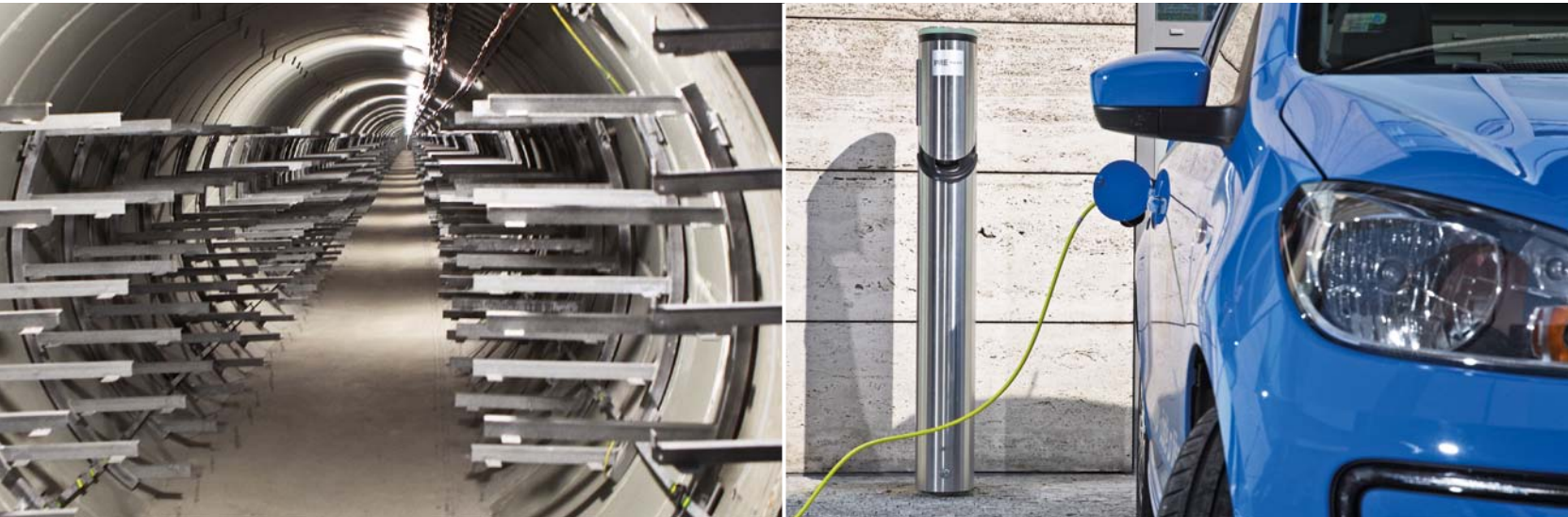




We shape the future

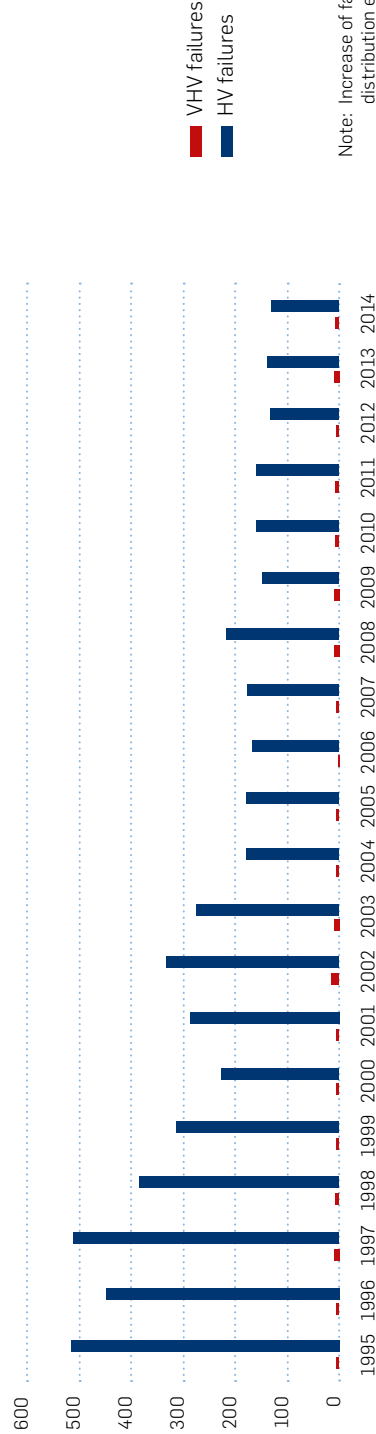


MAIN FINANCIAL INDICATORS (MCZK)

	2014 ¹	2013 ¹	2012 ¹	2011 ¹	2010 ¹	2009	2008	2007	2006
Total assets	27,911	28,170	27,437	27,505	27,148	26,624	26,314	24,864	24,494
Distribution equipment	23,341	23,185	23,083	22,862	22,465	21,989	21,721	20,880	20,643
Other fixed assets	2,331	2,469	2,198	2,108	2,079	2,136	1,997	2,322	2,315
Group cash pooling receivables	8	0	0	0	0	0	0	339	317
Trade receivables	2,197	2,504	2,136	2,285	2,575	2,367	2,498	1,274	1,157
Other assets	35	12	20	249	29	132	98	49	62
Total liabilities	27,911	28,170	27,437	27,505	27,148	26,624	26,314	24,864	24,494
Equity	19,331	19,409	19,119	19,202	18,933	18,673	18,850	19,582	18,456
Deferred tax liability	2,963	2,949	2,947	2,947	2,953	2,958	2,968	2,995	3,806
Group cash pooling payables	0	747	735	752	254	192	874	0	0
Trade payables	476	578	289	522	235	124	133	156	160
Deferred revenues	1,819	1,800	1,800	1,861	1,863	1,810	1,743	1,675	1,599
Provisions	208	215	217	219	179	158	157	176	169
Loans	2,800	2,200	2,200	1,800	2,600	2,600	1,500	0	0
Other liabilities	314	271	131	202	131	109	89	280	304
Gross profit from distribution services sales	4,409	4,645	4,406	4,447	4,119	4,695	4,699	4,621	4,187
Profit from ordinary activity before tax	1,357	1,526	1,230	1,444	1,133	847	1,080	1,293	1,025
Profit from ordinary activity after tax	1,093	1,233	993	1,167	910	685	880	1,742	776
Extraordinary profit/loss	0	0	0	(34)	0	0	0	0	(28)
Profit after tax	1,093	1,233	993	1,133	910	685	880	1,724	748

Note: ¹ Since 2011, in order to provide a more faithful picture of gross profit from the sales of distribution services, the costs of electricity purchase for own consumption and coverage of the Company's energy losses have also been reported in addition to the costs of the distribution and system services. The 2010 data have been revised likewise.

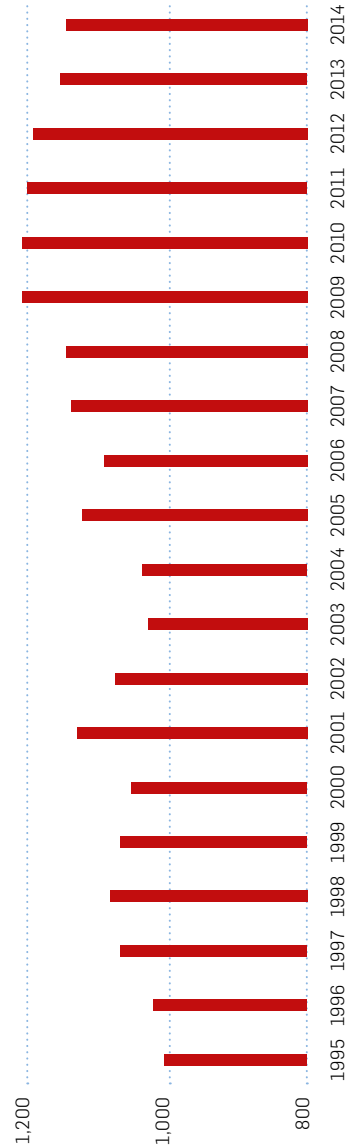
Number of VHV and HV failures



OVERVIEW OF THE DEVELOPMENT OF SELECTED NETWORK INDICATORS

Indicator	Unit	2014	2013	2012	2011	2010	2009	2008	2007	2006
Maximum network load	MW	1,149	1,156	1,198	1,205	1,209	1,207	1,147	1,141	1,090
Total length of electric networks	km	12,006	11,912	11,921	11,901	11,781	11,675	11,552	11,544	11,229
of which: VHV	km	207	206	206	202	202	202	206	196	196
HV	km	3,854	3,872	3,865	3,863	3,829	3,780	3,701	3,670	3,476
LV	km	7,945	7,834	7,850	7,836	7,750	7,693	7,645	7,678	7,557
Number of VHV/HV (PREd)/total	pieces	22/24	22/24	22/24	22/24	22/24	21/24	21/24	20/23	20/23
Total number of HV/LV stations	pieces	4,835	4,834	4,833	4,839	4,778	4,796	4,783	4,750	4,693
Number of HV/LV distribution stations	pieces	3,246	3,261	3,274	3,295	3,254	3,277	3,281	3,272	3,258

Highest achieved annual load (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 1,029 MW was achieved.



ENERGY FOR THE FUTURE

THE PRESENT ALWAYS EXTENDS INTO THE FUTURE. WE REALISE THAT EVERYTHING WE DO IS THE START OF A PROCESS. BE IT SIGNIFICANT OR ONE OF MANY THAT WILL AFFECT FUTURE TIMES TO A GREATER OR LESSER EXTENT. THEREFORE WE STRIVE TO ENSURE THAT ALL THE STEPS WE TAKE ARE RESPONSIBLE ONES AND HELP TOWARDS SHAPING A BETTER FUTURE, WHETHER THIS CONCERNS OUR BUSINESS, SOCIAL RESPONSIBILITY OR ENVIRONMENTAL PROTECTION.



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Commercial name: PREdistribuce, a.s.

Registered office: 150 00 Prague 5, Svornosti 3199/19a

ID No.: 27376516

Tax ID: CZ27376516

Legal form: joint stock company

Company is registered in: the Commercial Register maintained at the Municipal Court in Prague, File ref. B 10158

Bank details: ČSOB Praha-město, account number: 17494043/0300

Licence: the Company is electricity distribution licence holder No. 120504769 (in force from 1.1.2006 for 25 years)

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

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

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

PREdistribuce, a.s. thereby came into effect as of 1 January 2006 in all the rights and obligations of 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.

Under this Contract, PREdistribuce, a.s. became the owner of technical equipment and part of real estate property used for ensuring the distribution of electricity on the territory of the Capital City of Prague and 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.

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 **Pražská energetika, a.s. (PRE)** – trading in electricity and gas as main line of business, ID No.: 60193913, Prague 10, Na Hroudě 1492/4, tel.: 267 055 555, 840 550 055, Internet: www.pre.cz, email: pre@pre.cz are, are the following subjects, 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.: 267 055 555, 840 550 055, Internet: www.pre.cz, www.predistribuce.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 (photovoltaic power station), ID No.: 25677063, Prague 10, Na Hroudě 2149/19, tel.: 267 055 555, 840 550 055, Internet: www.pre.cz, www.premereni.cz, e-mail: pre@pre.cz a mereni@pre.cz,

100% subsidiaries of PREm as of 1.12.2014:

- **PRE FVE Dačice, s.r.o. (FVE Dačice)** – electricity generation, lease of real estate property, flats and non-residential premises, ID No.: 28880757, Prague 10, Na Hroudě 2149/19,
- **PRE FVE Mikulov, s.r.o. (FVE Mikulov)** – electricity generation, lease of real estate property, flats and non-residential premises, ID No.: 28537319, Prague 10, Na Hroudě 2149/19,

eYello CZ, k.s. (eYello) – sales of electricity and gas trading on the territory of the Czech Republic, ID No.: 25054040, Prague 10, Kubánské náměstí 1391/11, tel.: 267 056 704, 840 555 777, Internet: www.yello.cz, e-mail: yello@yello.cz.

Dear Readers,

Allow me by way of introduction to wish you a healthy and successful year 2015 in which great changes are expected particularly in the energy sector in view of the anticipated amendment to the Energy Act and setting up of a new tariff system.

PREdistribuce, a.s. was established as a 100% subsidiary distribution company of the sole shareholder, Pražská energetika, a.s. and the ninth year of its existence culminated in 2014. Its principal task is to provide a high quality and continuous supply of electricity to all its customers on the territory of the City of Prague and Roztoky u Prahy covering an area of 505 km².

Electricity distribution in the Czech Republic as a regulated activity including the achievement of permitted profit is subject to regulation by the Energy Regulatory Office (ERÚ) of the Czech Republic. The Company holds a licence for the distribution of electricity on the abovementioned territory from 1 January 2006 for a period of 25 years. The standards of quality of electricity supplies and related services in accordance with ERÚ Decree No. 540/2005 Coll. were met as regards the absolute majority of end customers connected to the Company's distribution networks. Customers were connected throughout the entire period in accordance with valid legislation.

I am happy to declare that 2014 was another successful year in terms of the high reliability of operations, high rate of safety and meeting a profit of MCZK 1,093. The amount of electricity distributed through the networks was 6,090.2 GWh, the total network load peaked at 1,149 MW on 28 January 2014, which is by 60 MW less than the historical peak reached in 2010. The lower load was caused by the milder weather conditions than in previous years and savings programmes are beginning to be implemented within the Company, particularly in the area of regulation, introduction of new technologies and equipment as well as state-supported schemes to decrease energy losses in buildings.

In terms of safety, all operating equipment and networks of PREdistribuce, a.s. are part of the critical infrastructure of Prague and all of the Czech Republic. This involves the maintained distribution electrical equipment from the delivery points with the ČEPS, a.s. transmission system to the consumption or delivery points of individual customers. This system consists of a system of 110 kV, 22 kV and 0.4 kV overhead and cable lines of a total length of 12,006 km, 24 VHV/HV transformer stations and a total of 4,835 22/0.4 kV network transformer stations. There are over 2,000 HV network and almost 767,000 LV network consumption points.

