreciation of tangible and intangible fixed assets	(7, 8)	(1,265,792)	(1,241,672)
III.	Sales of fixed assets and material		66,736	15,896
III. 1.	Sales of fixed assets		66,735	15,894
III. 2.	Sales of material		1	2
F.	Net book value of sold fixed assets		(28,754)	(20,404)
G.	Change in reserves and provisions		(809)	(4,584)
IV.	Other operating income	(1)	206,525	195,921
H.	Other operating expenses		(19,409)	(21,747)
*	Operating profit or loss		1,497,492	1,203,217
X.	Interest income	(4)	471	1
N.	Interest expenses	(4)	(53,648)	(70,301)
XI.	Other financial income		28	4
O.	Other financial expenses		(147)	(140)
*	Financial profit or loss		(53,296)	(70,436)
Q.	Income tax on ordinary activities	(5)	(276,698)	(222,541)
Q. 1.	- payable		(275,196)	(227,529)
Q. 2.	- deferred		(1,502)	4,988
**	Profit or loss on ordinary activities		1,167,498	910,240
R.	Extraordinary expenses	(6)	(42,378)	–
S.	Income tax from extraordinary activities	(5)	8,052	–
S. 2.	- deferred		8,052	–
***	Extraordinary loss		(34,326)	–
****	Profit or loss for the current period		1,133,172	910,240

Balance Sheet (CZK thousand)

Line	Text	Note	2011		2010
			Gross	Adjustment	Net
	TOTAL ASSETS		47,469,376	(19,964,863)	27,504,513
B.	Fixed assets		44,916,174	(19,946,009)	24,970,165
B. I.	Intangible fixed assets	(8)	48,574	(8,506)	40,068
B. I. 2.	Research and development		13,330	(8,424)	4,906
3.	Software		82	(82)	--
7.	Intangible fixed assets under construction		35,162	--	35,162
B. II.	Tangible fixed assets	(7)	44,867,500	(19,937,503)	24,929,997
B. II. 1.	Land		474,172	--	474,172
2a.	Cable and external wiring		18,947,816	(7,185,754)	11,762,062
2b.	Power structures		12,981,405	(6,335,890)	6,645,515
3a.	Transformer station and switching station technologies		8,272,650	(3,818,167)	4,454,483
3b.	Logistics and management equipment/technology		1,620,102	(1,250,775)	369,327
3c.	Other fixtures and equipment		240,753	(148,159)	92,594
6.	Other tangible fixed assets – electricity meters in the network		1,917,329	(1,198,758)	718,571
7b.	Other tangible fixed assets under construction		371,703	--	371,703
8.	Prepayments for tangible fixed assets		41,570	--	41,570
B. III.	Non-current financial assets		100	--	100
C.	Current assets		2,550,716	(18,854)	2,531,862
C. II.	Long-term receivables		39	--	39
C. II. 1.	Trade receivables		25	--	25
5.	Long-term prepayments made		14	--	14
C. III.	Short-term receivables		2,366,967	(18,854)	2,348,113
C. III. 1.	Trade receivables	(10)	124,538	(18,854)	105,684
2.	Receivables – controlling entity	(17)	49,541	--	49,541
6.	State – tax receivables		60,199	--	60,199
7.	Short-term prepayments made		1,735	--	1,735
8.	Estimated receivables	(17)	2,129,799	--	2,129,799
9.	Other receivables		1,155	--	1,155
C. IV.	Current financial assets		183,710	--	183,710
C. IV. 1.	Cash on hand		1,496	--	1,496
2.	Cash at bank		182,214	--	182,214
D. I.	Deferred expenses and accrued income		2,486	--	2,486
D. I. 1.	Deferred expenses		2,486	--	2,486
3.	Accrued income		--	--	--

