



**120** years

of being the energy of the metropolis

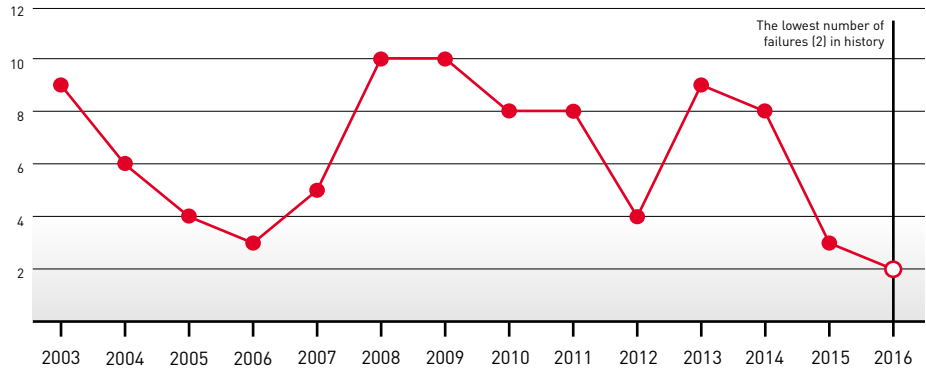
## MAIN FINANCIAL INDICATORS (CZK Million)

	2016	2015	2014
<b>Total assets</b>	<b>28,336</b>	<b>27,951</b>	<b>27,911</b>
Distribution equipment	23,624	23,371	23,341
Other fixed assets	2,325	2,335	2,331
Cash pooling receivables within the Group	106	0	8
Trade receivables	127	139	85
Other assets	2,153	2,106	2,147
<b>Total liabilities</b>	<b>28,336</b>	<b>27,951</b>	<b>27,911</b>
Equity	19,379	19,291	19,331
Deferred tax liability	2,984	2,962	2,963
Cash pooling payables within the Group	0	130	0
Trade payables	550	459	476
Deferred income	1,763	1,788	1,819
Reserves	306	214	208
Loans	2,700	2,700	2,800
Other liabilities	654	407	314
<b>Gross profit from the sale of distribution services</b>	<b>4,636</b>	<b>4,401</b>	<b>4,409</b>
<b>Profit from ordinary activity before tax</b>	<b>1,431</b>	<b>1,299</b>	<b>1,357</b>
<b>Profit from ordinary activity after tax</b>	<b>1,141</b>	<b>1,052</b>	<b>1,093</b>
<b>EBIT</b>	<b>1,515</b>	<b>1,373</b>	<b>1,400</b>
<b>EBITDA</b>	<b>2,853</b>	<b>2,820</b>	<b>2,804</b>

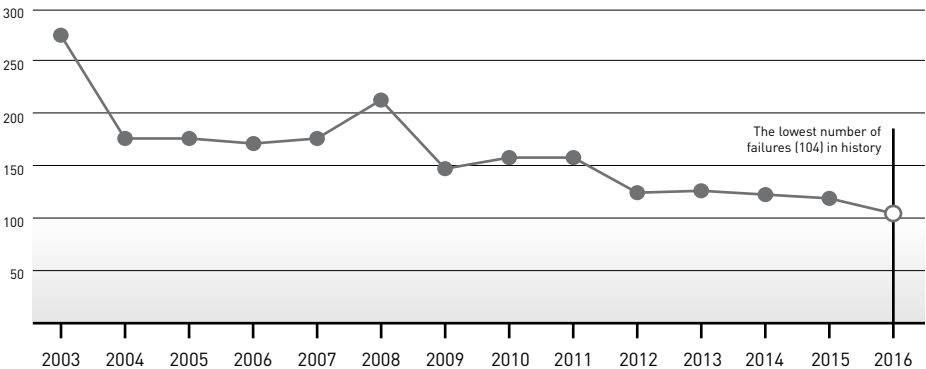
## DEVELOPMENT OF SELECTED NETWORK INDICATORS

Indicator	Unit	2016	2015	2014	2013	2012
Maximum network load	MW	1,172	1,093	1,149	1,156	1,198
Total length of electricity networks	km	12,054	12,014	12,006	11,912	11,921
of which: HV	km	207	207	207	206	206
MV	km	3,872	3,867	3,854	3,872	3,865
LV	km	7,975	7,940	7,945	7,834	7,850
Number of HV/MV stations (PREdi/total)	pieces	22/23	22/23	22/24	22/24	22/24
Total number of MV/LV stations	pieces	4,858	4,843	4,835	4,834	4,833
Number of MV/LV distribution stations	pieces	3,229	3,229	3,246	3,261	3,274

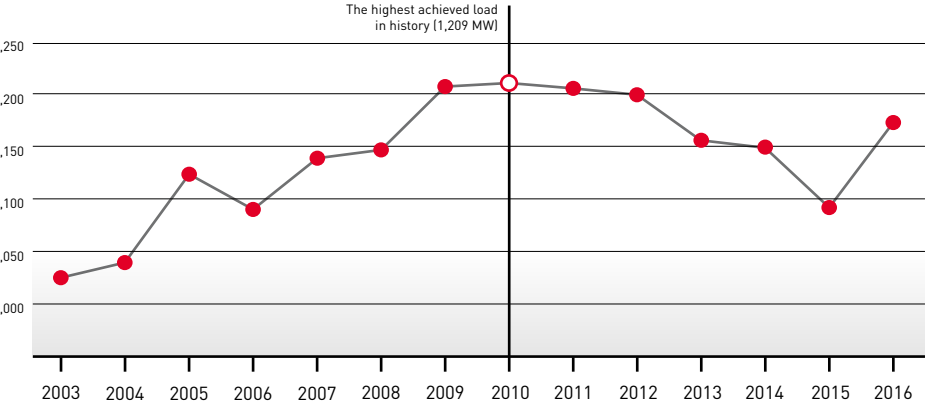
Number of HV failures

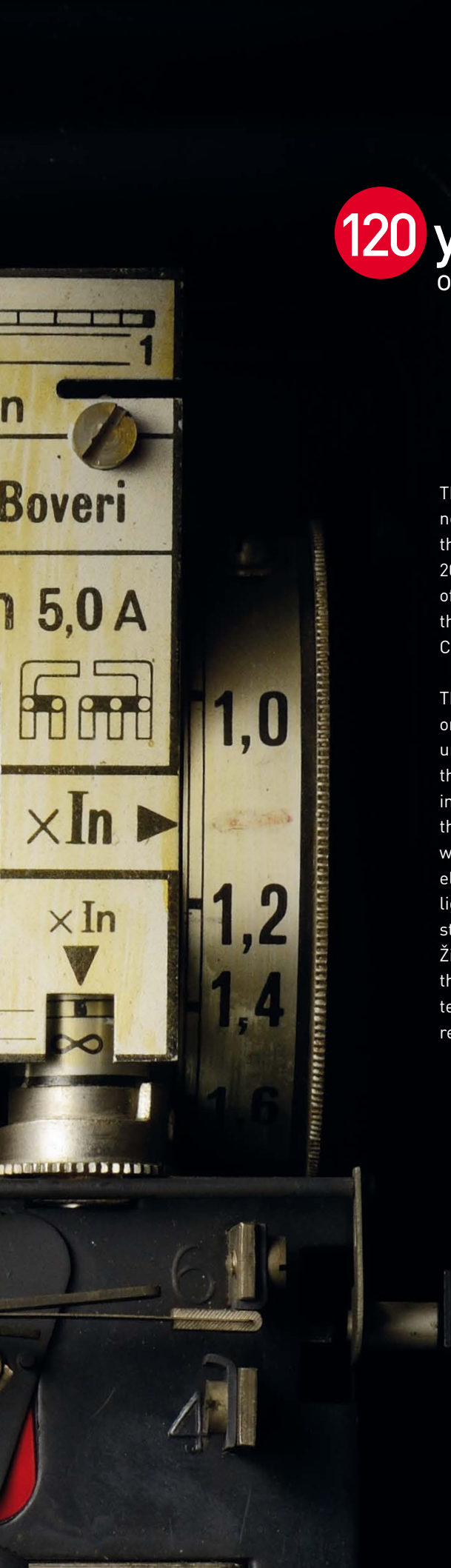


Number of MV failures



Maximum achieved load of the year (MW)





# 120 years

of being the energy of the metropolis

This year, the Annual Report looks back not only on the previous year, but also the history of the PRE Group, which in 2017 celebrates the 120<sup>th</sup> anniversary of the founding of its legal predecessor, the Electricity Works of the Royal Capital City of Prague.

The Electricity Works started operating on the 1<sup>st</sup> of September 1897 and has undergone many changes reflecting the progress in the energy industry in Prague and the development of the capital. Since the very beginning, when the Electricity Works primarily electrified the city, developed street lighting and operated electric streetcars between the districts of Žižkov and Královské Vinohrady, the company has been a pioneer of technical progress and a guarantee of reliable energy infrastructure.

The PRE Group has continued in this role ever since – it operates the most reliable distribution network in the Czech Republic, provides customers with high quality energy supplies, including green electricity from renewable sources, offers modern energy products and solutions and actively engages in the development of smart urban infrastructure – from smart grids to electromobility to multifunctional street lighting.

The PRE Group marks the 120<sup>th</sup> anniversary with an exhibition "120 Years of Electricity in Prague", which will open in the City of Prague Museum at the end of August, and a book "120 Years of Being the Energy of the City", which was published at the end of 2016.

This Annual Report also traces the developments in power engineering technologies through photos and pictures. It encourages us not only to look back on the technical progress, but also to reflect on the close ties between the energy industry and everyday life in the past as well as today.

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# BASIC INFORMATION ABOUT THE COMPANY

Commercial name: **PREdistribuce, a.s.**

Registered office: Svornosti 3199/19a,  
150 00 Prague 5  
ID No.: 27376516  
Tax ID No.: CZ27376516  
Legal form: joint stock company  
Registered in the Commercial Register  
maintained at the Municipal Court in  
Prague, File ref. B 10158  
Bank information: ČSOB Prague 5  
Account number: 17494043/0300  
Holder of electricity distribution  
licence No. 120504769 (valid from the  
1<sup>st</sup> of January 2006 for an indefinite  
period of time)

PREdistribuce, a.s., was established as a separate company following the changes in the energy legislation aimed at harmonising the legislation of the EU member states. In 2004, Directive 2003/54/ES of the European Parliament and the Council concerning common rules for the internal market in electricity was transposed to the Czech legislation through an amendment to the Energy Act. This amendment started the process of unbundling aiming to separate the distribution of electricity from trading in electricity and to ensure that an electricity distribution licence is held by a separate company.