A total of 514 employees took care of the complete equipment of the distribution system in 2014, working to a quality and high professional level. During the year there were two minor work accidents which I consider an excellent result in view of the large volume of work carried out even on equipment under voltage.

Among the principal tasks of the employees was to plan the development and refurbishment of distribution equipment at all voltage levels, connection of new customers, measurement of transmitted VHV and HV electricity, and transfer of data for settling distribution services and supplies to the OTE system. The Company also administrated network assets, managed operations, services, handled emergencies as well as performing planned repairs and maintenance according to the rules of preventive maintenance. Besides these main activities, PREdistribuce, a.s. kept a controlled oversight of all the activities of the affiliated company, PREměření, a.s. to which all activities relating to the metering of electricity at 0.4 kV level were transferred in 2008.



In 2014 the distribution network in Prague or in Roztoky u Prahy was not affected by any natural disaster. No extensive technical failures of the lines were reported in the 110/22 kV substations or in 22/0.4 kV node transformer stations which would significantly (in a matter of hours) affect the supply of electricity to Prague residents.

The only two serious outages that had a significant impact on the running of the City were reported on 6 April and 20 October, and, just as in 2013, were caused by a technical fault on ČEPS, a.s. equipment in the 400/110 kV substation at Chodov. Both these accidental events caused a 24-minute power cut before PREdistribuce, a.s. employees restored full supply. In the last two years this was the fourth outage of ČEPS, a.s. equipment at a delivery point. After many meetings between the management of PREdistribuce, a.s. and ČEPS, a.s. I can say that ČEPS, a.s. has prepared short-term measures and also plans long-term measures at its 400 kV Chodov substation so no further technical problems and outages occur.

I would like to take this opportunity to mention the "Blackout 2014" drill which took place on 26–27 February in collaboration with the Capital City's crisis team led by the City Mayor himself and other state and City of Prague crisis and rescue units. A major power outage of the entire Prague agglomeration and large area of Central Bohemia were simulated during the drill. Although all communication between individual units of the integrated rescue system was tested I must state that the absolute dependence of the life and operation of the City on the supply of electricity was reconfirmed. It can be said that a City collapses basically after more than two days without the restoration of electricity supply. I believe that the transmission network operator in the Czech Republic will take measures to prevent "blackouts" and major outages if possible. Given that the City of Prague does not possess in its own agglomeration any power generating sources, Prague will remain dependent in the near future on a high quality electricity supply to three delivery points from ČEPS, a.s.

I can state that the achieved supply reliability values at all voltage levels are highly positive compared with other operators in the Czech Republic and with comparable operators in similar big cities in the EU. According to the comparative statistics of ERÚ, PREdistribuce, a.s. was the most reliable energy supplier to end customers. This positive trend was achieved through long-term implemented, highly rational planning of the development and refurbishment from one centre, implementation of state-of-the art technologies and elements applied in the EU with high demands on reliability, safety and refurbishment carried out according to approved corporate standards. I can promise that we will take further technical measures to maintain and improve this situation in 2015 and further years.

In terms of investment activities, MCZK 1,414.4 was invested in the refurbishment and development of the distribution network in 2014; a further MCZK 201.1 was invested in repairs from operational resources. Work was completed on two cable ducts to connect the new Karlín substation, work continued on the cable duct in Uhřetěves. Likewise, the cable duct was fully completed at Smíchov which runs from the Západ (West) substation in the direction of Vypich to connect the new Metro line Motol. The refurbishment continued of the 110 kV overhead backbone lines in the City outskirts and the full modernisation of the Třeboradice 110/22 kV substation began. PREdistribuce, a.s. is intensively planning the construction of two new 110/22 kV substations for 2015 and further years especially in the developing area of Karlín–Libeň along the Vltava meander and on the south-eastern outskirts of Prague in Chodov–Uhřetěves area.

I am convinced that in 2014 the employees of PREdistribuce, a.s. fully met all key tasks of electricity distributor in the Capital City. They contributed to the planned development and by its reliable electricity supply they ensured the safety and stable operation of the Capital City thereby contributing to satisfying the needs of Prague residents. I would therefore like to thank them. Our objective is to maintain this trend, meet the ideas of the shareholders, as appropriate, meet the planned profit, be one of those modern companies that realise its responsibility to the environment and strive to constantly improve the conditions for its protection.



Milan Hampl
Chairman of the Board of Directors and CEO

The energy sector, including distribution system operators currently face difficult, turbulent times. This, in principle conservative environment, is exposed to qualitative and quantitative changes which will undoubtedly enforce a change of its structure and operation and will also require implementation of new technologies. These changes and new challenges apply within the European context and only the speed and intensity within the course of changes are those that differ in individual states. Almost surely, on the one hand there will be an increase in the extent of implementation of decentralised sources of electricity, of which part will come from renewable energy sources (OZE) with difficult to predict generation, and also there will be a gradual increase in proportion of new technologies, such as electric mobility or electroaccumulation. On the other hand the high reliability and safety of electricity supplies will need to be maintained constantly and supply ensured even during periods of crisis. The objective of distribution system operators is to find and implement measures which will enable more intensive involvement of customers on the market and at the same time respect the necessity of maintaining a sufficient network robustness corresponding to the significance of the distribution network as an element of the critical infrastructure. Everything at a reasonable cost.

PREdistribuce, a.s. long-term and constant strategy is to increase distribution efficiency in operational-technical and investment measures made in the grid and in the optimal arrangement of processes within the company as well as towards external subjects and state administration bodies.

All these steps are directed at meeting the guaranteed standards of the quality of supplies and related services prescribed by the legislation, which are in the competency of the distribution licence holder. In view of the scope of activity of PREdistribuce, a.s. in the territory of the Capital City, which is at the same time the economic centre of the republic and seat of many state institutions, further tightening of these standards can be expected in future. PREdistribuce, a.s. shall continue to secure the non-discriminatory behaviour in processes for which the distribution system operator is responsible to all market participants. The conditions are defined in the so-called "Compliance Programme" which has been published on our Company website.

The year 2014 was still a year marked by the aftermath of the economic crisis which since its beginning in 2008, has affected virtually the entire economically active part of the world in many economic sectors, including the energy sector in the Czech Republic. In addition, the influence of renewable sources emergence subsidized by the state is projected to the power industry in the Czech Republic. It is also affected by the forthcoming change of legislation, i.e. the approval of the amendment to the Energy Act and the Act on Promoted Energy Sources as well as preparation of a new tariff structure.

PREdistribuce, a.s. is responsible for the situation in supplying electricity to the Capital City. This fact is reflected, among other things, in care for the distribution system which forms a part of the City's critical infrastructure with stricter standards related to the territory conditions and its sensitivity to possible distribution failures. According to the evaluation of the ERÚ quality standards, PREdistribuce, a.s. is considered the most reliable electricity distribution company in the Czech Republic. Taking into consideration that in recent years the maximum network load has not increased but on the contrary the demands for providing continuous and high quality electricity supplies have been increasing, the management of PREdistribuce, a.s. adopted a new investment strategy which was submitted to its shareholder for approval in the course of the year. This new strategy is aimed at securing readiness of our distribution system for arrival of a larger penetration of trends such as decentralized sources of electrical energy, electromobility, development of energy services etc. which can be monitored abroad.

For this reason a major part of the investments will be allocated to HV and LV networks where the increase of decentralized sources connected to networks and arrival of new technologies for network management and control is expected. Only the proper combination that involves strengthening the system with modern elements, interconnection of these modernized networks and introduction of communication will maintain high reliability and security of networks. Possibility to monitor our network better and in selected cases to even control it is the benefit that results from facilitating communication infrastructure in lower levels of the distribution system; this will be positively reflected in utilisation of our assets and in reliability indicators. The move of investment funds to lower voltage levels will be compensated by a certain slowdown of part of the refurbishment of the backbone networks and postponement of some strategic constructions of new substations to a later period; to a time when supplying or strengthening a given area will really be required. Close cooperation with ČEPS, a.s., the transmission system operator, remains an important aspect for the purpose of ensuring an adequate input for the development of our supply area, and above all in order to support the high reliability of our electricity supplies to end customers. Closer cooperation between the distribution and transmission system is also required by new European network codes and a higher volume of the flow of information can be expected about the electric power system between its operators.

The distributor will need to come to terms with all these aspects and continue to offer reliable and high-quality distribution of electricity, whose parameters will be legislatively regulated by the ERÚ; non-observance of requirements will be subject to penalisation.

In PREdistribuce, a.s. a great attention is being paid to new trends and modern solutions. Pilot projects are being implemented within which solutions regarding deployment of intelligent networks, so called Smart Grid, and their related subsets AMM, E-mobility and accumulations which are relevant for the distribution network in urban agglomeration are tested. These projects examine in particular the technical possibilities but also their impacts on everyday life of the distribution network operator including costs of implementation and operation.

In 2015 measures will be prepared to increase the reliability of network especially in Asset Management, network management and making the maintenance more efficient.

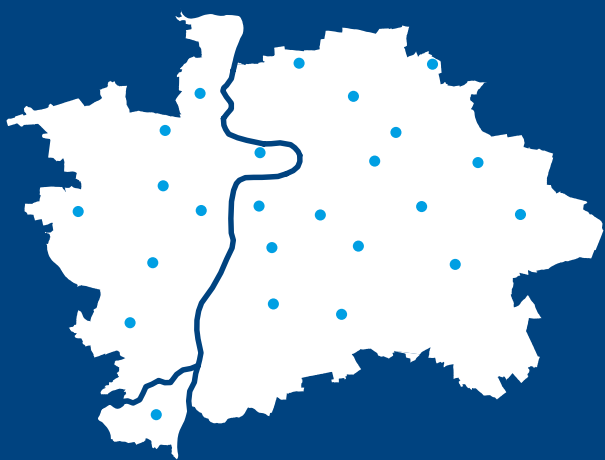
The principal mission of the Company is to ensure a reliable transmission of electricity from delivery points of the transmission system to the consumption or delivery points of individual customers through the well maintained distribution system. This mission will be gradually transformed to electricity transfer among individual points of the distribution system but the reliability of this transfer will remain a common objective.

The main strategic objective is to optimize network assets and ensure their maximum utilisation for electricity distribution in order to provide in cooperation with the other Group members high quality and non-discriminatory services for network customers.

PREdistribuce, a.s. wants to continue to be a stable company and be perceived by its customers as a reliable electricity distributor and a partner in resolving their problems with feeding the consumption point. PREdistribuce, a.s. and its parent company will always provide support to its loyal employees and will remain to be their social partner.



for network qual



Our company has a total of 24 VHV/HV TR under dispatch control. These are 16 outdoor and 8 encapsulated substations, 22 of which are owned by PREdi. To ensure a high level of reliability and safety of the grid, we invest in its modernisation. Among the major planned constructions are the complete reconstruction of the Třeboradice outdoor 110/22 kV substation and the restoration of the TR Jih transformer boxes.



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BOARD OF DIRECTORS AS AT 31.12.2014**Milan Hampl**

Chairman

Petr Dražil

Vice-Chairman

Christian Franz-Josef Schorn

Member

Miloš Langr

Member

SUPERVISORY BOARD AS AT 31.12.2014**Pavel Elis**

Chairman

Franz Retzer

Member (from 1.5.2014)

Alexander Manfred Sloboda

Member

Drahomír Ruta

Member

MEMBERS OF THE SUPERVISORY BOARD IN THE COURSE OF THE YEAR ALSO WERE:**Hermann Lüschen** (resigned as at 30.4.)

Vice-Chairman

Karel Urban (removed from office as at 30.4.)

Member

Radek Hanuš (removed from office as at 30.4.)

Member

In 2014 members of the Company Bodies were not subject to conflict of interest or prohibition of competition.



From left: Miloš Langr, Christian Franz-Josef Schorn, Milan Hampl, Petr Drazil

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 services in accordance with Section 4 of the Trade Licensing Act,
- distribution of electricity.

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 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 an 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 of the parent company 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:

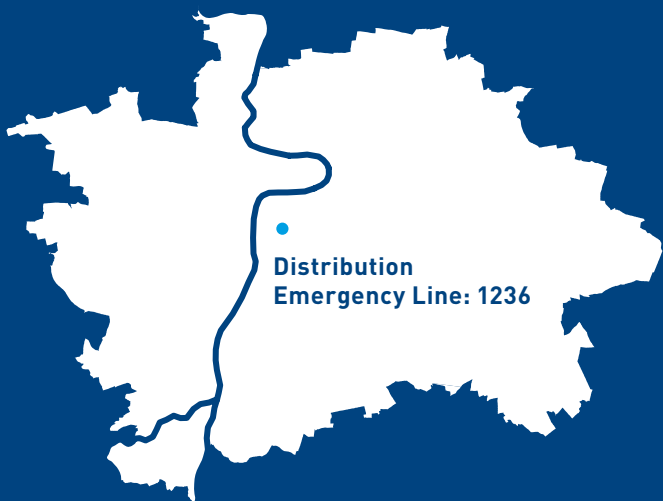
- to reduce the Company registered capital from the sum of CZK 21,549,000,000 by the sum of CZK 3,841,066,152 to the sum of CZK 17,707,933,848,
- the reason for reducing the Company registered capital was to compensate the Company accumulated losses from previous years at a total of CZK 3,841,085,719.68 reported in the Company accounting documents in the balance sheet item A.IV.2., it was decided that the sum CZK 3,841,066,152 corresponding to the reduction of 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.



no outages



Distribution
Emergency Line: 1236

PREdi Emergency Service which has 48 employees, works round the clock and quickly intervenes in case of a breakdown on VH, HV and LV levels. It also provides preventive maintenance, services for customers and goes out to tackle fires in buildings or traffic accidents if PREdi equipment is damaged.



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 authorised access to the electrical energy networks. Since the start of electricity market liberalization all electricity trading was gradually exposed to competition.