Line	Text	Note	2011	2010
	TOTAL LIABILITIES		27,504,513	27,147,762
A.	Equity	(11)	19,202,209	18,933,237
A. I.	Share capital		17,707,934	17,707,934
A. I. 1.	Share capital		17,707,934	17,707,934
A. III.	Funds from profit		361,000	315,000
A. III. 1.	Statutory reserve fund		361,000	315,000
A. IV.	Profit or loss for prior periods			103
A. IV. 1.	Retained earnings		103	63
A. V.	Profit or loss for the current period		1,133,172	910,240
B.	Liabilities		6,416,384	6,325,690
B. I.	Reserves	(12)	218,585	178,764
4.	Other reserves		218,585	178,764
B. II.	Long-term payables		3,646,851	4,053,400
B. II. 2.	Payables – controlling entity	(17)	700,000	1,100,000
9.	Other payables		32	32
10.	Deferred tax liability	(9)	2,946,819	2,953,368
B. III.	Short-term payables		2,550,948	2,093,526
B. III. 1.	Trade payables	(13)	475,659	196,576
2.	Payables – controlling entity	(17)	1,898,492	1,792,469
5.	Payables to employees		14,489	13,310
6.	Social security and health instance payables	(5)	9,579	8,739
7.	State – tax payables and subsidies	(5)	79,980	18,379
8.	Short-term prepayments received		72,749	64,053
C. I.	Accrued expenses and deferred income		1,885,920	1,888,835
C. I. 1.	Accrued expenses		25,383	26,314
2.	Deferred income	(14)	1,860,537	1,862,521

Cash Flow Statement (CZK thousand)

	Note	2011	2010
Opening balance of cash and cash equivalents		1,863	1,762
Operating activity			
Accounting profit from ordinary activity before tax	(7, 8)	1,444,196	1,132,781
Amortisation and depreciation		1,265,792	1,241,672
Write-off of bad debts and other assets		1,725	756
Non-monetary personnel expenses	(12, 14)	(667)	18,215
Change in provisions, reserves and temporary accounts	(14)	(16,602)	71,671
Release of investment contributions to income		(169,807)	(161,261)
Profit (loss) from the sale and disposal of fixed assets	(4)	(36,157)	4,825
Interest	(4)	50,997	67,701
Net cash flow from operating activity before changes in working capital		2,539,477	2,376,360
Change in trade receivables		416,050	(131,937)
Change in trade payables		(3,184)	2,461
Net cash flow from operating activity before tax and interest		2,952,343	2,246,884
Interest paid	(4)	(51,820)	(68,194)
Interest received	(4)	471	1
Income tax paid		(215,933)	(93,203)
Net cash flow from operating activity		2,685,061	2,085,488
Investment activity			
Expenditure related to the acquisition of fixed assets		(1,548,529)	(1,656,666)
Income from investment contributions	(14)	173,492	143,459
Income from the sale of fixed assets		38,734	15,894
Net cash flow from investment activity		(1,336,303)	(1,497,313)
Financial activity			
Change in intercompany financial receivables and payables	(17)	(302,711)	62,126
Dividends paid		(864,200)	(650,200)
Net cash flow from financial activity		(1,166,911)	(588,074)
Change in cash and cash equivalents		181,847	101
Closing balance of cash and cash equivalents		183,710	1,863

Notes to the financial statements – for the year ended 31.12.2011

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.

The Company's principal activity is the distribution of electricity in the region of the City of Prague and Rožtoky u Prahy, covering an area of 505 km², from which it derives most of its revenues. The distribution of electricity is carried out in the public interest and the associated rights and obligations, with the exception of general legal regulations, are regulated by Energy Act No. 458/2000 Coll., as amended, and the related implementation guidance.

Statutory and Supervisory Bodies as of 31 December 2011

Board of Directors

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

Supervisory Board

Petr Hulinský	Chairman, the Capital City of Prague
Hermann Lüschen	Vice Chairman, EnBW, Germany
Pavel Elis	Member, Chairman of the Board of Directors and CEO of PRE
Alexander Manfred Sloboda	Member, Vice-Chairman of the Board of Directors of PRE and Commercial Director of PRE
Karel Urban	Member, PREdi employee
Radek Hanuš	Member, PREdi employee

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

Organisational Structure:

The following five sections report directly to the Company's CEO:

- Network Administration;
- Network Management;
- Network Operations;
- Network Assets Management;
- Network Access and Economy.

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, as amended.