## THE COMPANY'S SCOPE OF BUSINESS INCLUDES:

- electricity distribution;
- the installation, repair, inspections and testing of electrical equipment;
- the production, installation and repair of electrical machinery and devices, and electronic and telecommunication equipment;
- the execution of constructions, their alterations and demolitions;
- production, trading and services not listed in Appendices No. 1 to 3 of the Trade Licensing Act in the following fields:
  - the repair and maintenance of domestic appliances, cultural objects, precise mechanical products, and optical devices and meters;
  - advisory and consultancy services, provision of expert studies and opinions;
  - the lease and rental of movable assets;
  - the preparation and creation of technical designs, graphic and drawing works;
  - real estate activities, administration and maintenance of real estate;
  - testing, metering, analyses and inspections.

Consequently, on the 7<sup>th</sup> of September 2005 Pražská energetika, a.s., founded a 100% subsidiary, PREdistribuce, a.s., where it transferred a part of its business (the Distribution division, i.e., the distribution network) as of the 28<sup>th</sup> of December 2005.

**On the 1<sup>st</sup> of January 2006, PREdistribuce, a.s., started operating,** assuming all rights and obligations of Pražská energetika, a.s., related to securing and operating the distribution system in Prague, in Roztoky and in

Žalov; it also became the owner of the technical equipment and a part of the immovable assets used for electricity distribution in this territory. PREdistribuce, a.s., remains a 100% subsidiary of Pražská energetika, a.s.

# PRE GROUP

The history of the PRE Group companies dates back to 1897, when the Electricity Works of the Royal Capital City of Prague (Elektrické podniky královského hlavního města Prahy) was founded. Aside from electricity distribution, the company also operated trams and provided street lighting.

In addition to the parent company, **Pražská energetika, a.s. (PRE)**, whose main business activity is trading in electricity and gas, the PRE Group includes the following subsidiaries:

**PREdistribuce, a.s. (PREdi)** – electricity distribution in Prague, in Roztoky and in Žalov; planning the renovation and development of the distribution system; construction, operation, administration and maintenance of the distribution system equipment;

**PREměření, a.s. (PREm)\*** – repairs, installations and readings of electricity metres in the PRE supplied territory; electricity generation and energy services;

**eYello CZ, k.s. (eYello)** – trading in electricity and gas; production, trading and services not listed in Appendices No. 1 to 3 of the Trade Licensing Act;

**KORMAK Praha a.s. (KORMAK Praha)\*\*** – design and construction of electricity network infrastructure – transformer stations and LV, MV and HV networks;

**KORMAK nemovitosti s.r.o. (KORMAK nemovitosti)\*\*** – lease of real estate, flats and non-residential premises.

\* As of the 1<sup>st</sup> of January 2016, PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o., and PRE FVE Požovice, s.r.o., ceased to exist, merging with its parent company PREměření, a.s. (merger by acquisition).

\*\* KORMAK Praha a.s. and KORMAK nemovitosti s.r.o. became part of the PRE Group on the 14<sup>th</sup> of March 2016.

# FOREWORD OF THE CHAIRPERSON OF THE BOARD OF DIRECTORS



Distinguished readers

In 2016, our company marked the 11<sup>th</sup> anniversary of its founding; according to the Czech accounting standards, its profit after tax amounted to CZK 1,141 million; and it provided high quality and uninterrupted supply of electricity to its end customers in the territory of Prague, Roztoky and Žalov covering the area of 505 km<sup>2</sup>.

First, I would like to talk briefly about the company's history, the distribution system, the number of employees and the main activities. PREdistribuce, a.s., was founded in 2006 as a 100% subsidiary of the sole shareholder, Pražská energetika, a.s. Its distribution network consists of a system of overhead power lines and cable lines – 207 km of 110 kV lines, 3,872 km of 22 kV lines and 7,975 km of 0.4 kV lines – 23 distribution stations with 110/22 kV transformation and 4,858 22/0.4 kV network transformer stations. The distribution equipment is maintained by 513 employees. Electricity distribution in the Czech Republic is an activity regulated by the Energy Regulatory Office (ERÚ), which also has jurisdiction over the approval of regulated costs for maintaining the high reliability and security of the networks and over setting allowed reasonable profit. The company holds an electricity distribution licence for the licensed territory, valid from the 1<sup>st</sup> of January 2006 for an indefinite period of time.

The main tasks of PREdi's employees include planning the renovation and development of distribution equipment; connecting new customers following the construction of energy infrastructure and connection points; the metering of supplied electricity on

high and medium voltage levels and the transfer of data to the market operator for the purpose of settling distribution services and supplies. The company also manages network assets, controls operation and services and solves failures, including carrying out planned network renovation and maintenance in accordance with preventative maintenance guidelines. At the end of 2016, we took over the responsibility for operating the street lighting dispatcher control centre and solving failures and breakdowns of street lighting owned by the capital. In addition to keeping street lighting and lighting of historical buildings in working order, we also maintain almost 500 gas lamps in the city centre. This is a new challenge for us; and I believe we will manage to respond to street lighting failures with maximum effectiveness and reliability in 2017.

I am pleased to say that 2016 was again a very successful year in terms of ensuring high operational reliability and security of the networks and also achieving profit thanks to the transfer/distribution of 6,241 GWh of electricity to more than 786,000 consumption points. The highest total load of the network amounting to 1,172.4 MW was recorded in December. Despite austerity measures taken by



customers, implementation of new technologies and devices and state support for reducing energy losses in buildings, the volume of distributed electricity increased by 101.5 GWh year-on-year. Thanks to the recovery of the market with property development projects, the highest total load and electricity consumption can be expected to increase further in 2017.

In terms of security, all PREdi's networks and operating equipment are part of the critical infrastructure of Prague and the Czech Republic. Reliable energy supply is indispensable for the operation of the capital given its specifics. Short-term disruptions on a larger scale paralyse the city completely, potentially causing transport collapse, posing a threat to the lives of people in elevators and impeding the operation of most state authorities and companies. In 2016, the life and operation of the capital was not negatively impacted by any such major disruptions. There were only 2 failures in the 110 kV network, causing electricity supply cuts of the average duration of 11 minutes. In the 22 kV networks, 104 failures (including external interference) were recorded, which was the lowest number in the history of the company and its legal predecessors. Throughout the year, quality standards of electricity supply and related services were met with regard to the absolute majority of customers connected to the company's distribution networks in accordance with Decree of ERÚ No. 540/2005 Coll.

Operational results of PREdi's distribution system prove the trend of decreasing internal distribution failure rate in Prague in terms of the number of severe failures and supply quality.

In order to continue this trend, PREdi had to make the planned amount of investment into the distribution equipment, i.e., the simple reproduction and development of networks including control, telemechanisation and metering systems. The investment approved by the Supervisory Board amounted to CZK 1,583.8 million. One of the most significant simple reproduction projects was the modernisation of the 110/22 kV distribution station in Třeboradice, which was nearly completed in 2016. The building of another two significant constructions continued: the 110/22 kV distribution stations in Karlín and Uhřetěves will increase the operational reliability of supply in the capital and meet new demand for input in undeveloped localities. The construction continued on cable tunnels from the two distribution stations to connect them to 110 kV lines and lead out the 22 kV output. The new SCADA dispatcher control system started operating, making it easier for our dispatchers to manage supply restoration and to integrate new distribution equipment into the network system configuration in the next ten years. We also carried out a high number of simple reproduction projects in the 22 kV and 1 kV cable lines and renovated around 100 distribution transformer stations, which reached the end of their physical and accounting lifetime.

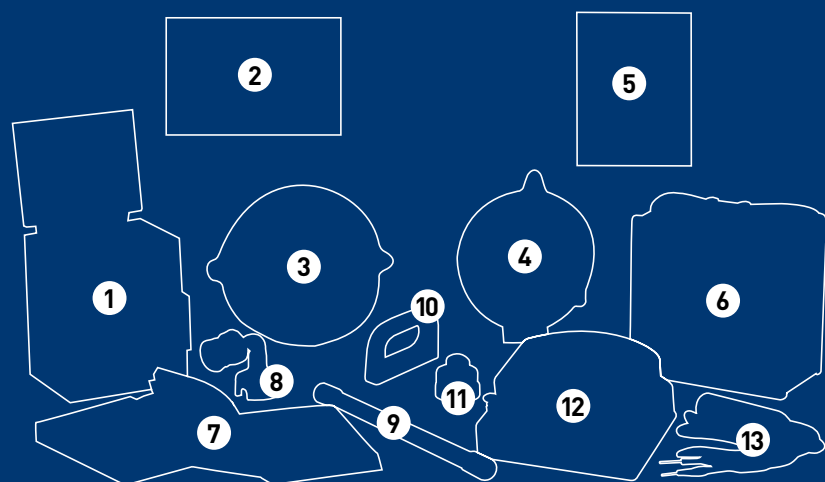
In 2017, we expect the energy sector to see further legislative changes. From the 1<sup>st</sup> of August, the regulatory office will be governed by the five-member Council of the Energy Regulatory Office; negotiations regarding parameters of the fifth regulatory period will begin; and PREdi will start presiding over the Czech Association of Regulated Power Supply Companies (České sdružení regulovaných elektroenergetických společností – ČSRES).

I am happy to conclude that PREdi fulfilled the key tasks of the distributor in the capital in 2016 and actively participated in the planned development of Prague. I would like to sincerely thank all employees of the company for the work they have done. Our goal for the next period is to take further technical measures on all voltage levels, including implementation of new smart technologies, to maintain the quality of electricity supply on a top-tier European level. I am positive that PREdi will remain a mainstay of the PRE Group, meet the expectations of its shareholders and remain an entity that acknowledges its responsibility towards the environment and constantly strives to enhance environmental protection.

On behalf of PREdistribuce, a.s., I would like to wish you a healthy, happy and successful 2017.