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

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

RECAPITULATION OF IMPORTANT EVENTS IN THE POWER INDUSTRY IN 2014; OVERVIEW OF RELEVANT LEGAL REGULATIONS

The year 2014 was the fifth year of the third regulatory period (1.1.2010 – 31.12.2014). The public consultation process regarding the proposal on regulatory methodology for the fourth regulatory period was initiated in 2014. In 2015 the consultation process will be concluded by issuing the "Final Report on the regulatory methodology for the fourth regulatory period for electricity and gas industries". The forthcoming fourth regulatory period has been declared by the Energy Regulatory Office as a 3-5 year period the main aim of which will be the preparation of objective inputs for the next fifth regulatory period which the Energy Regulatory Office anticipates for a period of 7-10 years. In regulatory methodology rules for the fourth regulatory period an emphasis is being laid on consistent definition of individual inputs and parameters of regulatory formulas in relation to the envisaged amendment to the Energy Act and EU legislative recommendations.

In 2014 the Energy Act Was amended

On 21 May 2014 Regulation No. 90/2014 Coll. was published in the collection of laws: "The act which amends Act No. 458/2000 Coll. on business conditions and public administration in the energy sectors and on amendment to some laws (the "Energy Act"), as amended and Act No. 165/2012 Coll. on supported sources of energy and on the amendment of some laws, as amended", when Section 37 of 21 May 2014 comes into effect on the date of promulgation with the exception of Article III (2), (4), (5), (6), (8), (9) and (15) from 1 July 2014.

The main reason of this amendment was to specify the procedure and persons who bill and pay the price for the payment of costs associated with the support of electricity.

In 2014 the following Decrees were issued to Act No. 165/2012 Coll.

On 1 October 2014 Decree No. 193/2014 Coll. of 5 September 2014 came into effect on the methods and dates of billing and reimbursing the price for the payment of costs associated with the support of electricity and implementation of some further provisions of the Act on Supported Sources of Energy, Section 8 repeals Decree No. 439/2009 Coll.

On 1 October 2014 Decree No. 200/2014 Coll. of 19 September 2014 came into effect which amends Decree No. 352/2005 Coll. on particulars of handling electrical equipment and electrical waste, and on further conditions of financing of their handling (Decree on the Handling Electrical Equipment and Electrical Waste) as amended.

ERÚ (Energy Regulatory Office) Price Decisions issued in 2014

On 1 January 2014 the Energy Regulatory Office Price Decision No. 4/2013 of 27 November 2013 came into force which lays down the support for supported sources of energy. Price Decision No. 1/2014 was issued for 2015 on 12 November 2014 for this price area.

On 1 January 2014 the Energy Regulatory Office Price Decision No. 5/2013 of 27 November 2013 came into force which lays down regulated prices associated with the supply of electricity. ERÚ Price Decision No. 2/2014 was issued for 2015 on 25 November 2014 for this price area.

On 1 January 2014 the Energy Regulatory Office Price Decision No. 6/2013 of 27 November 2013 came into force which lays down regulated prices associated with the supply of electricity to customers from the low voltage network. ERÚ Price Decision No. 3/2014 was issued for 2015 on 25 November 2014 for this price area.

The following Government Regulation came into Force In 2014

On 31 October 2014 Government Regulation No. 231/2014 Coll. on determining the funds of the state budget for subsidies for the payment of part of the price of electricity for customers and payment of operational support of heat for 2015 came into effect.

The parent company performs the personnel administration and wage calculation. The SAP HR module is used for managing personnel administration.

The professional trainings targeted on key professional knowledge and required competences of the Company employees continued in the scope of systematic progress of employees. The progress of employees was mainly focused on trainings in the area of power industry which are inevitable for performance of highly specialised work positions and ensue from legislation. The purpose of further development was to constantly increase the professional knowledge and interpersonal skills of individual employees, knowledge of new decrees and regulations in the area of economy, legislation and human resources management. In order to keep highly qualified employees, the Company enabled in the course of the year one employee to increase qualification in the form of combined studies at a Higher Professional School and two employees at the Faculty of Electrical Engineering of the Czech Technical University.

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 PRE 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.

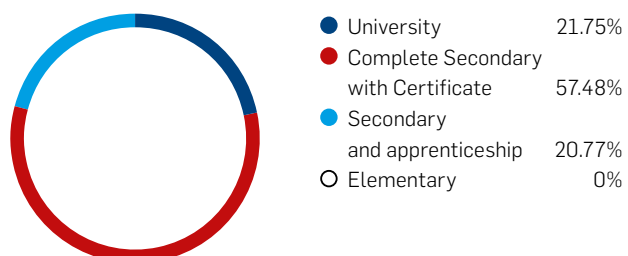
A unified Collective Agreement for the period 2013–2015 was valid within the Company, Amendment No. 2 to this Collective Agreement was concluded in the course of the year.

The Company ensures high-quality labour medical services which are provided by a contractual health care facility in the works medical office located in the building of the parent company Pražská energetika, a.s. The content and quality of these services reflects the long-term effort to increase the quality of labour medical care of company employees and meets the requirements of the National Health Promotion Programme. The employer also offered to its employees a possibility of regular vaccination against season-related diseases, hepatitis A and tick-borne encephalitis. The employees participated in preventive medical programmes focused on prevention and treatment of urological diseases, dental care, thyroid gland disease or in a programme designed to prevent and treat breast cancer. These programmes are fully covered by the employer and offered to employees beyond the legislative framework.

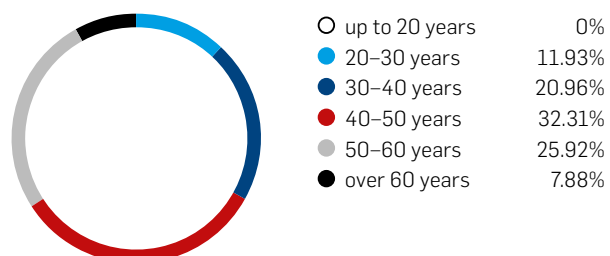
The employer's social policy concept proceeds from the long-standing effort to provide high-quality care to employees which is as a strong social programme embodied in the Collective Agreement for the period of 2013–2015. This programme, focused on care of employees in the area of employee benefits, bonuses, financial contributions and other forms of appreciation of employees unequivocally contributes to motivation and integrity of employees. Within the social programme, a great attention is paid above all to support of employees being made redundant, particularly those employees in pre-retirement age, single parents and socially less privileged.

The management of PREdistribuce, a.s. together with the Human Resources Department, continues to appoint to work positions independent technicians working in development and operation management mostly from the ranks of the Czech Technical University and vocational secondary schools graduates specializing in the power industry. The aim of this measure is to ensure a smooth transfer of experience and knowledge about distribution networks from employees who will soon reach retirement.

Qualification Structure



Age Structure



Distribution Emergency Line

Number of enquiries answered by the Distribution Emergency Line

Year	2014	2013	2012	2011	2010	2009	2008	2007
Total	41,371	52,789	41,782	38,484	32,860	28,800	34,260	31,200
of which breakdowns	13,900	22,943	15,935	17,364	22,160	18,650	23,300	22,300

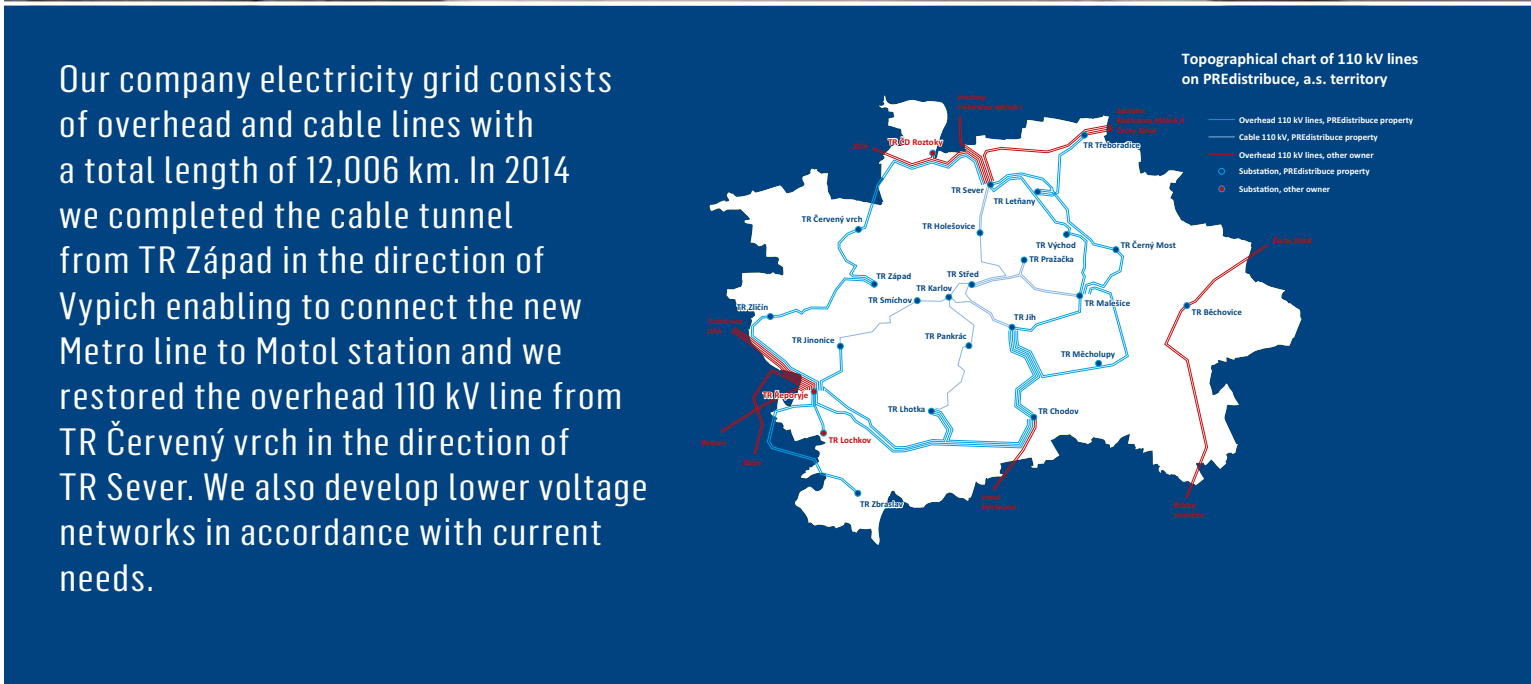
Number of e-mails answered by the Distribution Emergency Line

Year	2014	2013	2012	2011	2010	2009	2008	2007
Total	5,722	4,916	2,860	1,156	1,577	1,230	679	100



for city growth

Our company electricity grid consists of overhead and cable lines with a total length of 12,006 km. In 2014 we completed the cable tunnel from TR Západ in the direction of Vypich enabling to connect the new Metro line to Motol station and we restored the overhead 110 kV line from TR Červený vrch in the direction of TR Sever. We also develop lower voltage networks in accordance with current needs.





PREdistribuce, a.s. annually prepares and implements a long-term and mid-term investment plan which is based on analyses results respecting the technical condition, transmission ability and achieved reliability of network operations, real physical lifetime of individual network components and possibilities of their efficient maintenance. It also takes into account the further assumed 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 investment plan, in segmentation to individual distribution equipment categories, on the one hand dealt with the extended reproduction of network systems based on the available materials 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 the distribution equipment ensuring together with the planned repairs the operating reliability and required level of distribution services expected by the customers of the Capital City of Prague. The quality level of supply 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 has been 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 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 investment plan approved by the shareholders, in 2014 PREdistribuce, a.s. continued with the needed and careful renovation of the existing VHV and HV networks and equipment which are concurrently a part of the City's critical infrastructure. There also continued systematic optimization of LV networks including constant renovation of the transformer stations.

Taking care of the VHV backbone network, securing the corresponding technical level and maintaining it in working and safe condition is the fundamental means of preventing large breakdowns which could result in large territorial supply cuts. Such breakdowns could result in collapse of power supply to whole parts of the City, shutdown of public transport but also panic attacks or dissatisfaction of end customers.

All the constructions on the territory of the Capital City of Prague have been coordinated in the long term with the planning departments of Prague City Council and respect the urban plan.

In 2014 the biggest strategic constructions were:

- continuation of the modernization of standard 110/22 kV substation in Třeboradice which PREdistribuce, a.s. bought from Pražská teplotárenská, a.s. in 2010,
- continuation of the construction of cable ducts from future Karlín substation towards Rohanský ostrov in Libeň for leading 22 kV output and also for looping the 110 kV cable of TR Holešovice – TR Střed,
- completion of the cable duct from TR Západ towards Vypich to ensure feeding the new Motol Metro line,
- renovation of 110 kV overhead line from TR Červený vrch towards TR Sever,
- continuation of renovation of ŘS TR Chodov and connection of T 403 400/110 kV,
- start of the construction of Uhřetíněves cable duct for connecting TR Uhřetíněves by 110 kV cables and leading the output out from it,
- work continues on the implementation of new SCADA dispatching control system.

Apart from the main strategic constructions in the 110 kV backbone network or 110/22 kV substations work continued in 2014 on the reconstruction of 22/0.4 kV switching and distribution stations, HV and LV cable network.

The main strategic constructions of 2015 with an overlap into future years in view of negotiations regarding the admissibility of constructions and building complexity are:

- 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,
- construction of outdoor substation TR Uhříněves for securing the needs of south-eastern part of the City where highest number of failures of 22 kV overhead lines has been recorded and at the same time the need to connect new developer's projects on "greenfield sites" increases,
- continuation of the modernization of outdoor 110/22 kV substation in Třeboradice,
- completion of the control system renovation and extension of TR Chodov by four 110 kV fields,
- start of replacement of worn out 110 kV overhead lines between TR Malešice and TR Jih by 110 kV cables,
- completion and full deployment of SCADA dispatching control system.