Basis of the Preparation of Financial Statements

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

Foreign Currency Translation

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

Tangible and Intangible Fixed Assets

Assets Held by the Company

Purchased tangible and intangible fixed assets are stated at acquisition cost, which includes the purchase price and costs related to the acquisition. Tangible and intangible fixed assets costing more than CZK 40 thousand and CZK 60 thousand, respectively, with a useful life exceeding one year are recognised in the balance sheet. Acquisition cost does not include investment contributions (see below). The Company used the possibility of capitalising interest in line with Section 47 of Regulation 500/2002 Coll., as amended.

Assets acquired through the contribution to the Company and assets that were used by other entities before the acquisition by the Company are valued based on an expert appraisal. As of the acquisition date of these assets, the Company recognises the acquisition cost and wear and tear resulting from the use of the acquired assets by prior entities.

The cost of internally produced tangible and intangible assets includes direct and indirect costs related to the production of the asset.

Low Value Tangible and Intangible Assets

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

Improvements

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

Depreciation

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

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

Short-Term Receivables

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

Investment Contributions

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

Cash and Cash Equivalents

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

Impairment Losses on Assets

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

Share Capital**Issued Shares**

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

Dividends

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

Cash Pooling

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

Reserves

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

Short-Term Payables

Short-term payables are stated at their nominal value.

Revenue Recognition

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

Expense Recognition*Operating Leases*

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

Finance Leases

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

Income Tax

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that it will be 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. The Company considers the determination of the unbilled distribution of electricity the key area which is subject to the use of estimates. The increase in unbilled distribution is determined using the balance sheet approach as equal to the difference between the aggregate electricity input and output including losses and actual consumption for the relevant period. The total closing level is additionally reviewed by making a control calculation in the customer system.

Contents of the Notes to the Financial Statements

1. Revenue
2. Personnel Expenses
3. Costs of Purchase of Material, Services and Energy
4. Interest Expenses and Income
5. Income Tax
6. Extraordinary Expenses
7. Tangible Fixed Assets
8. Intangible Fixed Assets
9. Deferred Tax Liability
10. Trade Receivables
11. Equity
12. Reserves
13. Trade Payables
14. Temporary Liabilities
15. Leased Assets
16. Related Parties
17. Group Relationships
18. Significant Post Balance Sheet Events

(1) Revenue (CZK thousand)

Revenues and expenses relating to the supply of distribution services	2011	2010
Sale of distribution and system services B2B	3,503,236	2,802,592
Sale of distribution and system services B2C (including B2B NN)	5,569,258	4,913,160
Other income	40,297	28,840
Total income	9,112,791	7,744,592
Costs of the purchase of distribution and system services*)	(4,666,108)	(3,625,467)
Gross profit from the sale of distribution services	4,446,683	4,119,125

*) Since 2011, in view of the more faithful picture of gross profit from the sales of distribution services, the item "Distribution and System Services Purchase Expenses", has also reported expenses for the purchase of electricity for the Company own consumption and expenses to cover its energy losses. The 2010 data have also been revised likewise.

Other income	2011	2010
Income from services rendered in the Group	13,980	8,743
Income from services rendered outside the Group	14,181	13,876
of which: servicing and assembly	7,032	6,542
lease of real estate	4,717	4,368
Capitalisation of fixed assets	1,265	4,940
Total	29,426	27,559

Other operating income	2011	2010
Connection fees	169,807	161,261
Compensation for unauthorised consumption	24,598	26,205
Sundry	12,120	8,455
Total	206,525	195,921

(2) Personnel Expenses (CZK thousand)

	2011	2010
	Staff including management	Staff including management
Average headcount	507	504
Payroll costs	241,479	232,189
Salaries paid depending on the Company's performance	22,424	20,968
Insurance	94,002	92,380
Remuneration of the members of the Company's bodies	3,286	3,286
Other social costs (according to the collective agreement*)	27,354	54,190
Total	388,545	403,013

*) Primarily costs of severance pays and employee benefits defined by the Collective Agreement, specifically catering contributions, bonuses paid to employees in relation to work or life anniversaries, retirement and contributions to additional pension insurance. The increase in costs in 2010 related to the increase in the present value of a long-term reserve for these benefits (due to the decline in interest rates).