**Milan Hampl**  
Chairperson of the Board of Directors

# 1897-1927



1 - Induktor measuring device 2 - Enamel warning sign 3 - Panel voltmeter 4 - Single-phase electricity meter 5 - Poster with safety instructions 6 - Measuring device – a direct current voltmeter 7 - Czechoslovakian Electrical Engineering Association standards and rules 8 - Wall porcelain light bulb socket 9 - Glass liquid fuse 10 - Wooden fuse handling tool 11 - Porcelain switch 12 - Measuring device 13 - Low-voltage tester

# 1899

Two years after its founding, the Electricity Works of the Royal Capital City of Prague was entered in the commercial register.

# 1900

A power plant in Holešovice started operating, generating power for both trams and street lighting and private consumption.

# 1917

Due to war shortages, the Holešovice power plant ran out of coal, completely cutting power supply to the Prague public transport on the 8<sup>th</sup> of February. Power supply for lighting streets, public buildings and homes was also limited.

# 1926

Prague was connected to the newly constructed power plant in Ervěnice, North Bohemia, by trunk lines through a new distribution station Praha-Sever.











# COMPANY STRATEGY

**The company's primary mission is to ensure the reliable transfer of electricity from transfer points with the transmission system to customers' consumption points or transfer points using a well-maintained distribution system. This mission will gradually change to the transfer of electricity between individual points in the distribution system, but the underlying goal, the reliability of the transfer, will remain the same.**

**The main strategic goal is to continue optimising network assets, ensure their maximum utilisation for electricity distribution, and provide high quality and non-discriminatory services to network customers in cooperation with the other members of the PRE Group.**

The otherwise conservative energy sector now faces changes, which will in the near future undoubtedly require it to modify its structure and operation management as well as to implement new technologies. These changes and new challenges are common across Europe; only the speed and intensity of their implementation differ in individual states.

We can reasonably expect an increase in the deployment of decentralised sources of electricity, partly including renewable energy sources, where generation is difficult to predict, as well as the deployment of new technologies, such as electromobility, AMM and electro-accumulation. At the same time, it will remain necessary to maintain the required high level of reliability and security of electricity supply, and to maintain supply even in crisis situations. There is a growing danger of abnormal operating conditions and blackouts, not only because of possible terrorist attacks, but also because of the instability of sources and the overload of some transmission network components caused by huge transfers of electricity.

The task of distribution network operators is to find and implement measures enabling to connect more new customers on the market and at the same time maintaining sufficient network robustness which respects the significance of the distribution network as a part of the critical infrastructure; all this while keeping the costs at a reasonable level and justifiable to their shareholders. PREdi's long-term strategy is to increase distribution

efficiency by taking operating-technical and investment measures in the network as well as by optimizing processes within the company and with external entities and state authorities including ERÚ.

All these steps aim at compliance with the guaranteed, legally mandated quality standards of electricity supply and related services, which fall under the remit of the electricity distribution licence holder. Given PREdi's activities in the capital, which is the economic centre of the Czech Republic and the seat of many state institutions, these standards are likely to be further tightened in the future. The company needs to ensure, to the maximum extent possible, non-discrimination regarding processes for which the distribution network operator bears responsibility towards all market participants, electricity traders and end-users of the network. The conditions are defined in the programme of anti-discrimination measures, which is available on the PREdi website.



In its licensed territory covering the area of 505 km<sup>2</sup>, PREdi is responsible for the supply and distribution of electricity. This includes, among other things, maintaining the distribution system, which is a part of the city's critical infrastructure and as such is subject to stricter standards stemming from the territory's character and its sensitivity to possible distribution failures. According to the evaluation of ERÚ quality standards, PREdi has been the most reliable distribution company in the Czech Republic in recent years. As the demand for continuous and high quality electricity supply is growing, PREdi's management adopted a new investment strategy, which was submitted to the shareholders for approval in 2015. In 2016, pilot projects were carried out to test solutions connected to the implementation of smart grids and related technologies, such as AMM, and to electromobility and accumulation, which are relevant for distribution networks in urban agglomerations. These projects primarily test technical possibilities and their effect on everyday activities of the distribution network operator, including implementation and operating costs.

#### **THE MAIN STRATEGIC CONSTRUCTIONS IN 2017 WHICH WILL CONTINUE IN THE COMING YEARS INCLUDE:**

- the completion of the technological part of the Karlín encapsulated transformer station, including looping the 110/22 kV TR Holešovice – TR Střed cable to the Karlín transformer station and leading out the output using 22 kV cables to supply new areas around Rohanský island and parts of the district of Libeň (Švábky), which will also strengthen the supplied part of the district of Karlín;
- the completion and start of operation of the outdoor Uhříněves transformer station to meet the output needs of the south-east of the city, where the most failures to the overhead 22 kV power lines in the ČEZ Distribuce, a.s., power supply area are recorded;
- starting the replacement of the 110 kV overhead power lines between the transformer stations Malešice and Jih, which are nearing the end of their operational lifetime, by 110 kV cable lines;
- the completion of the expansion of the Chodov transformer station by four 110 kV fields and a control system and renovation of the mass remote control transmitter;
- starting the construction of a tunnel complex at the Hlávka bridge connected to a new utility corridor and the Karlín transformer station, leading out the output to the city centre;
- the renovation of the dispatcher control system in the Sever and the Červený vrch transformer stations.

The adopted strategy aims to ensure that the distribution system is prepared for the introduction and greater penetration of new trends, which can be seen abroad, such as decentralised electricity sources, electromobility, AMM, the development of energy services, etc. PREdi devotes great attention to the introduction of new trends and to developments in modern solutions.

A major portion of investments in 2017 and in subsequent years will be made in the development of the 22 kV and 1 kV networks, which are expected to see an increase in the number of connected decentralised sources, and the introduction of new network management and operation technologies. The only way to maintain the high reliability and security of the networks is a right combination of strengthening the system with modern technologies, interconnecting the modernised networks and introducing communication with dispatcher control. Good communication with the lower levels of the distribution network will enable better monitoring, metering and managing of the network, which will positively influence the utilisation of our assets and reliability indicators.

Transferring investments to lower voltage levels will be offset by slowing down renovation of some parts of the backbone HV networks and by postponing some strategic construction of new distribution stations until it is really necessary to provide supply to or strengthen the particular area. Close cooperation with the transmission system operator, ČEPS, a.s., remains an important part of the strategy in order to ensure adequate input for the development of our supplied territory as well as high reliability of our electricity supply to end customers. The network's reliability will be further enhanced when the new nodal point of the 440/110 kV system is built at the existing 110/22 kV Sever transformer station. It is expected to start operating in 2025. Closer cooperation between the distribution and the transmission systems is also required by the new European network codes. We can therefore expect greater information flows between the respective operators regarding the condition of the electricity system.

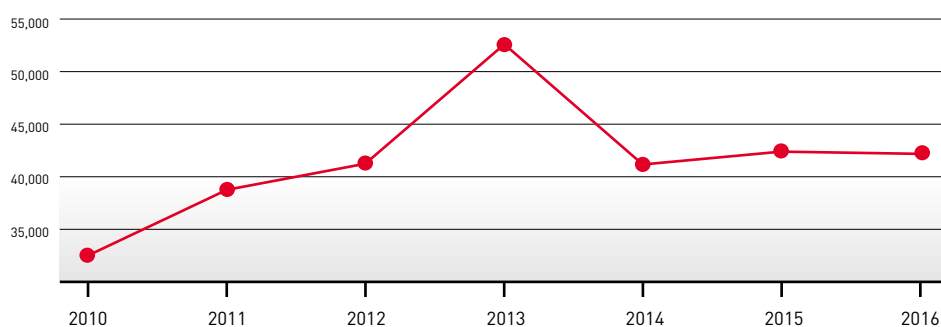
The distributor will have to tackle all these issues and continue to offer reliable and high quality electricity distribution in accordance with the parameters set by ERÚ legislation; non-compliance with the parameters is penalised.

**PREdistribuce, a.s., wants to remain a stable company and a reliable electricity distributor for its customers and a partner in solving their problems with electricity supply to their consumption points. For its loyal employees, PREdistribuce, a.s., and its parent company remain a source of support and a social partner.**

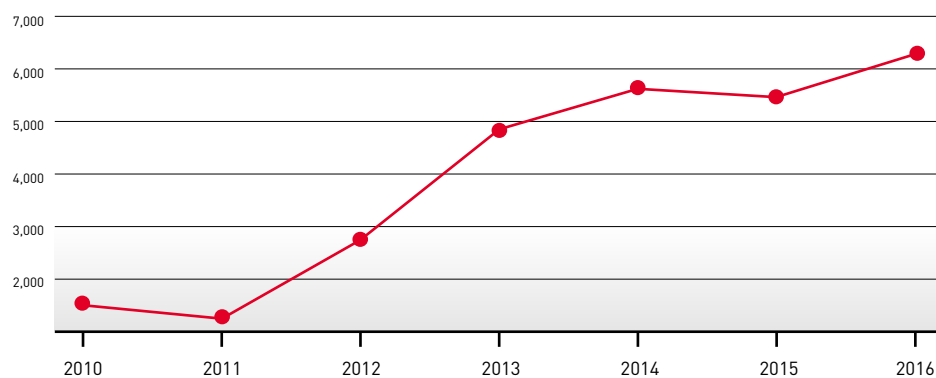
**Allocation of investments in 2012–2016**  
(CZK Million, including capitalisation)

	Total investments	HV distribution equipment	MV distribution equipment	LV distribution equipment	Electricity metres
2012	1,656.8	443.1	790.4	324.2	99.1
2013	1,781.1	454.1	909.3	322.7	95
2014	1,431.3	345.7	678	325.4	82.2
2015	1,494.1	227.1	845.2	311.9	109.9
<b>2016</b>	<b>1,583.8</b>	<b>329.8</b>	<b>815.8</b>	<b>328.2</b>	<b>110.0</b>

**Number of enquiries answered by  
the Distribution Emergency Line**



**Number of e-mails answered by  
the Distribution Emergency Line**





In the photo from the left: Christian Franz-Josef Schorn, Milan Hampl, Miloš Langr, Petr Dražil