In the area of already completed automation of the operation of 110/22 kV transformer stations and 22/0.4 kV switching stations, the attention will be namely focused on the continuity of supply carried out with automatic substitutes made possible by the state-of-the-art control or telemetric (telemechanisation) systems of the distribution system stations, especially at important large customers.

Based on the adopted strategy, PREdistribuce, a.s. has been intensively involved in preparation of network and equipment for gradual deployment of smart grids (the so called Smart Grid) including the intelligent AMM metering in case it will be embodied in the Czech legislation in a corresponding manner. These future trends represent a big challenge for Company employees, especially as regards economic efforts and maximisation of benefits related to energy saving and customer servicing with a significant overlap to Asset Management. Foreign studies indicate that appropriate combination that involves strengthening of the distribution system and deployment of new technologies leads to significant decrease of demands ensuing from the integration of decentralized generation, charging stations for electric cars and other elements. New technologies have been tested in pilot projects at several places which represent typical locations of PREdistribuce, a.s. supply area, the outputs of which are applied for creating the concept for our distribution network.

In the forthcoming period the principal objective of PREdistribuce, a.s. is to fulfil the task of a distributor in the area of renovation and adequate development so that the obsolete equipment of the distribution system, both physically and in accounting terms, will be modernised in time and thus the high level of network reliability and security will be achieved on the territory of the Capital City of Prague.

Overview of Investment Funds Allocation in 2006–2014 (MCZK)

	Total Investments	Distribution equipment			Electric meters
		VHV	HV	LV	
2006	1,282.2	398.2	452.4	271.7	159.9
2007	1,428.0	412.2	665.1	221.8	128.8
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
2011 ³	1,701.3	493.7	772.4	371.7	63.5
2012 ⁴	1,642.1	438.4	785.7	318.9	99.1
2013 ⁵	1,766.8	448.5	905.2	318.1	95.0
2014 ⁶	1,414.4	339.0	673.9	319.3	82.2

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

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

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

⁴ Without interest capitalisation 2012 (MCZK 14,691).

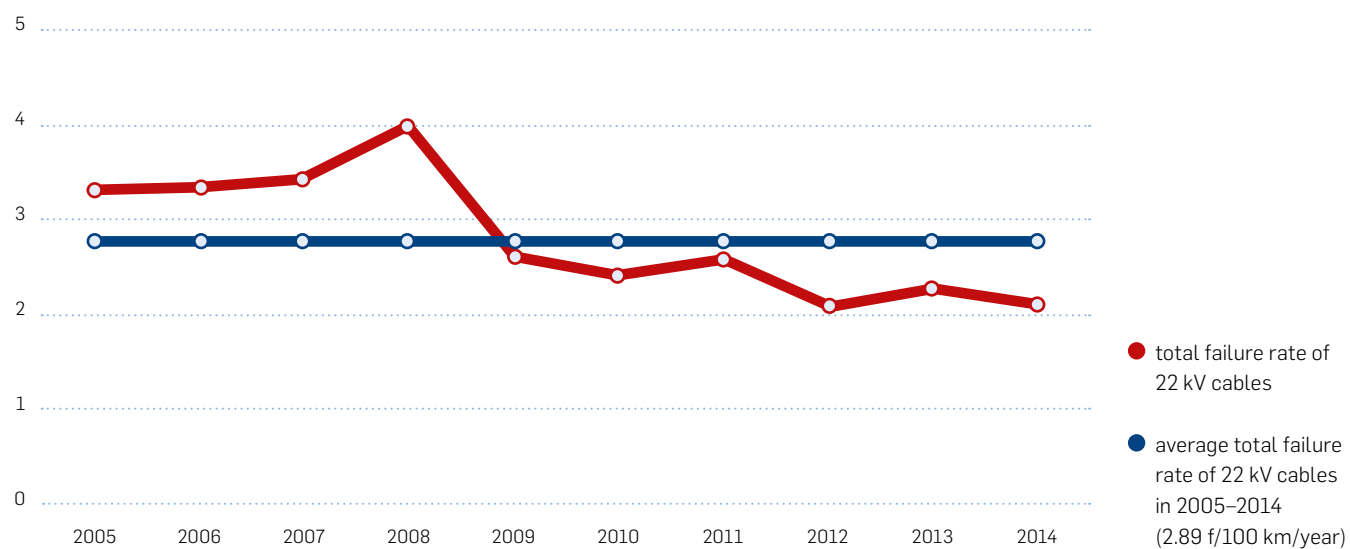
⁵ Without interest capitalisation 2013 (MCZK 14,309).

⁶ Without interest capitalisation 2014 (MCZK 16,888).

Other Indicators

		2014	2013	2012	2011	2010	2009	2008	2007	2006
Total distribution (procured)	GWh	6,090.2	6,301.0	6,278.4	6,310.7	6,450.5	6,339.1	6,372.5	6,172.0	6,085.0
Total number of consumption points	number	768,562	765,008	759,768	754,593	749,513	744,998	735,779	726,366	713,474
of which: large customers	number	2,002	1,992	1,990	1,970	1,947	1,948	1,929	1,854	1,916
retail small businesses	number	126,648	131,520	133,457	134,679	136,275	137,682	136,089	136,320	132,323
retail households	number	639,912	631,496	624,321	617,944	611,291	605,368	597,761	588,192	579,235
Average recalculated number of employees	persons	514	515	511	507	504	514	515	555	583

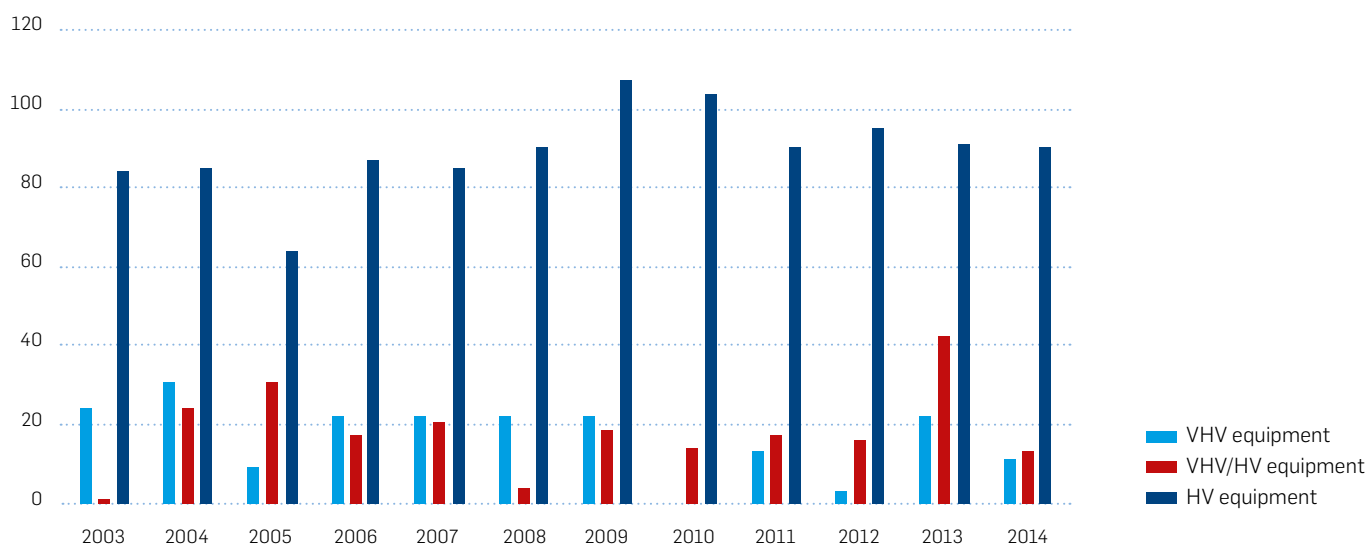
Trend of 22 kV Cable Failure Rate (frequency of failures f/100 km/year)



Development of Electricity Distribution in 2007–2014 (GWh)

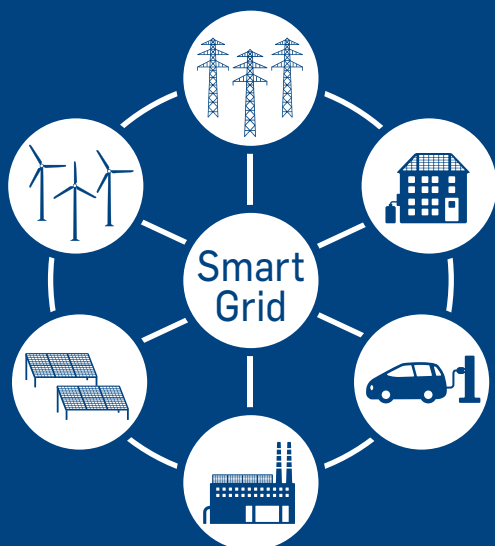
	January	February	March	April	May	June	July	August	September	October	November	December	Total
2007	580	515	548	475	476	462	450	459	469	543	590	604	6,172
2008	607	552	574	524	489	473	471	470	495	546	570	603	6,373
2009	644	564	587	488	485	471	464	465	464	545	554	608	6,339
2010	640	565	578	505	501	476	480	472	482	542	563	647	6,450
2011	620	565	576	493	499	476	454	475	467	532	570	584	6,311
2012	600	599	547	501	481	464	467	477	459	539	556	588	6,278
2013	611	541	590	511	487	464	464	470	469	529	566	599	6,301
2014	590	518	536	484	483	459	473	457	469	513	533	575	6,090

Average Time of Electricity Supply Disconnection on VHV, VHV/HV and HV (min.)





for Smart Grid



Smart Grids are gradually becoming an integral part of power engineering. To date we have installed over 4,000 smart electricity meters in our distribution area. We also focus on remote controlled HV stations and plan to increase their number. Our objective is to maintain the existing high quality and reliability of electrical energy supply even in decentralised power industry environment.



The profit of PREdistribuce, a.s. for 2014 of MCZK 1,093 was, compared to the plan, exceeded by MCZK 63 as well as the planned EBITDA indicator was fulfilled and exceeded by MCZK 34. If compared to the previous year, the profit fell by 11.4% due to year-on-year decrease of sales margin caused by the decrease in volume of distributed electricity (from 6,301 GWh to 6 090 GWh). Lower distribution can be ascribed to the weather trend and to customer saving measures further to the energy saving subsidy programmes. Furthermore, the year-on-year fall was also affected by the WACC regulatory parameter decrease from 6.7% to 5.6%. In 2014 there was a decrease in the fixed price for the payment of costs associated with the support of electricity. Compared with the 2014 plan, the distribution trade margin was met and exceeded by MCZK 13 and reached MCZK 4,409.

Distribution network operating expenses were altogether lower by MCZK 61 than in 2013 especially due to adopted saving measures. Reserves were released for litigation in the case of the "Červený vrch Lines" amounting to MCZK 25 due to the end of judicial proceedings. A more significant increase arose only in personnel costs items (MCZK 23) due to the update of the Company's payables to employees in accordance with IAS 19 (due to a fall in the interest rate), update of the management agreement with the parent company Pražská energetika, a.s. relaying and other services (implementation of the construction contract of Motol cable duct). Both of the last mentioned items were fully covered in the revenues. In the item of other revenues we registered an increase this year in connection contributions (ca. by MCZK 11) than in the previous year.

The total value of Company's assets reached MCZK 27,911.0, the biggest part is formed by the long-term tangible assets of MCZK 25,662.6 (year-on-year increase of MCZK 19.8) which results above all due to investments made in distribution equipment and energy constructions. In 2014 PREdistribuce, a.s. invested MCZK 1,431.3 (including capitalisation) which was by MCZK 350 less than in previous year, the biggest items were the extensive refurbishment of 110 kV overhead lines between TR Červený vrch and TR Sever, the reconstruction of the 110/22 kV substation in Třeboradice, the Motol cable tunnel was completed, then the boring took place and the assembly of equipment in Karlín, Rohanský ostrov, Hlávčův most and Uhřetěves cable ducts and the implementation of the new SCADA control system. Current assets worth MCZK 2,237.4 decreased year-on-year by MCZK 269.3 especially due to a reduction in the item estimated accrued revenues (by MCZK 230.5). Accruals reached the value of MCZK 2.1.

As for liabilities, in equity of MCZK 19,330.7, apart from a decrease in profit (loss) for the current fiscal period by MCZK 140.3 there was also an increase of the statutory allocation to the reserve fund by MCZK 62 (increase from the distribution of 2013 profit). Foreign capital (of MCZK 6,732.8) consists especially of long-term payables of CZK 5,765.4 (year-on-year increase by MCZK 609.1) and short-term payables of MCZK 759.9 (year-on-year decrease by MCZK 811.9). The Company's resources were secured from 69% of equity, from 24% of foreign capital and from 7% of other liabilities. Accruals of MCZK 1,847.2 are due particularly to the value of deferred revenues made up by shares of applicants for connection to the distribution system.

The Company reached operating cash flow of MCZK 2,570.7 which was used together with income from investment contributions for investment programme financing and payment of dividends and royalties (MCZK 1,171.2).