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

	2011	2010
Services of the parent company	645,778	637,247
Lease of technologies and technology units	39,282	46,533
Lease of non-residential premises	71,323	71,208
Lease of cars	21,846	21,455
Assembly work and reading of meters	222,757	191,061
Sundry	12,065	10,673
Costs of purchase of material, services and energies in the Group	1,013,051	978,177
Material and consumed energies	36,142	44,952
Repairs of fixed assets	297,491	244,821
Lease of cable tunnels	91,366	89,774
Lease of non-residential premises	38,281	37,592
Sundry	62,964	60,206
Costs of purchase of material, services and outside of the Group	526,244	477,345
Total	1,539,295	1,55,522

(4) Interest Expenses and Income (CZK thousand)

Interest income and expenses	2011	2010
Interest income arising: from cash pooling	471	1
Interest expenses: from cash pooling	(1,643)	(5,702)
Interest expenses: from intercompany loans	(76,157)	(89,005)
Interest expenses: from employee benefits*)	(2,179)	(2,599)
Interest expenses: capitalised interest	26,334	27,009
Interest expenses: other	(3)	(4)
Total (net)	(53,177)	(70,300)

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

(5) Income Taxes (CZK thousand)

Effective tax rate	2011	2010
Profit or loss for the period after tax	1,133,172	910,240
Income tax from ordinary activity	276,698	222,541
Income tax from extraordinary activity	(8,052)	--
Profit before tax	1,401,818	1,132,781
Income tax using the applicable income tax rate	266,345	215,228
Impact of items that are never tax-deductible	3,006	3,584
Corrections of estimates of prior years' taxes	(705)	3,729
Total income tax/effective tax rate	268,646	222,541

Payables to the State	2011	2010
Payables arising from social security and health insurance contributions	9,579	8,739
State – tax payables*)	79,980	18,379

*) Includes primarily personal income tax and VAT.

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

6) Extraordinary Expenses (CZK thousand)

Since 2011, the Company has newly recognised a provision for salaries paid in dependence on the fulfilment of the plan set in the prior year and salaries corresponding to outstanding vacation days incurred as of the balance sheet date. Given that this item was not recognised in the prior period, it is presented as part of the extraordinary profit or loss.

(7) Tangible Fixed Assets (CZK mil.)

	Land	Power structures	Cables and external lines	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
Cost								
Balance at 31 Dec 2009	358.8	19,911.4	17,363.3	1,512.2	1,999.9	275.0	418.1	41,838.7
Additions	14.0	375.9	843.0	49.3	54.8	10.2	328.8	1,676.0
Disposals	(9.7)	(56.9)	(115.2)	(20.9)	(120.5)	(28.1)	--	(351.4)
Reclassification	1.2	166.5	104.1	33.9	6.8	--	(312.5)	--
Balance at 31 Dec 2010	364.3	20,396.9	18,195.1	1,574.5	1,941.0	257.1	434.3	43,163.2
Accumulated depreciation								
Balance at 31 Dec 2009	--	(8,843.9)	(6,441.5)	(1,160.3)	(1,117.3)	(166.5)	--	(17,729.5)
Depreciation	--	(568.4)	(435.4)	(73.2)	(146.9)	(15.1)	--	(1,239.0)
Accumulated depreciation on disposals	--	49.0	112.7	20.3	120.4	28.0	--	330.4
Reclassification	--	--	--	--	--	--	--	--
Balance at 31 Dec 2010	--	(9,363.3)	(6,764.2)	(1,213.2)	(1,143.8)	(153.6)	--	(18,638.1)
Net book value at 31 Dec 2009	358.8	11,067.5	10,921.8	351.9	882.6	108.5	418.1	24,109.2
Net book value at 31 Dec 2010	364.3	11,033.6	11,430.9	361.3	797.2	103.5	434.3	24,525.2