## STATUTORY BODIES OF THE COMPANY

### BOARD OF DIRECTORS AS OF 31.12.2016

**Milan Hampl**  
Chairperson

**Christian Franz-Josef Schorn**  
Member

**Jindřich Broukal**  
Member (since 1.4.2017)

**Petr Dražil**  
Vice-chairperson

**Miloš Langr**  
Member (until 31.3.2017)

### SUPERVISORY BOARD AS OF 31.12.2016

**Pavel Elis**  
Chairperson

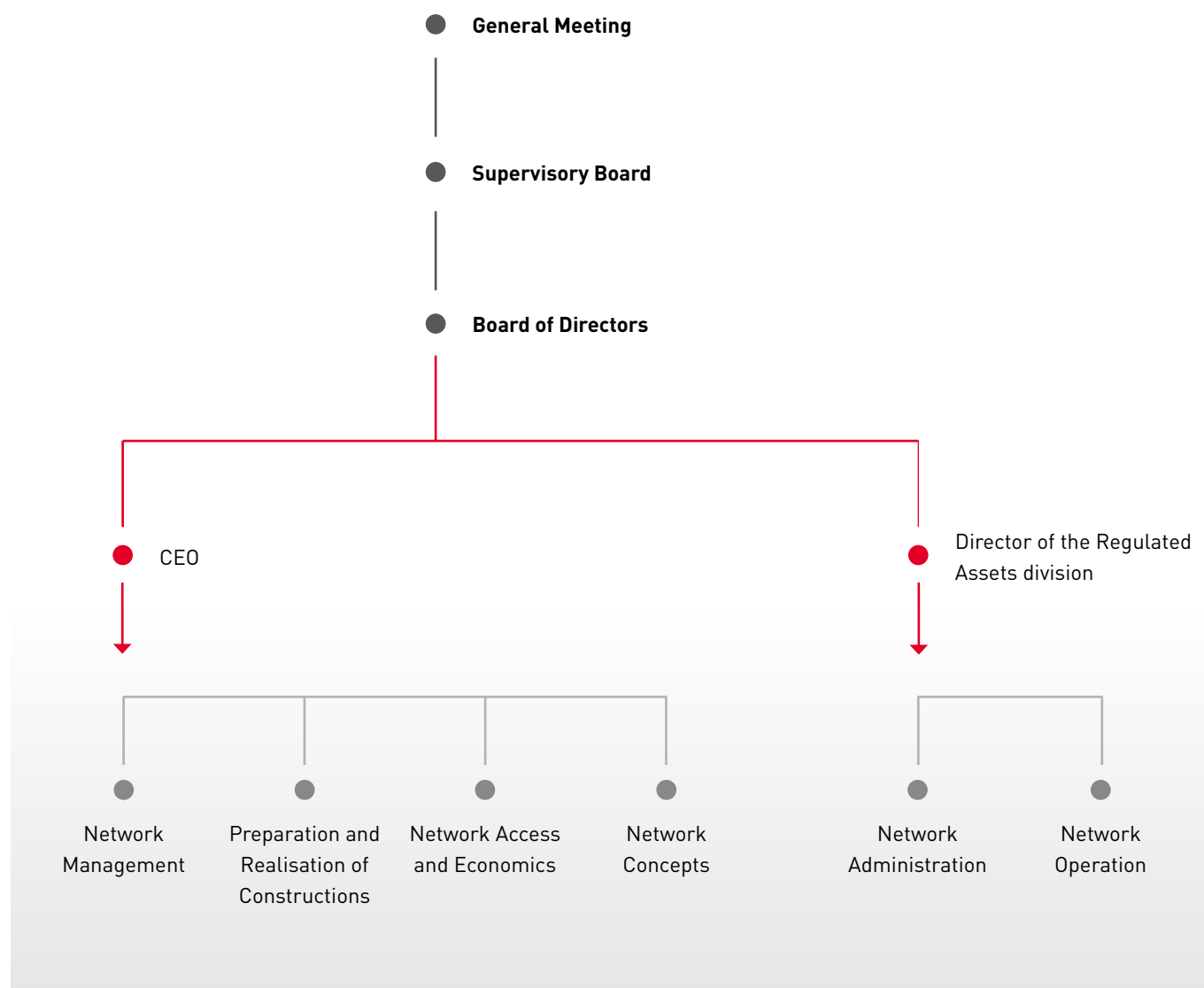
**Alexander Manfred Sloboda**  
Member

**Franz Retzer**  
Member

**Drahomír Ruta**  
Member

In 2016, no members of the company bodies were subject to conflict of interest or prohibition of competition.

## COMPANY ORGANISATION CHART



# TRENDS IN THE ELECTRICITY SECTOR

## OVERVIEW OF IMPORTANT EVENTS IN THE ELECTRICITY SECTOR AND RELEVANT LEGISLATION IN 2016

2016 was the first year of the fourth regulatory period.

The three-year, fourth regulatory period (1.1.2016 – 31.12.2018) follows the main principles established in the previous period and reflects the latest changes in the energy legislation of the Czech Republic and the European Union.

The main aim of the fourth regulatory period is to prepare objective inputs for the fifth regulatory period, which will last 7–10 years according to the Energy Regulatory Office's plans.

### In 2016, the Act on Promoted Energy Sources was amended:

Act No. 107/2016 Coll., which amended Act No. 165/2012 Coll., on Promoted Energy Sources and Amendments to Other Laws, as amended, was published on the 6<sup>th</sup> of April 2016 and came into effect on the same day.

### In 2016, the following decrees were published:

Decree No. 8/2016 Coll., from the 11<sup>th</sup> of January 2016, detailing the issuance of licences for doing business in the energy sector, was published on the 19<sup>th</sup> of January 2016 and came into effect on the 1<sup>st</sup> of February 2016. Decree No. 9/2016 Coll., from the 11<sup>th</sup> of January 2016, on the process of registration for support with the market operator and on implementation of other provisions of the Act on Promoted Energy Sources (the registration decree), was published on the 19<sup>th</sup> of January 2016 and came into effect on the same day.

Decree No. 16/2016 Coll., from the 13<sup>th</sup> of January 2016, specifying the conditions for connection to the electricity system, was published on the 22<sup>nd</sup> of January 2016 and came into effect on the 1<sup>st</sup> of February 2016.

Decree No. 37/2016 Coll., from the 21<sup>st</sup> of January 2016, on electricity from high-efficiency cogeneration and from secondary sources, was published on the 29<sup>th</sup> of January 2016 and came into effect on the same day, with the exception of Section 3 (4–5), which came into effect on the 1<sup>st</sup> of January 2017.

Decree No. 70/2016 Coll., from the 25<sup>th</sup> of February 2016, on the settlement of energy supplies and related energy services, was published on the 7<sup>th</sup> of March 2016 and came into effect on the 1<sup>st</sup> of July 2016.

Decree No. 145/2016 Coll., on reporting electricity and heat from promoted energy sources and on the implementation of other provisions of the Act on Promoted Energy Sources (the decree on energy from promoted sources reporting), was published on the 11<sup>th</sup> of May 2016 and came into effect on the first day of the subsequent calendar month.

Decree No. 152/2016 Coll., from the 6<sup>th</sup> of May 2016, which amended Decree No. 82/2011 Coll., on electricity metering and means of calculating compensation in case of illegal consumption, supply, transmission or distribution of electricity, as amended by Decree No. 476/2012 Coll., was published on the 17<sup>th</sup> of May 2016 and came into effect fifteen days later.



Decree No. 266/2016 Coll., which amended Decree No. 296/2015 Coll., detailing technical-economic parameters of setting purchase prices of electricity generation and green bonuses for heat and ways to determine service life of electricity generation plants and heat generation plants using renewable sources (the decree on technical-economic parameters), was published on the 19<sup>th</sup> of August 2016 and came into effect on the 1<sup>st</sup> of January 2017.

Decree No. 309/2016 Coll., which amended Decree No. 480/2012 Coll., on energy audits and energy reports, was published on the 26<sup>th</sup> of September 2016 and came into effect fifteen days later.

Decree No. 404/2016 Coll., from the 6<sup>th</sup> of December 2016, providing for the content and structure of reports necessary to produce a report on energy networks operation, including deadlines, scope and reporting rules (the decree on statistics), was published on the 12<sup>th</sup> of December 2016 and came into effect on the 1<sup>st</sup> of January 2017.

#### **In 2016, the following ERÚ price decisions were published:**

ERÚ Price Decisions No. 5/2015, from the 19<sup>th</sup> of November 2015, and No. 9/2015, from the 29<sup>th</sup> of December 2015, detailing the support for promoted energy sources, came into effect on the 1<sup>st</sup> of January 2016. Price Decision No. 4/2016, from the 26<sup>th</sup> of September 2016, which amended Price Decision No. 5/2015, came into effect on the 1<sup>st</sup> of October 2016. To regulate the field of promoted energy sources in 2017, Price Decision No. 5/2016 was published on the 29<sup>th</sup> of September 2016; Price Decision No. 9/2016, published on the 14<sup>th</sup> of December 2016, and Price Decision No. 11/2016, published on the 22<sup>nd</sup> of December 2016, amended Price Decision No. 5/2016.

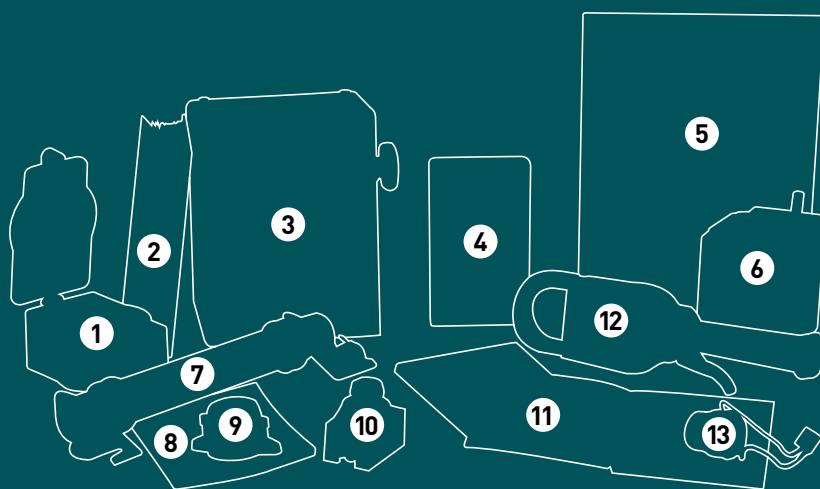
Price Decision No. 7/2015, from the 26<sup>th</sup> of November 2015, which set prices for related energy services and other regulated prices, came into effect on the 1<sup>st</sup> of January 2016. To regulate this field in 2017, Price Decision No. 7/2016, which set prices for related energy services and other regulated prices, was published on the 25<sup>th</sup> of November 2016; Price Decision No. 10/2016, which amended Price Decision No. 7/2016, was published on the 14<sup>th</sup> of December 2016.