	Unit	2014	2013	2012	2011	Index 2013/2014	Calculation formula
Level of liquidity							
Total revenues	MCZK	9,822.8	10,970.4	9,570.1	9,416.0	0.90	Total revenues
Sales margin from the distribution sales ²	MCZK	4,409.0	4,645.0	4,406.0	4,446.7	0.95	Sales margin from distribution
Profit after tax	MCZK	1,092.6	1,232.9	992.6	1,133.2	0.89	Profit after tax
Profit after tax without VOD ¹	MCZK	1,107.3	1,234.6	992.7	1,126.6	0.90	Profit after tax – deferred tax
Level of profitability of revenues							
Sales margin from the distribution sales per CZK 1 of revenues	%	46.3	43.4	47.3	48.8	1.07	Sales margin from electricity sales / sales of electricity x 100
Added value per CZK 1 of revenues	%	30.7	29.1	29.7	31.2	1.06	Added value / total revenues x 100
Profit before tax per CZK 1 of revenues	%	13.8	13.9	12.8	15.3	0.99	Profit / loss from regular activity before tax / total revenues x 100
Profit without VOD ¹ after tax per CZK 1 of revenues	%	11.3	11.3	10.4	12.0	1.00	Profit after tax / total revenues x 100
Level of liquidity							
Regular liquidity	%	294.4	159.5	190.6	99.3	1.85	Short-term assets / short-term payables x 100
Turnover of short-term receivables	Number of turnovers	4.4	4.4	4.4	3.7	1.00	Total revenues / status of short-term receivables at the end of the year
Turnover of payables	Number of turnovers	12.9	7.0	8.5	3.7	1.85	Total revenues / status of short-term payables at the end of the year
Equity interest in total invested capital	%	69.3	68.9	69.7	69.8	1.01	Equity / total invested capital x 100
Equity interest to foreign capital	%	225.3	221.6	229.8	231.3	1.01	Equity / total foreign capital x 100
Level of return							
Sales margin from distribution per CZK 1 (long-term + long-term payables) x 100	%	16.4	17.6	16.9	17.9	0.93	Sales margin from distribution / (Equity + long-term payables)
Return on sales – ROS without VOD ¹	%	11.3	11.3	10.4	12.0	1.00	Profit after tax / total revenues x 100
Return on total assets – ROA without VOD	%	4.0	4.4	3.6	4.1	0.91	Profit after tax / total assets x 100
Return on equity – ROE without VOD ¹	%	5.7	6.4	5.2	5.9	0.90	Profit after tax / equity x 100
Turnover of total invested capital	%	5.0	5.6	4.7	5.4	0.90	(Profit before tax + expense interest) / total invested capital x 100
Turnover of total invested capital	Number of turnovers	0.4	0.4	0.3	0.3	0.90	Total revenues / total invested capital
Added value labour productivity	TCZK/ empl.	5,865.6	6,189.0	5,568.3	5,790.0	0.95	Added value / average adjusted number of employees
Total revenues labour productivity	TCZK/ empl.	19,110.5	21,301.8	18,728.3	18,571.9	0.90	Total revenues / average adjusted number of employees
Average adjusted number of employees	persons	514	515	511	507	1.00	Number of persons

Note: ¹ Without the impact of deferred tax.

² Since 2011, in order to provide a more faithful picture of gross profit from the sales of distribution services, the costs of electricity purchase for own consumption and coverage of the Company's energy losses have also been reported in addition to the costs of the distribution and system services.

PREdistribuce, a.s. ranks among those modern companies which consider the responsibility to the environment as their priority and make all efforts to constantly improve the conditions for its protection.

In the framework of environment protection policy, considerable funds are invested to modernisation of distribution networks technology equipment which is used e.g. for protection of wild birds. In view of reducing risks of possible contamination of surface and groundwater, a continuous replacement of older oil transformers by hermetically sealed or dry transformers (without oil tanks) is carried out. Due to modernisation and reconstruction of many 110/22 kV distribution stations the noise pollution of the environment is being reduced and the security in case of breakdown is being increased.

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

The ISO 14 001 – EMS system has been introduced in the Company since 2006. Every three years this system is subject to a recertification process which decides on preservation or revocation of this licence. The Company will defend this certificate for the third time in March 2015.

ENVIRONMENTAL PROTECTION POLICY

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

- observe legal regulations in all areas of environmental protection; devote maximum attention to new regulations and apply them in the whole PRE Group,
- observe the sorting of communal waste, including dangerous components, sorting of all other kinds of waste 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 authorized 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

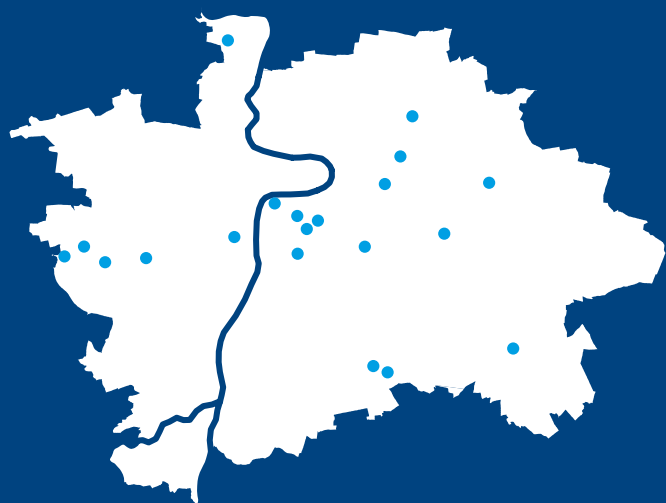
The Company is a holder of "Safe Enterprise Award". The objectives of the "Safe Enterprise" programme have become an integral part of safety and protection of health at work policy of the entire PRE Group. In 2013 a recertification audit of the "Safe Enterprise" system was carried out in the Company. The programme and its objectives have attracted all employees and helped to improve the approach to protection of health. Employee healthcare means not just the fulfilment of legal obligations, but also an important part of the corporate culture.

The award "Safe Enterprise" and the title "Third Level Health Supporting Enterprise" guarantee the professional approach. High level of safety at work is ensured above all by mutual communication between the PRE Group management and employees and by solving even small problems together. Besides occupational medical services, further above-standard health and medical services, sports activities, recreational stays etc. are provided as a part of employees benefits.

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 PRE Group's management members and all employees – to avoid risks 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.





We secure an infrastructure for the development of electromobility in Prague. Of the PRE Group 31 charging stations which use modern charging technology, 5 are connected directly to the PREdi distribution network in the streets of the Capital City and others are located at convenient and easily accessible points at shopping centres or car parking houses. We use 12 electric cars in the PREdi fleet.



5



Risk management in PREdistribuce, a.s. is established as a uniform process based on a methodical framework shared by all PRE Group companies.

The key body is the Risk Management Committee which discusses the Risk Management Summary Report and determines the management strategy of the most significant risks as regards the Company's risk exposures. The committee continually monitors the overall possible impact of risks on the Company's economic activities.

The main objective is to increase the Company's value by taking only acceptable risks. Other functions include the function of timely warning and assessment of the efficiency of tools and measures for risk management. The focal point of interest is the key risks which according to the assessment of potential impact represent the greatest threat. The identification process of current risks which are registered in the catalogue of risks is under way.

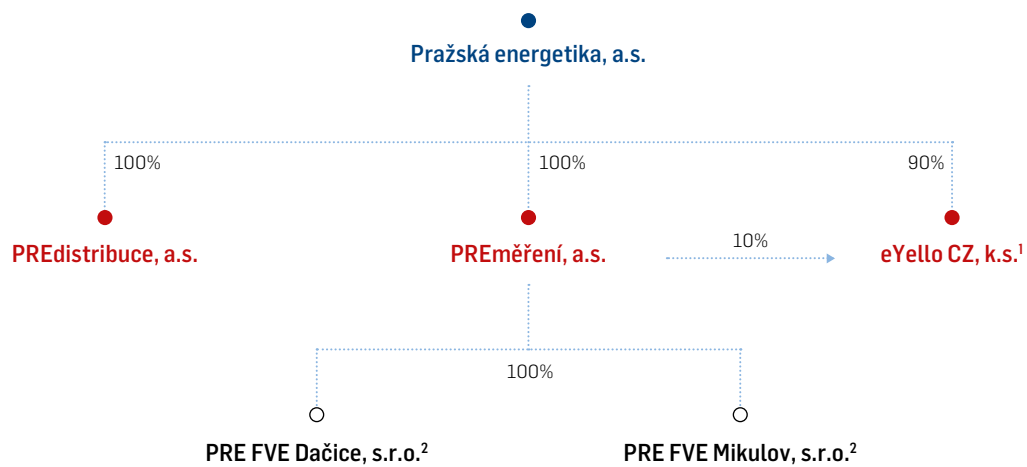
Monitored risks are projected with regard to their expected level of impact and expected probability in at least three scenarios so their comparability can be ensured.

Identification, evaluation and reporting processes of specific individual risks form the basic components of the risk management process.

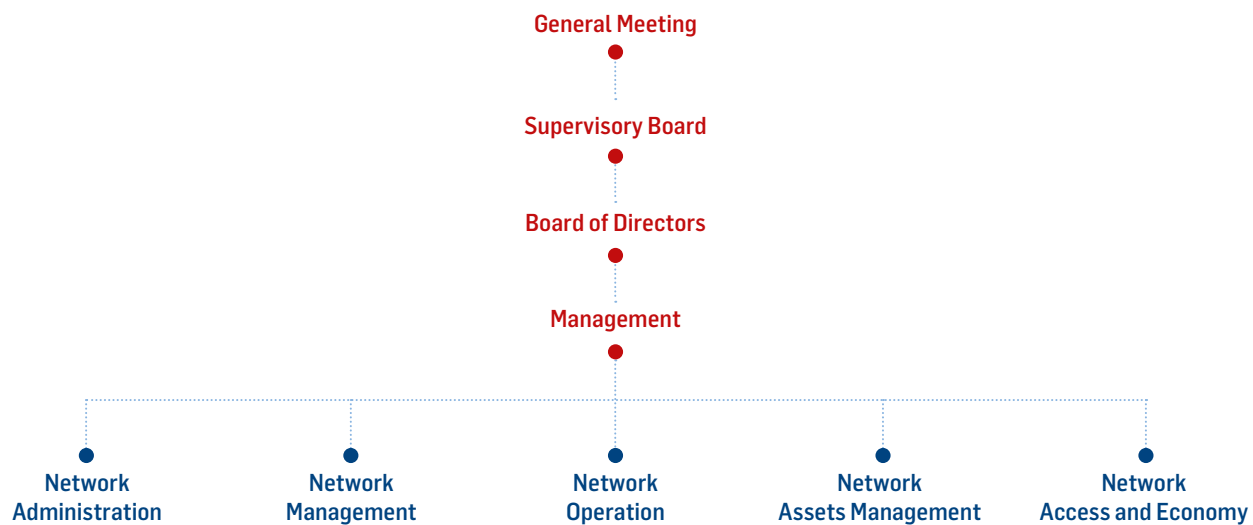
Risks are systematically monitored in categories defined by the risk map; namely in strategic, financial, operational and compliance risks.

Legislative-regulatory risks have the strongest impact on the Company's activity; in the mid-term horizon these risks are particularly connected with possible changes accompanying the fourth regulatory period, in a short-term and mid-term horizon particularly the setup of regulation parameters. Operating risks according to their nature are above all subject to decentralised management in specialist departments, only the most significant of them are verified in internal audits.

The risk management system and its methodology are based on procedures established in the EnBW Group. Monitored risks are reported according to the rules of the EnBW corporate group in a uniform structure of reports and in periods set by the risk management rules of the EnBW corporate group.



Note: ¹ As of 1.5.2014 eYello CZ, k.s. (until 30.4.2014 eYello CZ, a.s.); until 7.3.2014 100% subsidiary of PRE.
² As of 1.12.2014 100% subsidiary of PREm.



During 2014 five General Meetings were held (in the form of a decision of the parent company as the sole shareholder).

GENERAL MEETING ON 30 APRIL

The agenda of the General Meeting was as follows:

- the Report of the Board of Directors on the entrepreneurial activity of the Company in 2013, on the state of its assets and the Report on Relations between connected persons in 2013,
- the Regular Financial Statements for 2013, proposal for distribution of profit for 2013 including determination of allocations to funds and method and level of paying out dividends and royalties,
- the Auditor's Report,
- the Report of the Supervisory Board,
- the Report of the Board of Directors on entrepreneurial policy in 2014,
- the remuneration of members of Company bodies,
- dismissal and election of members of Company bodies, approval of contracts on performance of office of Company bodies members,
- a decision on an amendment of the Articles of Association and subordination to the Act on Business Corporations,
- the Annual Report for 2013.

GENERAL MEETING ON 30 JUNE

The agenda of the General Meeting was as follows:

- approval of annexes to contracts for performance of the office of the Board of Directors executive members,
- approval of contracts for performance of the office of the Board of Directors members,
- approval of performance provided from the concluded D&O insurance contract for individual members of the Board of Directors,
- approval of contracts for performance of the office of the Supervisory Board members,
- approval of performance provided from the concluded D&O insurance contract for individual members of the Supervisory Board,
- approval of the pay out of a returnable deposit for the variable annual remuneration to the Chairman and Vice-Chairman of the Board of Directors authorised with the commercial management of the Company.

GENERAL MEETING ON 21 AUGUST

The agenda of the General Meeting was as follows:

- assignment of the auditor of PREdistribuce, a.s. financial statements for the years 2014–2016 – Deloitte Audit s.r.o.

GENERAL MEETING ON 30 SEPTEMBER

The agenda of the General Meeting was as follows:

- election of Alexander Manfred Sloboda as member of the Supervisory Board, effective from 2 January 2015,
- approval of the contract for performance of the office of member of the Supervisory Board Alexander Manfred Sloboda, effective from 2 January 2015.

GENERAL MEETING ON 18 DECEMBER

The agenda of the General Meeting was as follows:

- approval of the Company management targets for 2015.

The Company 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,
- execution of constructions, their alterations and demolitions,
- 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 expert studies and expert opinions,
 - leasing and renting of movables,
 - preparation and drafting technical designs, graphic and draftsman work,
 - real estate activity, property administration and maintenance,
 - testing, metering, analyses and checks.

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.

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 and 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 new products development.

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

The Company did not interrupt its business in 2014.

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 the following chapters of the Annual Report "Foreword of 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 "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.

The Report on Relations drawn up in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter referred to as the "BCA"). The relations are described in a manner bearing in mind the need to respect the provisions of Section 504 of Act No. 89/2012 Coll., the Civil Code concerning trade secret.

1. The structure of relations between the controlled and controlling person, role of the controlled person and manner and means of control

The controlling person (managing person): **Pražská energetika, a.s.** with registered office Na Hroudě 1492/4, Prague 10, PCN 100 05, ID No.: 60193913, kept at the Municipal Court in Prague, File ref. B 2405 (**PRE**).