	Land	Power structures	Cables and external lines	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
Cost								
Balance at 31 Dec 2010	364.3	20,396.9	18,195.1	1,574.5	1,941.0	257.1	434.4	43,163.3
Additions	118.1	522.5	669.2	47.8	34.0	4.9	306.8	1,703.3
Disposals	(8.2)	(133.9)	(119.6)	(40.8)	(88.3)	(21.5)	(1.8)	(414.1)
Reclassification	--	468.5	203.1	38.6	30.6	0.3	(326.1)	415.0
Balance at 31 Dec 2011	474.2	21,254.0	18,947.8	1,620.1	1,917.3	240.8	413.3	44,867.5
Accumulated depreciation								
Balance at 31 Dec 2010	--	(9,363.3)	(6,764.2)	(1,213.2)	(1,143.8)	(153.6)	--	(18,638.1)
Depreciation	--	(571.9)	(457.4)	(77.2)	(143.1)	(14.1)	--	(1,263.7)
Accumulated depreciation on disposals	--	112.9	118.9	39.6	88.2	19.7	--	379.3
Reclassification	--	(331.7)	(83.1)	--	--	(0.2)	--	(415.0)
Balance at 31 Dec 2011	--	(10,154.0)	(7,185.8)	(1,250.8)	(1,198.7)	(148.2)	--	(19,937.5)
Net book value at 31 Dec 2010	364.3	11,033.6	11,430.9	361.3	797.2	103.5	434.4	24,525.2
Net book value at 31 Dec 2011	474.2	11,100.0	11,762.0	369.3	718.6	92.6	413.3	24,930.0

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 2009	0.7	1.4	8.7	20.8
Additions	--	--	4.0	4.0
Disposals	(0.6)	--	--	(0.6)
Reclassification	--	0.5	(0.5)	--
Balance at 31 Dec 2010	0.1	11.9	12.2	24.2
Accumulated amortisation				
Balance at 31 Dec 2009	(0.7)	(3.6)	--	(4.3)
Amortisation	--	(2.7)	--	(2.7)
Accumulated amortisation on disposals	0.6	--	--	0.6
Reclassification	--	--	--	--
Balance at 31 Dec 2010	0.1	(6.3)	--	(6.4)
Net book value at 31 Dec 2009	--	7.8	8.7	16.5
Net book value at 31 Dec 2010	--	5.6	12.2	17.8

	Software	Other	Investments under construction	Total
Cost				
Balance at 31 Dec 2010	0.1	11.9	12.2	24.2
Additions	--	0.7	23.7	24.4
Disposals	--	--	--	--
Reclassification	--	0.7	(0.7)	--
Balance at 31 Dec 2011	0.1	13.3	35.2	48.6
Accumulated amortisation				
Balance at 31 Dec 2010	(0.1)	(6.3)	--	(6.4)
Amortisation	--	(2.1)	--	(2.1)
Accumulated amortisation on disposals	--	--	--	--
Reclassification	--	--	--	--
Balance at 31 Dec 2011	(0.1)	(8.4)	--	(8.5)
Net book value at 31 Dec 2010	--	5.6	12.2	17.8
Net book value at 31 Dec 2011	--	4.9	35.2	40.1

Pursuant to accounting policies (refer to Accounting Policies), low value fixed assets are expensed upon acquisition. The acquisition cost of these low value tangible assets with the acquisition cost under CZK 40 thousand which are in use as of the balance sheet date is CZK 75,040 thousand (2010: CZK 76,137 thousand). The Company owns no low value intangible fixed assets.

(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 values relate to the following items:

	31 Dec 2011	Charging to profit or loss	31 Dec 2010	Charging to profit or loss	31 Dec 2009
Fixed assets	2,988,944	1,143	2,987,801	(469)	2,988,270
Receivables	(1,521)	(69)	(1,452)	(51)	(1,401)
Reserves	(21,886)	(7,279)	(14,607)	385	(14,992)
Liability arising from the collective agreement	(18,718)	(344)	(18,374)	(4,852)	(13,522)
Total	2,946,819	(6,549)	2,953,368	(4,987)	2,958,355

(10) Trade Receivables (CZK thousand)

As of 31 December 2011, trade receivables amounted to CZK 33,732 thousand on a gross basis (2010: CZK 38,563 thousand), of which receivables of CZK 13,591 thousand (2010: CZK 17,008 thousand) were up to six months past due, receivables of CZK 4,336 thousand (2010: CZK 6,623 thousand) were 6 - 12 months past due and receivables of CZK 15,805 thousand (2010: CZK 14,932 thousand) were more than 12 months past due.