Price Decision No. 8/2015, from the 26<sup>th</sup> of November 2015, which set prices for related energy services for consumers from low voltage networks, came into effect on the 1<sup>st</sup> of January 2016. To regulate this field in 2017, Price Decision No. 8/2016, which set prices for related energy services for consumers from low voltage networks, was published on the 25<sup>th</sup> of November 2016.

#### **In 2016, the following government regulation came into effect:**

Government Regulation No. 310/2016 Coll., from the 21<sup>st</sup> of September 2016, on the allocation of state budget funds pursuant to Section 28 (3) of the Act on Promoted Energy Sources in 2017, was published on the 26<sup>th</sup> of September 2016.

# 1928-1958



1 - Waterproof time switch 2 - Magazine "Elektrická služba" (Electrical Service) 3 - Measuring device – a wattmeter 4 - THERMOMET measuring device 5 - Information poster "First aid in case of electric current injuries" 6 - Measuring device – a megohmmeter 7 - High-voltage porcelain fuse 8 - Specialized manual for electricians 9 - Bakelite waterproof switch 10 - Porcelain fuse set 11 - Rules of the Czechoslovakian Electrical Engineering Association / the German Electrical Engineering Association 12 - Low-voltage clamp ammeter 13 - Porcelain light bulb socket

## 1934

The headquarters of the Electricity Works built in the constructivist style was completed in Prague 7.

## 1929

A distribution station started operating on Jeruzalémská street, supplying the Old Town and a part of the New Town.

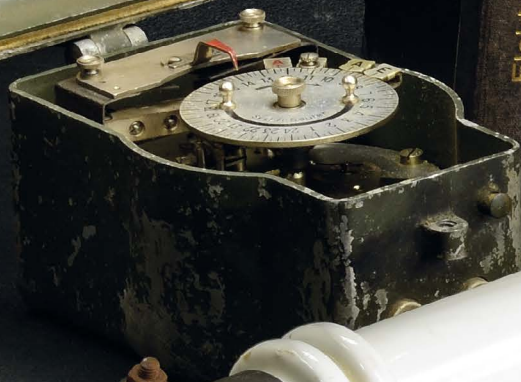
## 1952

An operational accident completely destroyed the distribution station on Sokolská street. It had to be replaced by a new one on Ke Karlovu street.

## 1956

A hydroelectric power plant, one of the first built on the Vltava river after World War II, started operating at the Slapy dam.





Elektrická služba 1931-33.





Schváleno výnosem ministerstva veřejného zdravotnictví a tělesné výchovy z 27. května 1952, č. j. 15587/52.

# První pomoc při úrazech elektrinou.

Jedněte rychle, ale klidně a účelně. Vytvrzte, neboť většina postižených je mrtva jen zdánlivě.

## Postup:

### I. Vyprostěte postiženého z proudu a proto:

- Vypněte proud!** Vypněte hlavní vypínač, vytroubte všechny pojistky nebo vytáhněte vidlice (nástrčky); nestáčí vypnutí obyčejný vypínač pro světlo, neboť přerušuje jen jeden vodič.
- Odsuňte vodiče!** suchým dřevem (lati, holi, dřevěnými hráběmi), suchým provazem, gumou (pneumatikou), suchým oděvem; nikdy kovovými předměty!
- Odtáhněte postiženého!**
- Přerušte vodiče!** Tuto záchrannou může provést jen ten, kdo se ve věci bezpečně vyzná. Vodič se přestřípné izolacími kleštěmi; někde je možno přetrhnout vodiče suchou tyčí zdoła, nebo je spojit tak, že se přepálí pojistky. Pamatujte na tvinnosti vodičů!

Nedotýkejte se holou rukou ani těla postiženého, ani vlhkých částí jeho oděvu, ani kovových předmětů.

Postavte se na suché dřevo nebo na otep suché slámy, chraňte si ruce suchou látkou (oděvem, třeba vlastním kabátem) a pracujte co možná jen jednou rukou.

Zajištěte postiženého, aby nespádl, přivázaním (řemenem, suchým provazem), nebo podepřením (dřevěnými předměty); nedotýkejte se ho holými rukama.

### II. Zaveďte ihned umělé dýchání! Neotálejte, záleží na každé minutě!

Dělejte to do oživení, podle potřeby až 4 hodiny! Nepřerušujte je!

- Položte postiženého naznak na zem,** je-li mráz, zanechte ho do světlice! Uvolněte mu oděv, oblaďte mu vrchní část těla!
- Vyprázdněte mu ústa,** otočte mu hlavu na levou tvář a povytáhněte mu jazyk. Má-li ústa stisknuta, nezdržujte se a otcíráním!

#### 3. Pracujte takto:

- klekněte za hlavu,** uchopte ruce v zápěstích!
- rozpačte paže až nad hlavu** asi za jeden vteřinu, co byste leželi.

„jedenadvacet“  
držte paže nad hlavou a po-  
žítejte při tom dále:  
„dvadvacet“ (obr. 1),  
pohybujte pažemi zpět a  
pažením přiložte zápěstí  
hrudník a požítejte při  
dále:  
„třidvacet“ (obr. 2)  
stiskněte hrudník a bu-  
požítejte dále:  
„čtyřidvacet“ (obr. 3)

„Jsou-li paže zlomeny, užijte tohoto způsobu dýchání:

- klekněte po pravém boku,** odložte k postiženému přiložte ruce dlaněmi na prsa,
- stiskněte hrudník předem** (obr. 4) a požítejte dále silou  
povytáhněte mu jazyk.

Jedenadvacet, dvadvacet



Obr. 1

Třidvacet



Obr. 2

Čtyřidvacet



Obr. 3

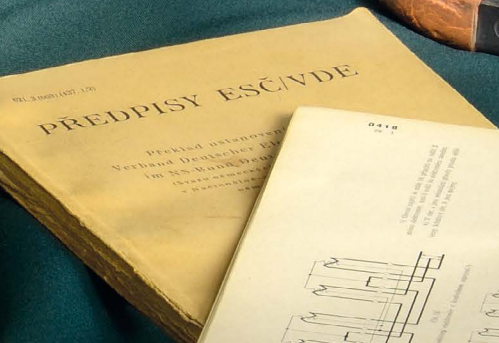
Opakujte tyto pohyby tak dlouho, až postižený oživne; přerušte, jakmile

ho uložíte v teple! — Nenoste

postavení v bezvědomí na

přestane-li dýchat

živě!





# REPORT OF THE BOARD OF DIRECTORS ON BUSINESS ACTIVITIES AND ASSETS

## FINANCIAL REPORT

The profit of PREdistribuce, a.s., in 2016 amounted to CZK 1,141 million, having increased by CZK 89 million year-on-year and thus exceeding the planned value by CZK 93 million. The increase was caused in particular by a higher sales margin owing to new regulatory parameters, and by a lower volume of depreciation in 2016. The volume of distributed electricity increased by 102 GWh, 1.7%, year-on-year. PREdi's EBITDA amounted to CZK 2,853 million in 2016, having increased by CZK 33 million compared to 2015.

PREdi's operating costs amounted to CZK 1,473 million, having increased by CZK 86 million year-on-year. The increase was caused in particular by higher repair costs. PREdi's staff costs amounted to CZK 456 million in 2016. Apart from a year-on-year increase in payroll costs in accordance with the collective agreement, staff costs were also influenced by a regular update to liabilities to employees in accordance with IAS 19. Depreciation of PREdi's tangible and intangible

assets decreased by CZK 109 million year-on-year, owing to changes in the depreciation plan effective from the 1<sup>st</sup> of January 2016, which extended the depreciation period for certain assets (cable tunnels and transformers).

The operating income decreased by CZK 10 million compared to 2015. The decrease in operating income was particularly due to lower overall compensation for illegal consumption and lower income from the relocations of fixed assets. Other operating profits or losses decreased by CZK 90 million, which was caused by entering reserves into accounts and creating a provision for receivables amounting to CZK 11.6 million. Another important item in the other operating profits or losses is the expense item of net book value of sold tangible and intangible assets, which decreased by CZK 11.4 million compared to 2015. This was, however, offset by a decrease in revenues from the sale of assets, which amounted to CZK 8.1 million. PREdi's borrowing costs increased by 12% in 2016.

The company's total assets amounted to CZK 28,336 million. The largest portion of the total assets was fixed tangible assets amounting to CZK 25,940 million. The company's total assets increased by CZK 385 million in 2016. The year-on-year increase was caused in particular by the growth in value of fixed tangible assets following investments in the company's distribution equipment. In 2016, PREdi invested CZK 1,584 million including capitalization in the development and renovation of the distribution equipment, which is by CZK 90 million more than in 2015.



As for liabilities, the total value of equity increased thanks to achieving a better economic result in 2016 than in 2015. The total value of equity increased by CZK 88.6 million year-on-year. As for company's liabilities, the biggest changes occurred in reserves and short-term payables. Total liabilities increased by CZK 321 million. The company's sources of funding remained practically unchanged compared to 2015: 68.4% was equity, 25.3% liabilities and 6.3% other liabilities. Other liabilities include the accrued income from contributions from applicants for connection to the distribution system. The company achieved the operating cash flow of CZK 2,687.4 million, which was used to make investments and pay out dividends and director's fees amounting to CZK 1,052.1 million.

## INVESTMENTS

Every year, PREdistribuce, a.s., develops and implements a long- and medium-term investment plan. It draws on the analyses of the network's technical condition, transmission ability and actual operation reliability, real physical lifetime of individual network components and the possibilities of their efficient maintenance. The plan also takes into account the expected development in customer demand for new connections as well as the increase in consumed output at the already existing connection points and in developing areas of the city.