The controlled person (managed person): **PREdistribuce, a.s.** with registered office Svornosti 3199/19a, Prague 5, PCN 150 00, ID No.: 27376516, kept at the Municipal Court in Prague, File ref. B 10158 (**PREdi**).

The companies PREdistribuce, a.s., PREměření, a.s., eYello CZ, k.s. and PRE FVE Dačice, s.r.o. and PRE FVE Mikulov, s.r.o., (both 100% subsidiaries of PREm) jointly as managed persons constitute a corporate group with Pražská energetika, a.s. as the controlling person. Jointly also referred to as the PRE Group.

PREdi is a 100% subsidiary of PRE. PRE elects and removes members of the Board of Directors and Supervisory Board of PREdi, members of the Supervisory Board of PREdi are representatives of the shareholder (PRE) and until 30 April 2014 representatives of PREdi employees were also members of the Supervisory Board.

PRE determines the strategic management of the PRE Group and also decides the PREdi business concept, including the rules of remuneration and principles for collective bargaining. The objectives for the executive management of PREdi are stipulated, considered and controlled by PRE. PRE also gives the Board of Directors of PREdi strategic guidelines and principles.

PREdi follows the internal guidelines of PRE. PREdi is part of the consolidating PRE Group.

All above described PRE management in relation to PREdi is implemented within the scope permitted by valid legal regulations, especially Section 25a of Act No. 458/2000 Coll., the Energy Act.

The role of PREdi within the PRE Group is to be a stable and reliable operator of the distribution system on the territory of the Capital City of Prague and Rožtoky. PREdi meets the requirements and expectations of the users of the distribution network by using the latest technologies and procedures.

Further persons controlled/managed by PRE as the controlling/managing person:

- PREměření, a.s. with registered office Na Hroudě 2149/19, Prague 10, PCN 100 05, ID No.: 25677063, kept by the Municipal Court in Prague, File ref. B 5433 (**PREm**);
- eYello CZ, k.s. with registered office Kubánské náměstí 1391/11, Prague 10, PCN 100 00, ID No.: 25054040, kept by the Municipal Court in Prague, File ref. A 76596 (**eYello**);
- PRE FVE Dačice, s.r.o. with registered office Na Hroudě 2149/19, Prague 10, PCN 100 05, ID No.: 28880757, kept by the Municipal Court in Prague, File ref. C 150784 (**PRE FVE Dačice**);
- PRE FVE Mikulov, s.r.o. with registered office Na Hroudě 2149/19, Prague 10, PCN 100 05, ID No.: 28537319, kept by the Municipal Court in Prague, File ref. C 148788 (**PRE FVE Mikulov**).

The chart of the PRE Group Structure is shown in a separate chapter of the Annual Report on page 37.

2. Overview of the proceedings in the last accounting period carried out at the incentive or in the interest of the controlling person or its controlled persons if such proceedings concerned property exceeding 10% of equity of the controlled person ascertained according to the last financial statement

In 2014 no proceedings concerning property exceeding 10% of the equity of PREdi were carried out at the incentive or in the interest of the controlling persons or their controlled persons.

3. Overview of mutual contracts between the controlled and controlling person or between controlled persons

a) Contracts PREdi x PRE

"Contract on Provision of Services" No. P200006/01 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
 "Lease Contract" No. PS20000007/003 – in force as of 1.1.2007 for indefinite period, in the wording of the amendments
 "Lease Contract" No. PS20000007/004 – in force as of 1.1.2007 for indefinite period, in the wording of the amendments
 "Lease Contract" No. P200006/05 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
 "Lease Contract" No. P200006/06 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
 "Contract on the Lease of Non-residential Premises" No. P200006/09 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
 "Contract on the Lease of Garage Parking Lot" No. P200006/10 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
 "Contract on the Lease of Non-residential Premises" No. P200006/11 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
 "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, in the wording of the amendments
 "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, in the wording of the amendments
 "Lease Contract – Plastic Billboards" No. NO21106/001 – in force as of 30.12.2005 for indefinite period, in the wording of the amendments
 "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, in the wording of the amendment
 "Lease Contract" No. NO21109/001 – in force as of 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 2.1.2007 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/03502/07/4849 – in force as of 22.1.2007 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/03665/07/4394 – in force as of 16.11.2007 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/03938/08/5562 – in force as of 31.3.2008 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/04067/07/6065 – in force as of 9.11.2007 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/04295/08 – in force as of 4.2.2008 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/04449/08/5877 – in force as of 10.10.2008 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/04457/08 – in force from 31.3.2008 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
 "Agreement on Future Contract on Creation of Easement" No. VB/S24/1320548 – in force as of 8.3. 2013
 "Contract on Creation of Easement" No. VV/G33/06487/1006936 – in force as of 21.5.2010 for indefinite period

"Contract on Creation of Easement" No. VV/G33/07210/1110903 – in force as of 12.5.2011 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/08100/1215718 – in force as of 6.6.2012 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/08212/1216021 – in force as of 20.4.2012 for indefinite period
 "Contract on Creation of Easement" No. VV/G33/09086/1321312 – in force as of 13.5.2013 for indefinite period
 "Lease Contract" No. NO21111/011 – in force as of 1.4.2011 for indefinite period
 "Contract on Sublease of Distribution System" No. N21112/012 – in force from 1.2.2012 to 31.12.2013 in the wording of the amendment
 "Lease Contract" No. NO21112/016 – in force from 1.11.2012 to 30.6.2013
 "Lease Contract" No. NO21112/017 – in force from 1.12.2012 to 31.3.2013
 "Lease Contract" No. NVS24/1321673 – in force from 1.5.2013 to 30.11.2013
 "Contract on Loan No. 1/2011" No. PS20000011/028 – in force from 28.11.2011 to 30.11.2014 in the wording of the amendments
 "Contract on Loan No. 1/2012" No. PS20000012/032 – in force from 28.6.2012 to 29.6.2015 in the wording of the amendment
 "General Contract on Service Provision of GPRS Module Installation" No. PS20000013/033 – in force as of 25.10.2013 for indefinite period
 "Contract on long-term Loan" No. PS20000014/021 – in force from 18.6.2014 to 18.6.2026
 "Contract on long-term Loan" No. PS20000014/030 – in force from 26.11.2014 to 28.11.2026

b) Contracts PREDi x PREm

"Contract on Provision of Services" No. S252007/002, C00270/07 – in force as of 1.1.2007 for indefinite period, in the wording of the amendments
 "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, in the wording of the amendment
 "Contract on Lease of Land" No. N21110/016, C00418/10 – in force from 1.4.2010 to 31.12.2030
 "Contract on Lease of Land" No. NO21110/004, C00438/10 – in force from 1.9.2010 to 31.12.2030
 "Contract on Lease of Land" No. N21110/039, C00436/10 – in force from 1.10.2010 to 31.12.2035 for indefinite period, in the wording of the amendment
 "Contract on Lease of a Part of Property" No. NO21110/005, C00439/10 – in force from 1.10.2010 to 31.12.2035 in the wording of the amendment
 "Contract on Delivery of Metering Equipment" No. KV/S21/1424665, C00773/13 – in force from 1.1.2014 to 31.12.2014
 "Contract on Connection to the Distribution System on LV Level" No. 6149169/2010 (C00422/10) – 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) – in force as of 4.8.2010 for indefinite period
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200013/002, C00632/13 – in force from 1.3.2013 to 3.12.2015
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200013/003, C00628/13 – in force from 1.3.2013 to 16.4.2014
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200013/004, C00623/13 – in force from 18.2.2013 to 28.2.2016
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200013/005, C00629/13 – in force from 1.3.2013 to 28.2.2016
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200013/006, C00630/13 – in force from 1.3.2013 to 28.2.2016
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200013/007, C00631/13 – in force from 1.3.2013 to 28.2.2016
 "Agreement on Personal Data Processing" No. PS20000013/038, C00627/13 – in force as of 1.3.2013 throughout the effectiveness of the contracts on cooperation
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200014/001, C00785/14 – in force from 14.1.2014 to 28.2.2016
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200014/002, M5100/O/2014/0005 – in force from 2.5.2014 to 28.2.2016
 "Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200014/003, M5100/O/2014/0006 – in force from 2.5.2014 to 28.2.2015
 "Agreement on Personal Data Processing" No. PS20000014/031, C00783/14 – in force from 14.1.2014 to 28.2.2016

c) Contracts PREdi x eYello

Leasing Contracts No. 0400006 – in force from 1.2.2004 to 1.2.2014

Leasing Contracts No. 0500001 to 0500003 – in force from 1.2.2005 to 1.2.2015

4. Review of whether the controlled person incurred damage and a review of its settlement

PREdi did not incur from the relationship with the controlling person or persons controlled by the controlling person and from the abovementioned binding relations any damage. According to the abovementioned binding relations, considerations are negotiated in prices usual at the site and time, and no preferential treatment was provided to one or the other party.

5. Advantages and disadvantages arising from relations between the controlled person and controlling person and between the controlled person and persons controlled by the controlling person, and the risks that arise from them. Information on the potential settlement of damages

PREdi did not incur from the relationship with the controlling person or persons controlled by the controlling person and from the abovementioned binding relations any damage and no risks arise from them for PREdi.

Cooperation between PREdi and PRE, or companies of the PRE Group meant considerable advantages for PREdi by virtue of acquired know-how and loans from cash pooling. Given its affiliation to the corporate group, PREdi has access to the knowledge and experience that the corporate group possesses, to the used technology, real estate and to all the advantages and synergies arising from this.

The Board of Directors, as the statutory body of PREdi, declares that the data contained in this Report on Relations are correct and complete, and that the procedure taken when drawing up the Report on Relations according to Section 82 et seq. of the BCA was in the full scope of all information and data at the disposal of the statutory body or as ascertained by it when acting with due diligence¹.

In Prague on 17 March 2015



Milan Hampl
Chairman of the Board of Directors



Petr Dražil
Vice-Chairman of the Board of Directors

Note: ¹ Should the Statutory body have not the necessary information for elaboration of the Report on Relations, this fact shall be mentioned in the Report with an explanation.

In 2014 the Supervisory Board performed tasks as laid down by the law and the Company's Articles of Association. In accordance with § 446 and § 447 of the Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act on Business Corporations), 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.

The Supervisory Board at its meetings continuously became acquainted with the Company's economic results including the organisational and personnel matters. The Supervisory Board was also during the meetings informed about the fulfilment of the investment plan and approved proposals of investment projects presented by the Company's Board of Directors.

The Supervisory Board discussed and analysed the regular financial statements for the year 2013 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 for 2013.

Thereafter the Supervisory Board also approved:

- explicit tasks of the Company's Director for 2014,
- assessment of tasks stipulated by the Company's Director for 2013,
- text of the Annual Report for 2013.

At its meetings held in 2015, the Supervisory Board discussed and analyzed the Report on Relations drawn up in accordance with § 82 of the Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act on Business Corporations), the Regular Financial Statements for 2014 and became acquainted with the auditor's report to the Regular Financial Statements; it approved the text of the Annual Report for 2014, explicit tasks of the Company's Director for 2015 and assessment of tasks stipulated by the Company's Director for 2014.

In Prague on 18 May 2015



Pavel Elis
Chairman of the Supervisory Board

To the Shareholders of PREdistribuce, a.s.

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

Identification number: 27376516

Report on the Financial Statements

Based upon our audit, we issued the audit report dated 20 February 2015 on the financial statements which are included in this annual report on pages 49 to 66 in the following wording:

We have audited the accompanying financial statements of PREdistribuce, a.s. which comprise the balance sheet as at 31 December 2014, 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 significant (factual) 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 significant (factual) 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 significant (factual) misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the 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 at 31 December 2014, 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 2014 which is included in this annual report on pages 42 to 45. 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 No. 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 significant (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 2014 contains significant (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 2014 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 significant (material) respects, with the financial statements referred to above.

In Prague on 20 April 2015

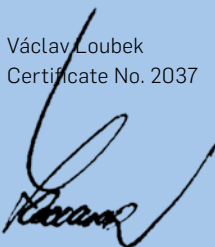
Audit firm:

Deloitte Audit s.r.o.
Certificate No. 79



Statutory auditor:

Václav Loubek
Certificate No. 2037



Financial Statements prepared in accordance with the Accounting Act No. 563/1991 Coll., as amended; the Regulation No. 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.