(11) Equity (CZK thousand)

Registered Share Capital and Types of Shares as of 31 December 2010

The Company's share capital consists of 21,549 registered shares (2010: 21,549 registered shares) with a nominal value of CZK 821,752 (2010: 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 1,133,172 thousand (2010: CZK 910,240 thousand).

Statement of Changes in Equity

	Share capital	Reserve fund	Profit or loss	Retained earnings	Total equity
Balance at 31 Dec 2009	17,707,934	280,500	684,569	194	18,673,197
Creation of the reserve fund	--	34,500	(34,500)	--	--
Dividends paid	--	--	(637,000)	--	(637,000)
Directors' fees paid	--	--	(13,200)	--	(13,200)
Retained earnings	--	--	131	(131)	--
Net profit for 2010	--	--	910,240	--	910,240
Balance at 31 Dec 2010	17,707,934	315,000	910,240	63	18,933,237
Creation of the reserve fund	--	46,000	(46,000)	--	--
Dividends paid	--	--	(851,000)	--	(851,000)
Directors' fees paid	--	--	(13,200)	--	(13,200)
Retained earnings	--	--	(40)	40	--
Net profit for 2011	--	--	1,133,172	--	1,133,172
Balance at 31 Dec 2011	17,707,934	361,000	1,133,172	103	19,202,209

12) Reserves (CZK thousand)

	Business risks	Severance pay	Employee benefits	Total
Balance at 31 Dec 2009	76,611	--	81,071	157,682
Creation of reserves in the current period	3,211	--	29,469	32,680
Use of reserves in the current period	(2,943)	--	(8,655)	(11,598)
Balance at 31 Dec 2010	76,879	--	101,885	178,764
Creation of reserves in the current period	--	42,377	11,273	53,650
Use of reserves in the current period	(4,068)	--	(9,761)	(13,829)
Balance at 31 Dec 2011	72,811	42,377	103,397	218,585
Long-term reserves	72,811	--	94,948	167,759
Short-term reserves	--	42,377	8,449	50,826
Total	72,811	42,377	103,397	218,585

Reserves are recognised in respect of the following:

- Business risks – arising from operations of fixed assets;
- Salaries – includes salaries paid in dependence on the fulfilment of the plan and salaries corresponding to outstanding vacation days incurred; and
- Employee benefits – reserve for future liabilities arising from the collective agreement, principally retirement benefits, benefits for work and life anniversaries and unused optional benefits. The long-term portion of the payable was discounted at the balance sheet date.

(13) Trade Payables (CZK thousand)

The Company records no trade payables past their due dates.

(14) Temporary Liabilities (CZK thousand)

Deferred income

Balance at 31 Dec 2009	1,809,648
Investment contributions received	143,459
Investment contributions recognised in income*)	(161,261)
Correction factor of allowed income **)	70,675
Balance at 31 Dec 2010	1,862,521
Investment contributions received	173,492
Investment contributions recognised in income*)	(169,807)
Correction factor of allowed income **)	(5,669)
Balance at 31 Dec 2011	1,860,537

*) Investment contributions recognised in income are part of "Other operating income" in the income statement.

**) Part of the income from distribution services that relate to the supply of distribution services of 2012.

15) Leased Assets (CZK thousand)**Operating Leases**

As disclosed in the accounting policies, assets held by the Company under operating leases predominantly 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:

	2011	2010
Cable conduits	91,366	89,774
Non-residential premises	38,281	37,592
Administrative buildings	71,323	71,208
Vehicles	21,846	21,455
Total	222,816	220,029

Finance Leases

Finance leases include technologies and technological units. In the years ended 31 December 2011 and 2010, the Company paid CZK 39,282 thousand and CZK 46,533 thousand, respectively, in lease instalments.

(16) Related Parties (CZK thousand)

The Company's CEO and members of the Board of Directors are considered the executive management.

Members of the senior management can use company cars for private purposes.