The investment plan, which is structured around individual categories of distribution equipment, is presented to the shareholders and is subject to checks by ERÚ. Based on the data available, it deals with extended reproduction of network systems, taking into account expected customer demand and the corresponding development of load in individual localities. It also includes simple reproduction and adequate modernisation of the distribution equipment. The modernisation and the planned repairs ensure the required operational reliability and quality of distribution services expected by customers in Prague. The level of quality of the supply and the related services is provided for by ERÚ secondary legislation. Unlike in previous periods, as of the 1<sup>st</sup> of July 2006 non-compliance with the guaranteed standards is penalised by payment obligation in accordance with Decree of ERÚ No. 540/2005 Coll., as amended.

Strategic investments are an important part of the investment programme; they primarily include construction of new 110/22 kV transformer points and their systemic connection on the 110 kV level. That includes acquiring additional infrastructure and increasing the capacity of these stations to respond to the load development in the supplied areas, and building new connecting lines to ensure optimum leading of the output to lower levels of the network.

## Strategic investments

Following the investment plan approved by the shareholders, PREdi continued in 2016 with necessary and carefully planned renovations of the existing 110 kV and 22 kV networks and the equipment which is a part of the city's critical infrastructure and its failure could cause supply disruptions across a large territory, causing a collapse of transport and the city's operation. Like every year, systematic renovation of the low voltage networks was carried out, including renovation of almost one hundred distribution transformer stations.

All construction in Prague has been coordinated with the planning departments of the Prague City Council and respects the urban plan.

**The most significant strategic constructions in 2016 included:**

- the completion of the modernisation of the Třeboradice transformer station, which PREdi bought from Pražská teplárenská, a.s., in 2010;
- the completion of the construction and technological part of the Uhříněves transformer station;
- the completion of the Uhříněves cable tunnel for connecting the Uhříněves transformer station with 110 kV cables and leading out the 22 kV output;
- the completion of the construction part of the Karlín transformer station;
- the completion and pilot implementation of the SCADA dispatcher control system;
- the renovation of the 110 kV overhead power lines between the Červený vrch and the Sever transformer stations.

Aside from the main strategic constructions in the backbone 110 kV networks and the 110/22 kV distribution stations, renovation of 22/0.4 kV switching and distribution stations and MV and LV lines continued.

In line with the new investment strategy from 2015, PREdi has also worked intensively on preparing the networks and the equipment for the implementation of smart grids including intelligent AMM metering, for when it is adequately provided for in Czech legislation. In 2017, several dozens 22/0.4 kV transformer stations will be smartened. The implementation of smart technologies will enable PREdi to control, monitor and meter the network and transfer data remotely, ensuring the high reliability of the network. These future trends are a great challenge for the company's employees, mainly in terms of economy, achieving maximum energy savings and optimum customer services as well as asset management. Foreign studies show that the right combination of strengthening the distribution system and implementing new technologies satisfies a significant portion of demands on the distribution network ensuing from the integration of decentralised generation, charging stations for electric cars, and other elements.

**In the forthcoming period, PREdi's main objective is to continue fulfilling the tasks of a distributor in terms of renovation and adequate development in order to timely modernise the distribution system equipment in the capital, which is nearing the end of its physical and accounting lifetime, and thus ensure a high level of reliability and security of the networks.**

In Prague, 15<sup>th</sup> of March 2017



**Milan Hampl**  
Chairperson of the Board  
of Directors



**Petr Dražil**  
Vice-chairperson of the Board  
of Directors

# FINANCIAL ANALYSIS

## Level of productivity

	Unit	2016	2015	2014	Calculation formula
Total income	CZK (Mill.)	<b>9,573</b>	9,658	9,823	Total income from the income statement
Sales margin from distribution sale	CZK (Mill.)	<b>4,636</b>	4,401	4,409	Sales of distribution services – costs of transmission and distribution services from the income statement
Profit after tax	CZK (Mill.)	<b>1,141</b>	1,052	1,093	Profit after tax from the income statement

## Level of profit from revenue

	Unit	2016	2015	2014	Calculation formula
Sales margin from distribution sale per CZK 1 of revenue	%	<b>49.8</b>	46.9	46.3	Sales margin from distribution sale / sales of distribution services x 100
Profit before tax per CZK 1 of revenue	%	<b>15.0</b>	13.5	13.8	Profit/loss from ordinary activity before tax / total income x 100

## Other indicators

	Unit	2016	2015	2014	Calculation formula
Current liquidity	%	<b>204.8</b>	235.0	294.4	Short-term assets / short-term payables x 100
Equity proportion to total invested capital	%	<b>68.4</b>	69.0	69.3	Equity / total invested capital x 100
Return on capital employed – ROCE	%	<b>6.0</b>	5.5	5.6	ROCE = EBIT / (equity + long-term loans + deferred tax liability) x 100
Total revenue labour productivity	(Thous.) /employee	<b>18,660</b>	18,827	19,111	Total income / average adjusted number of employees
EBIT – operating profit/loss before interest and tax	CZK (Mill.)	<b>1,515</b>	1,373	1,400	Operating profit/loss before interest and tax
EBITDA – profit before tax, interest and depreciation	CZK (Mill.)	<b>2,853</b>	2,820	2,804	EBITDA = EBIT + depreciation
Net cash flow after tax	CZK (Mill.)	<b>1,288</b>	1,055	1,327	Net cash flow from operating activity decreased by net cash flow from investments

# HUMAN RESOURCES

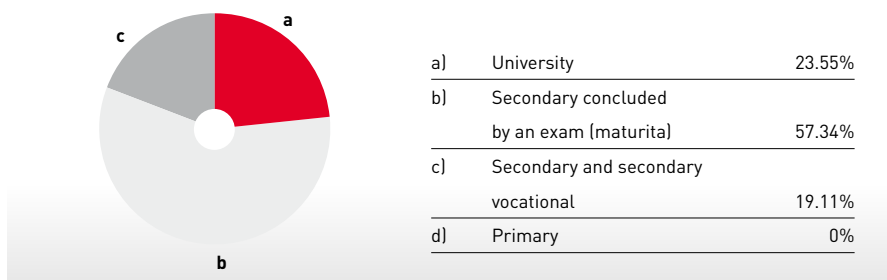
Personnel administration and wage calculations for PREdistribuce, a.s., are carried out by the parent company, Pražská energetika, a.s. The SAP HR module is used for personnel administration.

In 2016, employee development focused mainly on ensuring the required level of knowledge and skills, basic soft skills as well as managerial skills. It included open courses, tailor-made training and manager development programmes aimed at developing the competences necessary for good management of people, their motivation and integration into the company. The aim of training is to make sure all employees can carry out their tasks and have sufficient qualification for future positions. This entails mainly gaining and maintaining qualification mandated by Decree No. 50/1978 Coll., on further electrical engineering

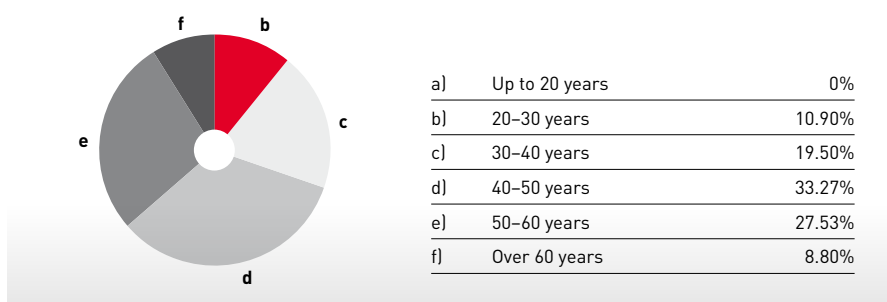
qualification. In order to maintain employees' knowledge base, training also focuses on hard knowledge in the field of economics, human resource management and applicable legislation related to distribution activities. Understanding the Energy Act or the Building Act and all their amendments is indispensable to a large portion of PREdi's employees in their work. To maintain a high level of expertise, the company enables its employees to acquire further qualification by studying particularly at secondary and tertiary electrical engineering schools. In 2016, two employees studied part-time at the Faculty of Electrical Engineering of the Czech Technical University in Prague and the University of West Bohemia in Pilsen; one employee studied at a secondary electrical engineering school.

Labour relations, social policies and remuneration in the company are governed by the collective agreement effective also in the parent company and PREm in the period 2016–2018. The collective agreement provides for the rights and responsibilities of the employer and the employees; in addition to labour relations, it also governs social and remuneration policies. Employees are provided with extensive social care, whose scope more than meets the current requirements for high quality employee care. Social care programmes primarily aim at improving the employees' social conditions, living standards, working conditions and healthcare.

### Qualification structure



### Age structure

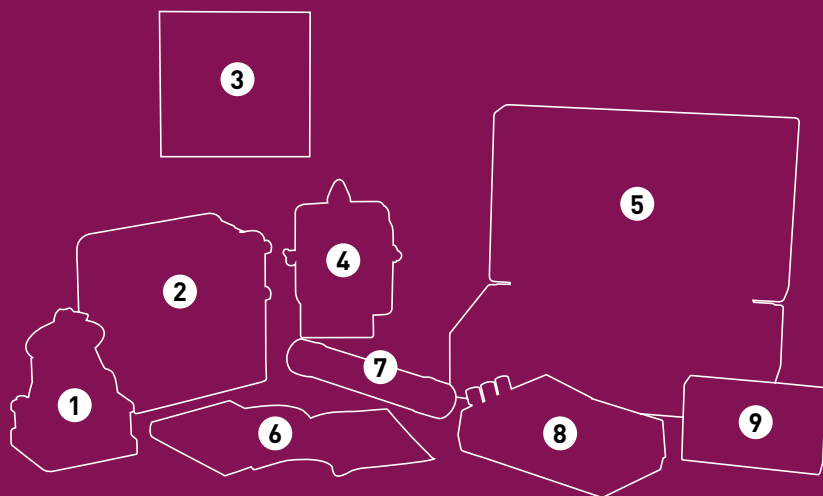


Basic healthcare is provided to the employees in compliance with the applicable legal requirements for employers regarding occupational healthcare. It is provided by a contractual partner, Dopravní zdravotnictví, a.s., Poliklinika Agel Praha Italská, in a medical office at the seat of the parent company at Na Hroudě 1492/4, Prague 10. In addition to the legal requirements, the employees enjoy extra dental care and other preventive healthcare programmes. Most notably they include a breast cancer prevention and treatment programme, a preventive

urological programme, preventive thyroid check-ups, and regular vaccinations of field personnel against seasonal diseases, hepatitis A and tick-borne encephalitis. All the preventive healthcare programmes and vaccinations are available free of charge to employees, being fully covered by the company. Managers can in addition participate in an extended preventive healthcare programme at the Na Homolce hospital and Pavel Kolář's Centre for Musculoskeletal Medicine.