Income Statement (CZK thousand)

Line	Text	Note	2014	2013
I. 1.	Sales of distribution services in the Group		6,493,197	7,700,287
I. 2.	Sales of distribution services outside the Group		3,021,465	2,997,136
A.	Costs of distribution and system services		(5,105,502)	(6,052,255)
+	Gross margin	(1)	4,409,160	4,645,168
II.	Income from other services	(1)	53,761	33,580
B.	Purchased consumables and services	(3)	(1,447,986)	(1,491,412)
B. 1.	Consumed material and energy		(41,706)	(50,186)
B. 2.	Purchased services		(1,406,280)	(1,441,226)
+	Added value		3,014,935	3,187,336
C.	Staff costs	(2)	(444,076)	(421,420)
C. 1.	Payroll costs		(281,357)	(283,868)
C. 2.	Remuneration to members of statutory bodies		(10,955)	(3,212)
C. 3.	Social security and health instance costs		(103,529)	(101,479)
C. 4.	Social costs		(48,235)	(32,861)
D.	Taxes and fees		(1,709)	(7,135)
E.	Depreciation of tangible and intangible fixed assets	(6, 7)	(1,404,125)	(1,398,977)
III.	Sales of fixed assets and material		8,854	5,085
III. 1.	Sales of fixed assets		6,736	2,517
III. 2.	Sales of material		2,118	2,568
F.	Net book value of sold fixed assets		(10,529)	(3,420)
G.	Change in reserves and provisions		23,589	1,057
IV.	Other operating income	(1)	245,525	234,294
H.	Other operating expenses		(32,731)	(26,487)
*	Operating profit or loss		1,399,733	1,570,333
N.	Interest expenses	(4)	(42,513)	(44,528)
XI.	Other financial income		9	32
O.	Other financial expenses		(320)	(242)
*	Financial profit or loss		(42,824)	(44,738)
Q.	Income tax on ordinary activities	(5)	(264,345)	(292,709)
Q. 1.	– payable		(249,620)	(290,962)
Q. 2.	– deferred		(14,725)	(1,747)
**	Profit or loss on ordinary activities		1,092,564	1,232,886
****	Profit or loss for the current period		1,092,564	1,232,886

Balance Sheet (CZK thousand)

Line	Text	Note	2014		2013
			Gross	Adjustment	Net
	TOTAL ASSETS		50,883,094	(22,972,448)	27,910,646
B.	Fixed assets		48,614,679	(22,943,595)	25,671,084
B. I.	Intangible fixed assets	(7)	28,010	(19,646)	8,364
B. I. 2.	Research and development		25,411	(19,646)	5,765
7.	Intangible fixed assets under construction		2,599	-	2,599
B. II.	Tangible fixed assets	(6)	48,586,569	(22,923,949)	25,662,620
B. II. 1.	Land		616,667	-	616,667
2a.	Cable and external wiring		20,483,549	(8,291,832)	12,191,717
2b.	Power structures		14,077,118	(7,212,578)	6,864,540
3a.	Transformer station and switching station technologies		8,862,630	(4,578,328)	4,284,302
3b.	Logistics and management equipment/technology		1,859,314	(1,325,860)	533,454
3c.	Other fixtures and equipment		288,464	(192,256)	96,208
6.	Other tangible fixed assets – electricity meters in the network		1,920,347	(1,323,095)	597,252
7b.	Other tangible fixed assets under construction		464,883	-	464,883
8.	Prepayments made for tangible fixed assets		13,597	-	13,597
B. III.	Non-current financial assets		100	-	100
C.	Current assets		2,266,281	(28,853)	2,237,428
C. II.	Long-term receivables		43	-	43
C. II. 1.	Trade receivables		29	-	29
5.	Long-term pre-payments made		14	-	14
C. III.	Short-term receivables		2,264,993	(28,853)	2,215,517
C. III. 1.	Trade receivables	(8)	114,115	(28,853)	85,262
2.	Receivables – controlling entity	(16)	7,570	-	7,570
6.	State – tax receivables		14,891	-	14,891
7.	Short-term prepayments made		16,470	-	16,470
8.	Estimated receivables	(16)	2,111,242	-	2,111,242
9.	Other receivables		705	-	705
C. IV.	Cash on hand		1,245	-	1,245
D. I.	Deferred expenses and accrued income		2,134	-	2,134
D. I. 1.	Deferred expenses		2,134	-	2,134

Line	Text	Note	2014	2013
	TOTAL LIABILITIES		27,910,646	28,169,882
A.	Equity	(9)	19,330,653	19,409,289
A. I.	Share capital		17,707,934	17,707,934
A. III	Statutory reserve fund		530,000	468,000
A. IV.	Accumulated profits/losses brought forward		155	469
A. V.	Profit or loss for the current period		1,092,564	1,232,886
B.	Liabilities		6,732,809	6,943,181
B. I.	Other reserves	(10)	207,523	215,173
B. II.	Long-term payables		5,765,399	5,156,250
B. II. 2.	Payables – controlling entity	(16)	2,800,000	2,200,000
9.	Other payables		2,000	7,577
10.	Deferred tax liability	(11)	2,963,399	2,948,673
B. III.	Short-term payables		759,887	1,571,758
B. III. 1.	Trade payables	(12)	391,115	541,228
2.	Payables – controlling entity	(16)	85,330	784,172
5.	Payables to employees		15,681	15,810
6.	Social security and health instance payables	(5)	10,145	9,346
7.	State – tax payables and subsidies	(5)	90,775	120,565
8.	Short-term prepayments received		166,840	99,717
10.	Estimated payables		-	920
C. I.	Accrued expenses and deferred income		1,847,184	1,817,412
C. I. 1.	Accrued expenses		28,608	17,336
2.	Deferred income	(13)	1,818,576	1,800,076

Cash Flow Statement (CZK thousand)

	Note	2014	2013
Opening balance of cash and cash equivalents		347	1,741
Operating activity			
Sales of distribution services		9,907,450	10,321,829
Electricity consumption for network loss		(445,478)	(575,045)
Expenses for purchases of transit and system services		(4,837,386)	(5,179,924)
Net sales of distribution services	(1)	4,624,586	4,566,860
Expenses in the Group	(16)	(991,328)	(981,225)
Other operating income	(1)	65,098	55,351
Operating expenses	(3)	(392,377)	(454,565)
Changes in short-term working capital		11,042	25,172
Staff costs	(2)	(413,937)	(410,166)
Direct taxes	(5)	(298,937)	(246,246)
Financial income and expenses	(4)	(33,464)	(48,710)
Net cash flow from operating activity		2,570,683	2,506,471
Investment activity			
Income from the sale of fixed assets		5,676	2,846
Expenses related to the acquisition of fixed assets	(6, 7)	(1,466,556)	(1,767,927)
Income from investment contributions	(13)	217,018	187,393
Net cash flow from investment activity		(1,243,862)	(1,577,688)
Financial activity			
Dividends and director's fees paid		(1,171,200)	(942,200)
Cash pooling in the Group		(754,723)	12,023
Loans in the Group	(16)	600,000	
Net cash flow from financial activity		(1,325,923)	(930,177)
Change in cash and cash equivalents		898	(1,394)
Closing balance of cash and cash equivalents		1,245	347

Notes to the Financial Statements – for the year ended 31.12.2014

General Information

Incorporation and Description of the Business

PREdistribuce, a.s. ("PREdi" or the "Company") was established as a joint-stock company on 16 August 2005 and was entered in the Commercial Register of the Municipal Court in Prague on 7 September 2005.

The Company's registered office is located at Svornosti 3199/19a, Prague 5, 150 00, Corporate ID: 27376516.

The Company's principal activities include the distribution of electricity in the region of the City of Prague and Roztoky 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 2014

Board of Directors

Milan Hampl	Chairman of the Board of Directors and CEO
Petr Dražil	Vice-Chairman of the Board of Directors and Head of the Network Administration Section
Christian Franz-Josef Schorn	Member of the Board of Directors
Miloš Langr	Member of the Board of Directors

Supervisory Board

Pavel Elis	Chairman of the Supervisory Board, Chairman of the Board of Directors and CEO of PRE
Franz Retzer	Member of the Supervisory Board
Alexander Manfred Sloboda	Member of the Supervisory Board, Vice-Chairman of the Board of Directors and Sales Director of PRE
Drahomír Ruta	Member of the Supervisory Board

The sole shareholder of the Company is Pražská energetika, a.s.

Organisational Structure of the Company

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

- Network administration;
- Network management;
- Network operations;
- Network assets management and
- Network access and economy.

Accounting Policies

Statement of Compliance

The financial statements were prepared in accordance with the Accounting Act No. 563/1991 Coll., as amended; the Regulation No. 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 No. 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.

Technical 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, halls and other structures	20, 50, 70
Cable tunnels, cables and external wiring	40
Fibre-optics	30
Power structures	15, 25, 30
Working machines and equipment	10, 12, 20
Telecommunication equipment	4, 15
Machinery and special technology equipment, communication cables	3, 6, 8, 10
Electricity meters	10, 12
Vehicles	4
Furniture and fixtures	6, 8
Hardware and software	4
Other intangible assets	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 No. 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. 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 accrued and expensed. Assets acquired after the termination of the lease are 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.

Cash Flow Statement

The Company prepares its cash flow statements using the direct method. The statement prepared using the direct method provides more information for the operational management of the Company.

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. Revenues
2. Staff Costs
3. Costs of Purchase of Material, Services and Utilities
4. Interest Expenses
5. Income Tax
6. Tangible Fixed Assets
7. Intangible Fixed Assets
8. Trade Receivables
9. Equity
10. Reserves
11. Deferred Tax Liability
12. Trade Payables
13. Temporary Liabilities
14. Assets Held under Leases
15. Related Parties
16. Group Relationships
17. Significant Post Balance Sheet Events

(1) Revenues (CZK thousand)

Revenues and expenses relating to the supply of distribution services	2014	2013
Sale of distribution and system services B2B	3,770,132	4,258,326
Sale of distribution and system services B2C (including low-voltage B2B)	5,694,830	6,384,274
Other income	49,700	54,823
Total income	9,514,662	10,697,423
Costs of the purchase of distribution and system services	(5,105,502)	(6,052,255)
Gross profit from the sale of distribution services	4,409,160	4,645,168

Other income	2014	2013
Income from services rendered in the Group	20,966	20,668
Income from services rendered outside the Group	32,795	12,912
of which: Servicing and assembly *)	24,788	4,917
Leases	3,867	4,223
Total	53,761	33,580

*) The increase is attributable to the re-billing of costs in the amount of CZK 20 million, refer to Note (3) – Costs of Purchase of Material, Services and Utilities.

Other operating income	2014	2013
Clearance of connection fees	199,180	188,460
Compensation for unauthorised consumption	24,280	24,887
Sundry	22,065	20,947
Total	245,525	234,294

(2) Staff Costs (CZK thousand)

	2014	2013
	Staff including management	Staff including management
Average headcount	514	515
Payroll costs	256,728	259,906
Salaries paid depending on the Company's goal performance	24,629	23,961
Insurance	103,529	101,479
Remuneration of the members of the Company's bodies *)	10,955	3,213
Other social costs (according to the collective agreement **)	48,235	32,861
Total	444,076	421,420

*) The increase is attributable to the change in reporting, as since 1 January 2014, no statutory body members have been in an employment relationship with the Company and the aggregate remuneration is paid to them based on a contract for performing a function.

**) This primarily includes the costs of severance payments and employee benefits defined in the Collective Agreement. Specifically, the benefits include catering contributions, bonuses paid to employees in relation to work and life anniversaries and retirement leaves and contributions to pension insurance. The increase in social costs is attributable to a significant drop in the interest rate applied in calculating long-term discounted payables to employees.

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

	2014	2013
Services of the parent company	645,263	629,779
Lease of technologies and technology units	17,143	24,492
Lease of non-residential premises	70,572	71,862
Lease of cars	21,953	21,370
Assembly work and reading of meters	222,845	222,304
Sundry	11,361	11,736
Costs of purchase of material, services and utilities in the Group	989,137	981,543
Material and consumed utilities	36,933	45,206
Repairs of fixed assets	192,562	257,497
Lease of cable tunnels	98,449	96,486
Lease of non-residential premises	35,790	34,817
Sundries *)	95,115	75,863
Costs of purchase of material, services and utilities outside the Group	458,849	509,869
Total	1,447,986	1,491,412

*) The increase is attributable to the costs in the amount of CZK 20 million which have been re-billed, refer to Note (1) – Revenues.

(4) Interest Expenses (CZK thousand)

	2014	2013
Interest income: from cash pooling	-	1
Interest expenses: from cash pooling	(3,888)	(4,930)
from loans in the Group *)	(37,589)	(37,847)
from employee benefits **)	(1,036)	(1,748)
other	-	(3)
Total (net)	(42,513)	(44,527)

*) Interest expenses from loans also included capitalised interest in the amount of CZK 16,887 for 2014 (2013: CZK 14,309) which is included in the cost of assets.

**) This item reflects the increase in the present value of liabilities from defined employee benefits due to the fact that the payday will be one period earlier.
The decrease is attributable to the drop in interest rates.

(5) Income Tax (CZK thousand)

Effective tax rate	2014		2013	
Profit or loss for the period	1,092,564		1,232,886	
Income tax from ordinary activity	264,345		292,709	
Income tax from extraordinary activity	-		-	
Profit before tax	1,356,909		1,525,595	
Income tax using the applicable income tax rate	257,813	19.00%	289,863	19.00%
Impact of items that are never tax-deductible	6,112	0.45%	1,984	0.13%
Corrections of estimates of prior years' taxes	420	0.03%	862	0.06%
Total income tax/effective tax rate	264,345	19.48%	292,709	19.19%

Payables to the State	2014	2013
Payables arising from social security and health insurance contributions	10,145	9,346
State – tax payables *)	90,775	120,565

*) This item primarily includes corporate income tax and VAT.

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

(6) Tangible Fixed Assets (CZK mil.)

	Land	Power structures	Cables and external wiring	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
Cost								
Balance at 31 Dec 2012	564.1	21,843.4	19,480.6	1,678.6	1,920.8	266.2	427.8	46,181.5
Additions	3.0	528.7	590.4	125.6	70.3	19.4	441.9	1,779.4
Disposals	(0.2)	(124.4)	(152.8)	(117.5)	(76.5)	(10.5)	(0.6)	(482.7)
Reclassification	-	71.6	57.8	17.5	31.7	5.7	(164.4)	20.0
Balance at 31 Dec 2013	566.9	22,319.3	19,976.0	1,704.2	1,946.3	280.8	704.7	47,498.2
Accumulated depreciation								
Balance at 31 Dec 2012	-	(10,688.8)	(7,552.6)	(1,278.0)	(1,255.2)	(159.9)	-	(20,934.5)
Depreciation	-	(637.8)	(506.1)	(90.3)	(141.0)	(18.7)	-	(1,393.8)
Provisions	-	0.6	-	-	-	-	-	0.6
Accumulated depreciation on disposals	-	121.2	152.8	117.5	75.9	4.9	-	472.3
Reclassification	-	-	-	-	-	-	-	-
Balance at 31 Dec 2013	-	(11,204.8)	(7,905.9)	(1,250.8)	(1,320.3)	(173.7)	-	(21,855.4)
Net book value at 31 Dec 2012	564.1	11,154.6	11,928.0	400.6	665.6	106.3	427.8	25,247.0
Net book value at 31 Dec 2013	566.9	11,114.5	12,070.1	453.4	626.0	107.1	704.7	25,642.8

	Land	Power structures	Cables and external wiring	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
Cost								
Balance at 31 Dec 2013	566.9	22,319.3	19,976.0	1,704.2	1,946.3	280.8	704.7	47,498.2
Additions	23.6	449.7	576.3	126.8	77.0	3.5	173.3	1,430.2
Disposals	(4.0)	(67.1)	(121.9)	(19.0)	(128.1)	(1.6)	(0.2)	(341.9)
Reclassification	30.2	237.9	53.2	47.2	25.2	5.7	(399.4)	-
Balance at 31 Dec 2014	616.7	22,939.8	20,483.6	1,859.2	1,920.4	288.4	478.4	48,586.5
Accumulated depreciation								
Balance at 31 Dec 2013	-	(11,204.8)	(7,905.9)	(1,250.8)	(1,320.3)	(173.7)	-	(21,855.4)
Depreciation	-	(647.8)	(508.0)	(94.1)	(130.9)	(20.1)	-	(1,400.7)
Provisions	-	3.5	-	-	-	-	-	3.5
Accumulated depreciation on disposals	-	58.2	121.9	19.0	128.1	1.6	-	328.7
Reclassification	-	-	-	-	-	-	-	-
Balance at 31 Dec 2014	-	(11,790.9)	(8,291.9)	(1,325.9)	(1,323.1)	(192.2)	-	(22,924.0)
Net book value at 31 Dec 2013	566.9	11,114.5	12,070.1	453.4	626.0	107.1	704.7	25,642.8
Net book value at 31 Dec 2014	616.7	11,148.9	12,191.7	533.4	597.3	96.2	478.5	25,662.6

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

(7) Intangible Fixed Assets (CZK mil.)