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

	2011		2010	
	Executive management	Supervisory Board	Executive management	Supervisory Board
Number	5	6	5	6
Amounts received due to the existence of an employment*)	6,229	--	6,113	--
Amounts received due to the existence of the membership in statutory/ supervisory bodies**)	7,985	8,561	7,979	8,561

*) Salaries and contribution to life insurance

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

Transactions with the Members of Statutory Bodies and Executive Management

As of 31 December 2011, the Company recorded a receivable from the members of its Board of Directors and Supervisory Board totalling CZK 69 thousand (2010: CZK 38 thousand). These receivables were settled during January 2012.

(17) Group Relationships (CZK thousand)

	PREdi receivables as of 31 Dec		PREdi payables as of 31 Dec	
	2011	2010	2011	2010
Pražská energetika, a.s.	2011	2,325,245	2,577,156	2,880,800
of which: Trade receivables/payables	1,864,446	500,997	--	254,485
Trade receivables/payables (cash pooling)	49,541	--	751,774	276
Accrued income/expenses (cash pooling)	--	--	789	1,100,000
Long-term loan*)	--	--	700,000	1,500,000
Short-term loan*)	--	--	1,100,000	25,639
Accrued expenses (interest on loan)	--	--	24,593	400
Accrued expenses (other)	--	--	--	--
Estimated receivables – unbilled distribution services	1,814,905	1,824,248	--	--
PREleas, a.s.	1,869	4,090	--	--
PREměření, a.s.	--	12	46,718	37,983
Total	1,866,315	2,329,347	2,623,874	2,918,783

*) The long-term loan is repayable on 30 November 2014 and bears interest at PRIBOR + 1.05% p. a. The short-term loan will mature on 30 June 2012, the interest rate is PRIBOR + 2.3% p. a. Both loans are intended for funding the operating and investment needs of the debtor.

	PREdi income		PREdi expenses/costs	
	2011	2010	2011	2010
Pražská energetika, a.s.	7,131,714	6,558,917	(2,429,115)	(2,305,498)
of which: Distribution services	7,118,282	6,547,957	--	--
Other services, material consumed	12,865	8,367	(751,013)	(740,582)
Consumed electricity and losses	--	--	(568,813)	(641,174)
Material	--	--	(180,392)	(191,625)
Fixed assets	--	2,422	(97)	(411)
Other expenses	--	--	--	--
Other income	96	170	--	--
Dividends	--	--	(851,000)	(637,000)
Interest on cash pooling	471	1	(1,643)	(5,701)
Interest on loans	--	--	(76,157)	(89,005)
PREleas, a.s.	--	--	(39,283)	(46,534)
of which: Services - leases	--	--	(39,282)	(46,533)
Fixed assets	--	--	(1)	(1)
PREměření, a.s.	1,249	497	(293,650)	(279,293)
of which: Services	1,115	375	(222,757)	(191,061)
Electricity meters	16	17	(63,425)	(86,709)
Other assets	104	--	--	--
Contractual fines	14	105	--	--
PV – obligatory purchase, decentralised production	--	--	(7,468)	(1,523)
Total	7,132,963	6,559,414	(2,762,048)	(2,631,325)

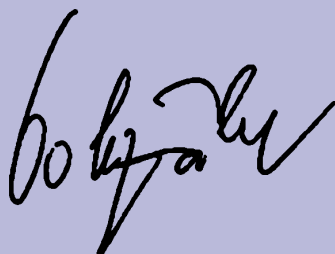
All transactions with Group entities were performed under arm's length conditions. The Company incurred no loss in connection with related-party transactions.

(18) Significant Post Balance Sheet Events

No 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 2011 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.