In cooperation with the Human Resources department, PREdi's management continues to recruit new people for the positions of independent development technicians and operation management technicians mostly among graduates of the Czech Technical University in Prague and vocational secondary schools specialising in energy fields. The aim is to ensure the smooth transfer of experience and knowledge about distribution networks from employees who are about to retire.

# 1959-1989



1 - Three-phase socket with a plug 2 - Measuring device – a frequency meter 3 - Enamel warning sign 4 - Time switch for peak/off-peak electricity 5 - Device for measuring electrical impedance of cables 6 - Electrical engineering manuals 7 - High-voltage porcelain fuse 8, 9 - Universal measuring devices



# 1966

To meet the demand of developing industry and new housing estates in Prague 5, a transformer station Praha-Západ was put in operation.

# 1969

Due to the federalization of Czechoslovakia, the formerly unified energy sector split into two separate entities, the Czech Electricity Works and the Slovakian Electricity Works.

# 1982

A new corporate group, Prague Electricity Works, was founded following the division of the Central Bohemian Electricity Works.

# 1989

Fundamental political changes brought about the need to prepare the Prague Electricity Works for independent operation in a market economy.

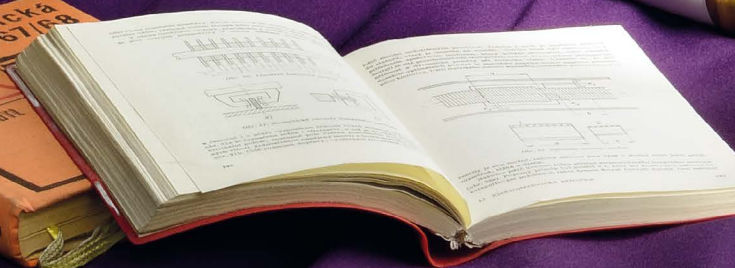
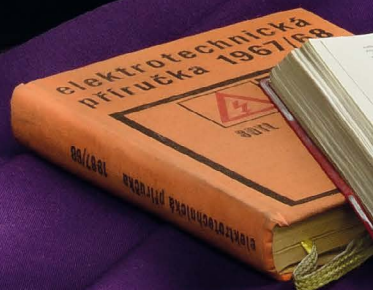
# AKUMULÁTOROVNA



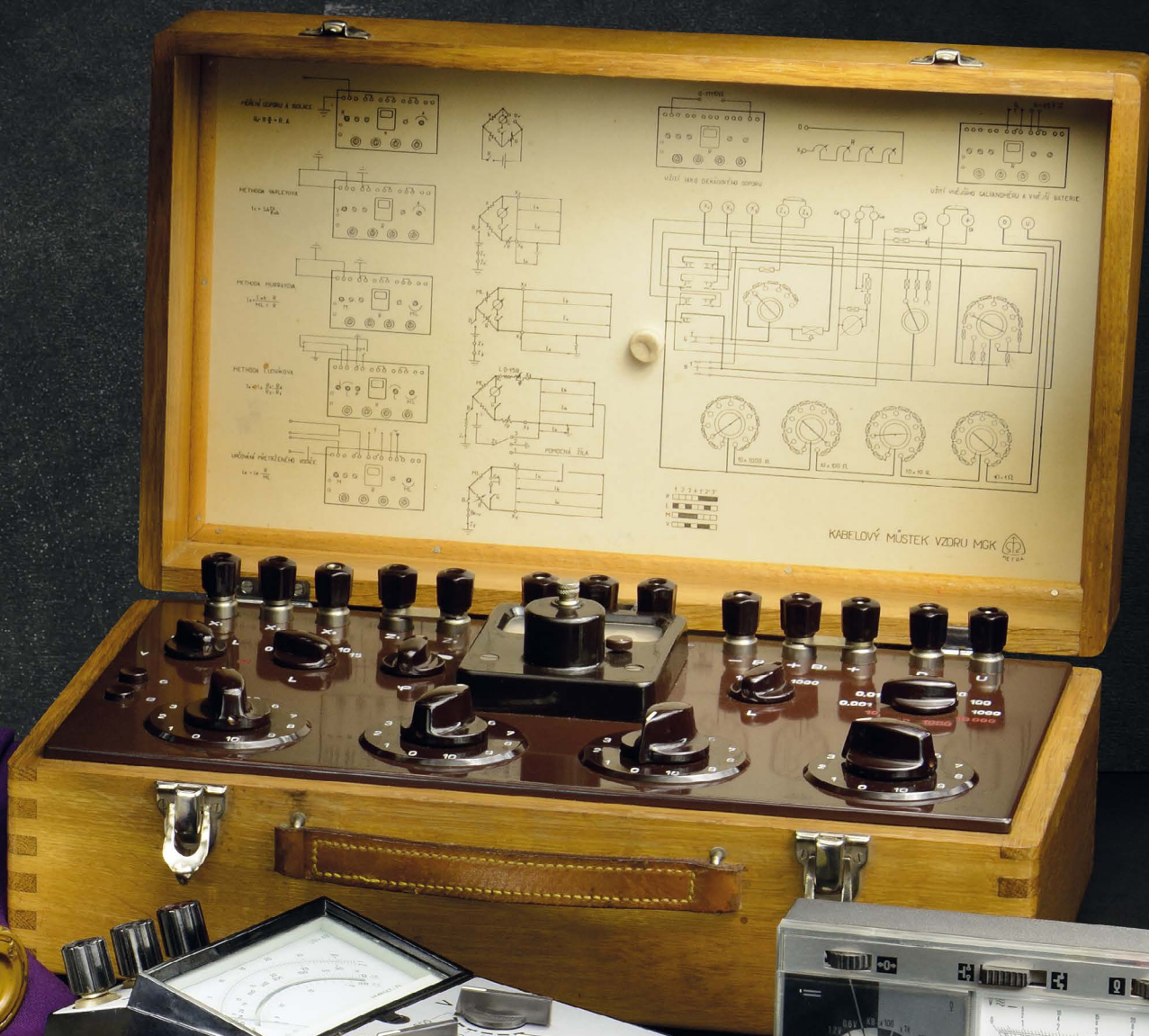
ZÁKAZ KOUŘENÍ  
A VSTUPU  
S OTEVŘENÝM OHNĚM



NEKUŘ, NEJEZ  
ANI NEPIJ V TOMTO  
PROSTORU !







# ENVIRONMENTAL PROTECTION AND OCCUPATIONAL HEALTH AND SAFETY

As a modern company, PREdistribuce, a.s., considers responsibility for the environment its priority and strives to constantly improve the means of environmental protection. As part of the environmental protection policy, considerable funds are invested in the modernisation of the distribution network technical equipment. In order to prevent the risk of transformer oil leakages, older oil transformers are being replaced by hermetically sealed or dry transformers (without oil tanks). Modernisation and renovation of 110/22 kV distribution stations improve safety in case of an accident.

A working system of sorting waste, collecting dangerous and other waste and returning products has been set up at the company workplaces. Employees are being educated about environmental protection; selected employees are further trained in the management of dangerous chemical substances and agents. More detailed information about environmental protection is available in an educational presentation on the intranet. Since 2006, ISO 14 001 – EMS system has been in place in the company. Improvements in employees' attitudes towards environmental protection are monitored by internal audits.

## ENVIRONMENTAL PROTECTION POLICY

**The PRE Group has established the following principles on environmental protection:**

- to comply with legal provisions in all areas of environmental protection; and to devote maximum attention to new legislation and implement it in the entire PRE Group;
- to sort communal waste including dangerous materials; to sort all other kinds of waste and packaging; and to sort selected kinds of discarded products, which can be returned for free;

- to comply strictly with the system of managing dangerous substances and waste; to hand over such waste to companies authorised for its disposal;

- to systematically train employees in the management of dangerous chemical substances and mixtures, stressing health and environmental protection;

- to have a system of information and knowledge sharing in place to make employees better aware of the need to protect the environment and increase their effort to constantly improve environmental protection.

## OCCUPATIONAL HEALTH AND SAFETY POLICY

The company has been awarded the Safe Enterprise (Bezpečný podnik) certificate. The objectives of the Safe Enterprise programme have become an inseparable part of the occupational health and safety policy of the entire PRE Group and have significantly contributed to its enhancement. Employee healthcare is not only a legal requirement but also an important part of the corporate culture. The company holds the Third Level Health Supporting Enterprise (Podnik podporující zdraví 3. stupně) certificate for its thorough approach to occupational health. A high level of occupational safety is ensured in particular by a close dialogue between the PRE Group management and employees and by solving all, even small, issues together.

### The policy on occupational health and safety includes the following priorities:

- occupational health and safety is an integral part of the company's management;

- the management and the employees of the PRE Group companies share a common goal – to prevent risk situations and threats by fully complying with occupational safety guidelines;

- a system of corporate norms related to health protection, preventive check-ups, personal protective devices and risk analysis of individual work activities is in place, ensuring compliance with legislation and both the employer's and the employees' obligations.

# RISK MANAGEMENT SYSTEM

Risk management in PREdistribuce, a.s., is a unified process drawing on a common methodical framework shared by the companies of the PRE Group, except for KORMAK Praha and KORMAK nemovitosti.

The key body of the risk management system is the Risk Management Committee, which examines the summary report on risk management and formulates risk management strategies for the most relevant risks in view of the company's risk exposures. The committee continuously evaluates the total possible impact of risks on the company's economic results. The main objective is to increase the value of the company while undertaking only acceptable risks. It also ensures an early warning and serves to evaluate the effectiveness of corrective measures. The main focus is the key risks, which according to the evaluation of potential impact are deemed to present the potentially biggest threat. A continuous process of identification of current risks takes place; the risks are recorded in a list of risks.

The monitored risks are evaluated in terms of their expected impact and probability in three scenarios to ensure comparability. The process of risk management includes the identification, evaluation and reporting of individual risks. Risks are systematically monitored in the following categories specified in a map of risks: strategic risks, financial risks, operational risks and compliance risks.