	Software	Other	Intangible fixed assets under construction	Total
Cost				
Balance at 31 Dec 2012	0.1	24.6	20.6	45.3
Additions	-	-	1.7	1.7
Disposals	-	-	-	-
Reclassification *)	-	0.2	(20.2)	(20.0)
Balance at 31 Dec 2013	0.1	24.8	2.1	27.0
Accumulated amortisation				
Balance at 31 Dec 2012	(0.1)	(11.2)	-	(11.3)
Amortisation	-	(5.1)	-	(5.1)
Accumulated amortisation on disposals	-	-	-	-
Reclassification	-	-	-	-
Balance at 31 Dec 2013	(0.1)	(16.3)	-	(16.4)
Net book value at 31 Dec 2012	-	13.4	20.6	34.0
Net book value at 31 Dec 2013	-	8.5	2.1	10.6

	Software	Other	Intangible fixed assets under construction	Total
Cost				
Balance at 31 Dec 2013	0.1	24.8	2.1	27.0
Additions	-	0.3	0.8	1.1
Disposals	(0.1)	-	-	(0.1)
Reclassification	-	0.3	(0.3)	-
Balance at 31 Dec 2014	-	25.4	2.6	28.0
Accumulated amortisation				
Balance at 31 Dec 2013	(0.1)	(16.3)	-	(16.4)
Amortisation	-	(3.4)	-	(3.4)
Accumulated amortisation on disposals	0.1	-	-	0.1
Reclassification	-	-	-	-
Balance at 31 Dec 2014	-	(19.6)	-	(19.6)
Net book value at 31 Dec 2013	-	8.5	2.1	10.6
Net book value at 31 Dec 2014	-	5.8	2.6	8.4

*) The amount of CZK 20 million represents the proportional share in costs related to connecting as well as ensuring the reserved input of TR Chodov which is a part of its purchase price and which was reclassified under tangible fixed assets in 2013.

Low-Value Fixed Assets

In line with the accounting policies (refer to Accounting Policies), low-value fixed assets are expensed upon acquisition. The acquisition cost of low-value tangible assets with the acquisition cost of up to CZK 40 thousand that were in use as of the balance sheet date amounts to CZK 80,643 thousand (2013: CZK 79,071 thousand). The Company holds no low-value intangible fixed assets.

(8) Trade Receivables (CZK thousand)

	2014	2013
Trade receivables		
up to 6 months past due	11,346	27,349
6 to 12 months past due	6,934	6,029
more than 12 months past due	23,659	19,436
Gross past-due trade receivables	41,939	52,814
before due	72,176	85,379
Total gross trade receivables	114,115	138,193

(9) Equity (CZK thousand)**Registered Share Capital and Types of Shares as of 31 December 2014**

The Company's share capital comprises 21,549 registered shares in the certificate form (2013: 21,549 shares) with the nominal value of CZK 821,752 (2013: CZK 821,752).

Distribution of Profit

The General Meeting will decide on the distribution of profit in the amount of CZK 1,092,564 thousand (2013: CZK 1,232,886 thousand).

Statement of Changes in Equity

	Share capital	Reserve fund	Profit or loss	Retained earnings	Total equity
Balance at 31 Dec 2012	17,707,934	418,000	992,594	75	19,118,603
Creation of the reserve fund	-	50,000	(50,000)	-	-
Dividends paid	-	-	(929,000)	-	(929,000)
Directors' fees paid	-	-	(13,200)	-	(13,200)
Retained earnings	-	-	(394)	394	-
Net profit for 2013	-	-	1,232,886	-	1,232,886
Balance at 31 Dec 2013	17,707,934	468,000	1,232,886	469	19,409,289
Creation of the reserve fund	-	62,000	(62,000)	-	-
Dividends paid	-	-	(1,158,000)	-	(1,158,000)
Directors' fees paid	-	-	(13,200)	-	(13,200)
Retained earnings	-	-	314	(314)	-
Net profit for 2014	-	-	1,092,564	-	1,092,564
Balance at 31 Dec 2014	17,707,934	530,000	1,092,564	155	19,330,653

(10) Reserves (CZK thousand)

	Business risks	Salaries	Employee benefits	Total
Balance at 31 Dec 2012	66,638	30,766	119,124	216,528
Creation of reserves in the current period	-	4,236	6,704	10,940
Use of reserves in the current period	(4,049)	-	(8,246)	(12,295)
Balance at 31 Dec 2013	62,589	35,002	117,582	215,173
Creation of reserves in the current period	-	-	27,428	27,428
Use/release of reserves in the current period	(26,134)	(22)	(8,922)	(35,078)
Balance at 31 Dec 2014	36,455	34,980	136,088	207,523
Long-term reserves	36,455	-	123,583	160,038
Short-term reserves	-	34,980	12,505	47,485
Total	36,455	34,980	136,088	207,523

Reserves are recognised in respect of the following:

- Business risks – arising from operations of fixed assets;
- Salaries – include salaries paid in dependence on the fulfilment of the plan; and
- Employee benefits – a 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 liability was discounted at the balance sheet date.

11) Deferred Tax Liability (CZK thousand)

Deferred Tax Assets and Liabilities reported in the Balance Sheet:

Deferred tax assets (-) and liabilities (+) arising from the temporary differences between the accounting and tax values are attributable to the following items:

	2014	2013
Fixed assets	3,000,521	2,990,417
Receivables	(1,635)	(1,525)
Reserves	(13,573)	(18,542)
Liabilities arising from the Collective Agreement	(21,914)	(21,677)
Total	2,963,399	2,948,673

(12) Trade Payables (CZK thousand)

The Company carries no trade payables past their due dates.

(13) Temporary Liabilities (CZK thousand)

Deferred income	
Balance at 31 Dec 2012	1,800,391
Investment contributions received	188,145
Investment contributions recognised in income *)	(188,460)
Balance at 31 Dec 2013	1,800,076
Investment contributions received	217,680
Investment contributions recognised in income *)	(199,180)
Balance at 31 Dec 2014	1,818,576

*) Investment contributions recognised in income are included in "Other operating income" in the Income Statement.

(14) Assets Held under Leases (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 table outlined below shows the aggregate annual costs of these leases:

	2014	2013
Cable conduits	98,449	96,486
Non-residential premises	35,790	34,817
Administrative buildings	70,572	71,862
Vehicles	21,953	21,370
Total	226,764	224,535

Finance Leases

Finance leases include technologies and technological units. In the year ended 31 December 2014, the lease payments amounted to CZK 17,143 thousand (2013: CZK 24,492 thousand).

(15) Related Parties (CZK thousand)

Persons having managing authority include the management of the Company (i.e. the CEO of the Company) and members of the Board of Directors.

Members of senior management use company cars for both business and private purposes.

Total Bonuses for Members of Statutory and Supervisory Bodies and Senior Management:

	2014	2013
Number	10	10
Bonuses in CZK thousand *)	25,845	25,885

*) The adjustment in the comparative period is attributable to the change in reporting, as since 1 January 2014 no statutory body members have been in an employment relationship with the Company and the aggregate remuneration is paid to them based on contracts for performing a function.

Transactions with Members of Statutory Bodies and Executive Management

As of 31 December 2014, the Company recorded receivables from the members of the Board of Directors and the Supervisory Board in the aggregate amount of CZK 27 thousand (2013: CZK 12 thousand). These receivables were settled during January 2015.

(16) Group Relationships (CZK thousand)

	PREdi receivables as of 31 Dec		PREdi payables as of 31 Dec	
	2014	2013	2014	2013
Pražská energetika, a.s.	1,693,238	1,982,204	2,892,004	2,964,489
of which: Trade receivables/payables	-	46,877	63,395	-
Trade receivables/payables from cash pooling	7,570	-	-	747,153
Accrued income/expenses from cash pooling	-	-	170	415
Long-term loan *)	-	-	2,800,000	2,200,000
Accrued expenses (loan interest)	-	-	28,439	16,921
Estimated amounts – unbilled distribution services **)	1,685,668	1,935,327	-	-
PREměření, a.s.	-	3	21,935	37,019
Total	1,693,238	1,982,207	2,913,939	3,001,508

*) The long-term loan consists of three parts: a loan of CZK 600 million maturing on 18 June 2026 that bears interest at 3Y CZK IRS + mark-up of 3.1% p.a., a loan of CZK 700 million maturing on 28 November 2026 that bears interest at 3Y CZK IRS + mark-up of 3.0% p.a., and a loan of CZK 1,500 million maturing on 29 June 2015 that bears interest at PRIBOR + 1.3% p.a. The loans provided to PREdistribuce, a.s. by PRE, a.s. will be re-financed as of their maturity dates through long-term loans in line with the internal company guideline entitled "Financial Management of Entities included in the PRE Group". The loans serve for financing the operating and investment needs of the debtor.

**) Estimated receivables reported in the balance sheet amount to CZK 2,111,242 thousand (as of 31 December 2013: CZK 2,341,721 thousand), of which the amount of CZK 1,685,668 thousand (as of 31 December 2013: CZK 1,935,327 thousand) represents unbilled distribution services provided to Pražská energetika, a.s., and the amount of CZK 425,574 thousand (as of 31 December 2013: CZK 406,173 thousand) represents unbilled distribution services and unbilled credit notes, if any, related to these services provided outside the PRE Group.

	PREdi income		PREdi costs/expenses	
	2014	2013	2014	2013
Pražská energetika, a.s.	6,511,314	7,719,801	(2,584,881)	(2,473,638)
of which: Distribution services	6,491,462	7,700,275	-	-
Services, consumed material	19,776	19,495	(749,149)	(734,747)
Consumed electricity for the Company's own purposes and losses	-	-	(444,529)	(583,718)
Material	-	-	(174,662)	(169,088)
Fixed assets	-	-	(177)	(1)
Other income	76	31	-	-
Dividends	-	-	(1,158,000)	(929,000)
Interest on cash pooling	-	-	(3,888)	(4,929)
Interest on loans	-	-	(54,476)	(52,155)
eYello CZ, k.s.	1,735	12	(17,143)	(24,493)
of which: Distribution services	1,735	12	-	-
Services - leases	-	-	(17,143)	(24,492)
Fixed assets	-	-	-	(1)
PREměření, a.s.	1,205	1,184	(305,043)	(317,303)
of which: Assembly and electricity meters	1,205	1,184	(305,043)	(317,303)
Total	6,514,254	7,720,997	(2,907,067)	(2,815,434)

All transactions with Group entities were performed under arm's length conditions. The Company suffered no detriment arising from intercompany transactions.

(17) Significant Post Balance Sheet Events

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

We hereby declare that data in the Annual Report for the year 2014 comply with the real facts and that no known significant circumstances which could affected the accurate and correct assessment of the company PREdistribuce, a.s. were omitted.



Milan Hampl
Chairman of the Board of Directors



Petr Dražil
Vice-Chairman of the Board of Directors

AMM	Automatic Metering System
EMS	environmental management system
ERÚ	Energy Regulatory Office
EU	European Union
eYello	eYello CZ, k.s., 90% subsidiary of Pražská energetika, a.s.
FVE	photovoltaic power station
GWh	gigawatt-hour
kV	kilovolt
MW	megawatt
LV	low voltage
OOPP	personal protective equipment
OTE	Electricity Market Operator
OZE	renewable sources
PRE	Pražská energetika, a.s.
PREdi	PREdistribuce, a.s., 100% subsidiary of Pražská energetika, a.s.
PREm	PREměření, a.s., 100% subsidiary of Pražská energetika, a.s.
RP	Board of Directors decision
ŘS	control system
PRE Group	PRE + PREdi + PREm (+ PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o.) + eYello
T	transformer
TPA	third party access
TR	transformer station
HV	high voltage
VHV	very high voltage

	Address	PCN	Telephone
PREdistribuce, a.s.	Prague 5, Svornosti 3199/19a	150 00	267 055 555, 840 550 055

web: www.predistribuce.cz
 e-mail: pre@pre.cz, distribuce@pre.cz
 ID No.: 27376516
 Tax ID: CZ27376516
 Bank details: ČSOB Praha-město, account number: 17494043/0300

	Address	PCN	Telephone
PRE Customer Centre	Prague 4, Vladimírova 18	140 00	840 550 055
	Prague 1, Jungmannova 31	101 00	840 550 055
Emergency Services	Prague 2, Kateřinská 9	120 00	1236, e-mail: poruchy@pre.cz
Call Centre	Prague 10, Na Hroudě 19	100 05	267 055 555, 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