Ing. Jan Doležálek

Date of birth: 23.2.1952

Responsible for the Annual Report
page 1–41, 63–66



Ing. Roman Tupý

Date of birth: 2.2.1963

Responsible for the Annual Report
page 45–62

List of Abbreviations

AMM	automatic metering system
CEP	Centrum energetického poradenství/ PRE Advisory Centre
ČSRES	České sdružení rozvodných energetických společností/Czech Association of Power Distribution Companies
DDZ	daily profile load
DLHM	tangible fixed assets
DLNHM	intangible fixed assets
DR	supervisory board
DŘT	dispatching control system
DS	distribution system
DTS	distribution transformer station
ERÚ	Energetický regulační úřad/Energy Regulatory Office
ES ČR	electrification system of the Czech Republic
ESČ	Elektrotechnický svaz český/Czech Electrotechnical Union
EU	European Union
FNM ČR	Fond národního majetku České republiky/National Property Fund of the Czech Republic
FVE	photovoltaic power station
GIS	geographical information system
GWh	gigawatt-hour
HDO	mass remote control
HMP	Capital City of Prague
Hz	Hertz
CHZ	captive customer
KT	cable tunnel
kV	kilovolt
KVET	combined generation of electricity and heating
MF ČR	Ministerstvo financí České republiky/Ministry of Finance of the Czech Republic
MHMP	Magistrát hlavního města Prahy/ Prague City Council
MO	retail
MOO	retail – households
MOP	retail – small businesses
MPO ČR	Ministerstvo průmyslu a obchodu České republiky/Ministry of Industry and Trade
MPSV ČR	Ministerstvo práce a sociálních věcí ČR/Ministry of Labour and Social Affairs
MVE	small hydroelectric power stations
MWh	megawatt-hour
MW	megawatt
MZ ČR	Ministerstvo zdravotnictví ČR/Ministry of Health of the Czech Republic
NN	low voltage
NT	low tariff
OC	business centre
OKO	organized short-term trade
OOPP	personal protection devices
OPM	consumption supply point
OSNE	system for electricity trading support
OK	commercial centre

OTE, a.s.	Electricity Market Operator in the Czech Republic
OZE	renewable sources
PDS	provozovatel distribuční soustavy/Distribution System Operator
PEAS	První energetická akciová společnost/First energy joint stock company
PIS	Advisory and Information Centre
PP	Board of Directors
PP, a.s.	Pražská plynárenská, a.s.
PP-H, a.s.	Pražská plynárenská Holding, a.s.
PRE	Pražská energetika, joint stock company
PREdi	PREdistribuce, a.s., 100% subsidiary
PRE-H	Pražská energetika Holding a.s.
PREleas, a.s.	PREleas, a.s., 100% subsidiary
PS	Poradenské středisko/Advisory centre
PS, a.s.	Pražské služby, a.s.
PT, a.s.	Pražská teplárenská, a.s.
PT-H, a.s.	Pražská teplárenská Holding, a.s.
PXE	Pražská energetická burza/Prague Energy Stock Exchange
R	distribution station
REAS	rozvodné energetické akciové společnosti/power distribution joint stock companies
RS	distribution station
ŘS	control system
T	110/22 kV transformer
TDD	standardized daily load profile
TPA	third party access
TR	transformer station
TWh	terawatt hour
ÚED ČR	Ústřední energetický dispečink České republiky/Central Power Dispatching of the Czech Republic
ÚHOS	Úřad pro ochranu hospodářské soutěže/Office for the Protection of Competition
VN	high voltage
VVN	very high voltage
VO	large customer

Address of the Company and its Workplaces

	Address	PCN	Telephone, fax
PREdistribuce, a.s.	Prague 5, Svornosti 3199/19a	150 00	267 051 111, 840 550 055

The Company is registered in the Commercial Register maintained at the Municipal Court in Prague, Section B, File No. 10158.

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

The Company does not have any organizational unit abroad.

web: www.pre.cz; e-mail: pre@pre.cz, distribuce@pre.cz; poradce@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 10, Nitranská 2226/1	101 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
Network Access and Economy	Prague 2, Sokolská 1264/7	120 00	267 052 500
PRE Customer Centre	Prague 4, Vladimírova 18	140 00	840 550 055
	Prague 9, Ocelářská 5a ¹	190 00	840 550 055
	Prague 1, Jungmannova 31	101 00	840 550 055
Emergency Services	Prague 2, Kateřinská 9	120 00	224 915 151 (e-mail: poruchy@pre.cz) 1236 (from 1.1.2012)
Call Centre	Prague 10, Na Hroudě 19	100 05	840 550 055
Energy Advisory Centre	Prague 1, Jungmannova 28	101 00	840 550 055
Information for Press	Prague 10, Na Hroudě 1492/4	100 05	267 051 102

¹ cancelled as at 31.12.2011

Notes



Notes