Legislative-regulatory risks have the most profound effect on the company's activities. These risks are especially closely linked to key regulation parameters and other regulations applicable in the ongoing fourth regulatory period as well as the preparation of the fifth regulatory period beginning in 2019. Operational risks are, depending on their nature, managed in a decentralised way by special organisational units. Only the most significant ones are evaluated during internal audits.

The risk management system and its methodology are based on the methods and procedures implemented in the EnBW Group. The monitored risks are reported according to the EnBW corporate group standards using a unified report structure at regular intervals stipulated by the risk management standards of the EnBW corporate group.

# REPORT ON GENERAL MEETINGS

In 2016, four General Meetings were held (in the form of resolutions issued by the parent company as the sole shareholder).

## GENERAL MEETING HELD ON 10.3.

### The agenda of the General Meeting was as follows:

- the assessment of the fulfilment of objectives set by the executive members of the Board of Directors for 2015;
- the payment of the variable yearly bonus to the executive members of the Board of Directors.

## GENERAL MEETING HELD ON 25.5.

### The agenda of the General Meeting was as follows:

- the Report of the Board of Directors on Business Activities and Assets of the company for 2015;
- the Supervisory Board Report;
- the separate financial statements for 2015; the proposal for the distribution of 2015 profit, including determination of the amount of dividends and director's fees and the method of paying them out;
- the company's business concept for 2016;
- the removal and election of company bodies members; the approval of amendments to the contracts on performance of duties of company bodies members;
- the Report on Relations for 2015;
- the Annual Report for 2015.

## GENERAL MEETING HELD ON 14.7.

### The agenda of the General Meeting was as follows:

- the approval of an advance payment of the variable yearly bonus to the executive members of the Board of Directors.

## GENERAL MEETING HELD ON 15.12.

### The agenda of the General Meeting was as follows:

- the approval of objectives set by the executive members of the Board of Directors for 2017;
- the approval of amendments to the contracts on performance of duties of the executive members of the Board of Directors.



# INFORMATION REQUIRED BY LAW

## **Information about facts which occurred after the balance sheet day**

The information is available in the text of the Annual Report and is marked in italics.

## **Information about the projected development of the accounting unit's activities**

The information is presented in the chapters "Company strategy" and "Report of the Board of Directors on Business Activities and Assets".

## **Information about activities in research and development**

The company does not systematically conduct activities in these fields.

## **Information about whether the accounting unit has an organisational unit abroad**

The company has no organisational unit meeting these criteria. The parent company has an organisational unit in Slovakia, but its contribution to the parent company's total turnover accounts for less than 10%.

## **Information about activities in the field of environmental protection and labour law relations**

The information is presented in the chapters "Environmental protection and occupational health and safety" and "Human resources".

## **Information about objectives and methods of risk management in the company**

The information is presented in the chapter "Risk management system".

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

The information is presented in the financial statements.

## **Information about interruption of business**

The company did not interrupt its business during the year.

## **Information about acquisition of own shares**

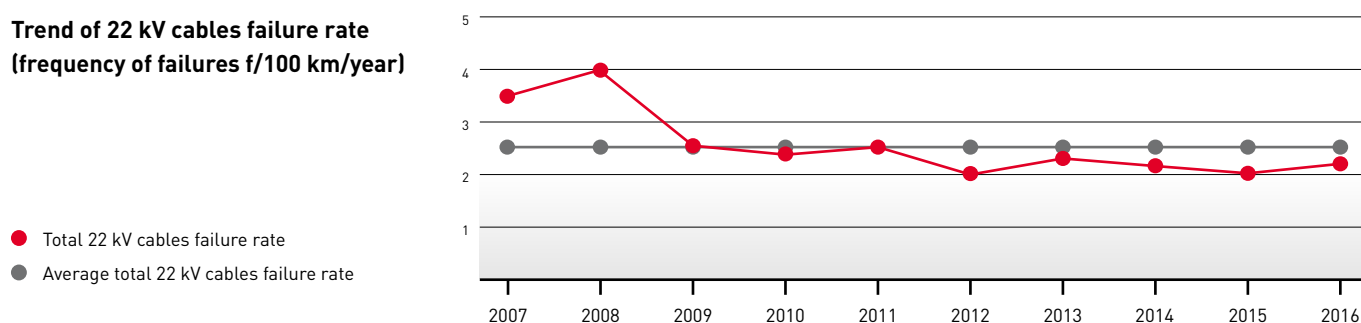
The company did not acquire its own shares.



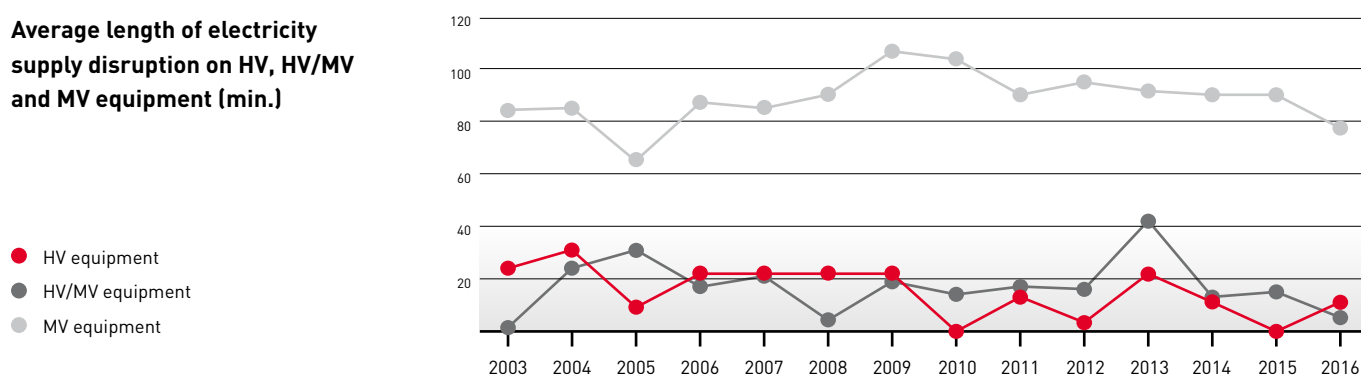
## Distributed electricity

	Unit	2016	2015	2014	2013	2012
Total distribution (procured)	GWh	<b>6,241.0</b>	6,139.5	6,090.2	6,301.0	6,278.4
Total number of consumption points						
of which: VO	number	<b>786,267</b>	778,138	768,562	765,008	759,768
MOP	number	<b>2,019</b>	2,007	2,002	1,992	1,990
MOO	number	<b>127,367</b>	128,436	126,648	131,520	133,457
	number	<b>656,881</b>	647,695	639,912	631,496	624,321

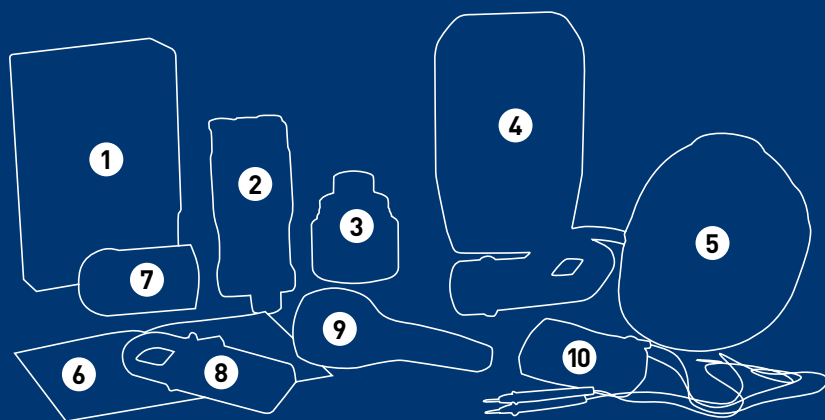
## Trend of 22 kV cables failure rate (frequency of failures f/100 km/year)



## Average length of electricity supply disruption on HV, HV/MV and MV equipment (min.)



# 1990-2017



1 - Three-phase electricity meter 2 - Power line detector 3 - Cross-section of a 110 kV cable 4 - Charging station for electric cars 5 - Protective work helmet 6 - Information leaflet 7 - Electricity consumption meter 8 - Low-voltage clamp ammeter 9 - Thermal camera 10 - Universal measuring device

# 2002

Disastrous floods in Prague caused such damage to the PRE infrastructure that for the first time in its history it had to declare more than a month-long state of emergency.

# 2004

The main dispatcher control centre started operating in a renovated building on Nitranská street.

# 2006

Following the liberalization of the market, distribution activities were transferred to the subsidiary PREdistribuce, a.s., which obtained the electricity distribution licence for Prague, Roztoky and Žalov.

# 2017

PREdi celebrates the 120<sup>th</sup> anniversary of the founding of its legal predecessor – the Electricity Works of the Royal Capital City of Prague.







# REPORT ON RELATIONS

## REPORT ON RELATIONS OF PREDISTRIBUCE, A.S., FOR 2016

(Hereinafter the Report on Relations) drawn up in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter the Business Corporations Act) for the accounting period of 1.1.2016 – 31.12.2016. The relations are described in a manner which respects the provisions of Section 504 of Act No. 89/2012 Coll., the Civil Code, concerning trade secrets, and by analogy with the provisions of Section 359 of the Business Corporations Act concerning restrictions of information provision.

### 1. THE STRUCTURE OF RELATIONS BETWEEN THE CONTROLLED ENTITY AND THE CONTROLLING ENTITY, ROLE OF THE CONTROLLED ENTITY AND MANNER AND MEANS OF CONTROL

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

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

The companies PREdistribuce, a.s., PREměření, a.s., KORMAK Praha a.s., KORMAK nemovitosti s.r.o., and eYello CZ, k.s., as managed entities, and Pražská energetika, a.s., as the managing entity jointly constitute a corporate group, 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 the Supervisory Board of PREdi.

PRE defines the strategic management of the PRE Group and also makes decisions about the PREdi business concept, including the rules of remuneration and the principles of collective bargaining. Objectives for the executive management of PREdi are formulated, assessed and examined by PRE. PRE also gives the PREdi Board of Directors strategic instructions and defines strategic principles.

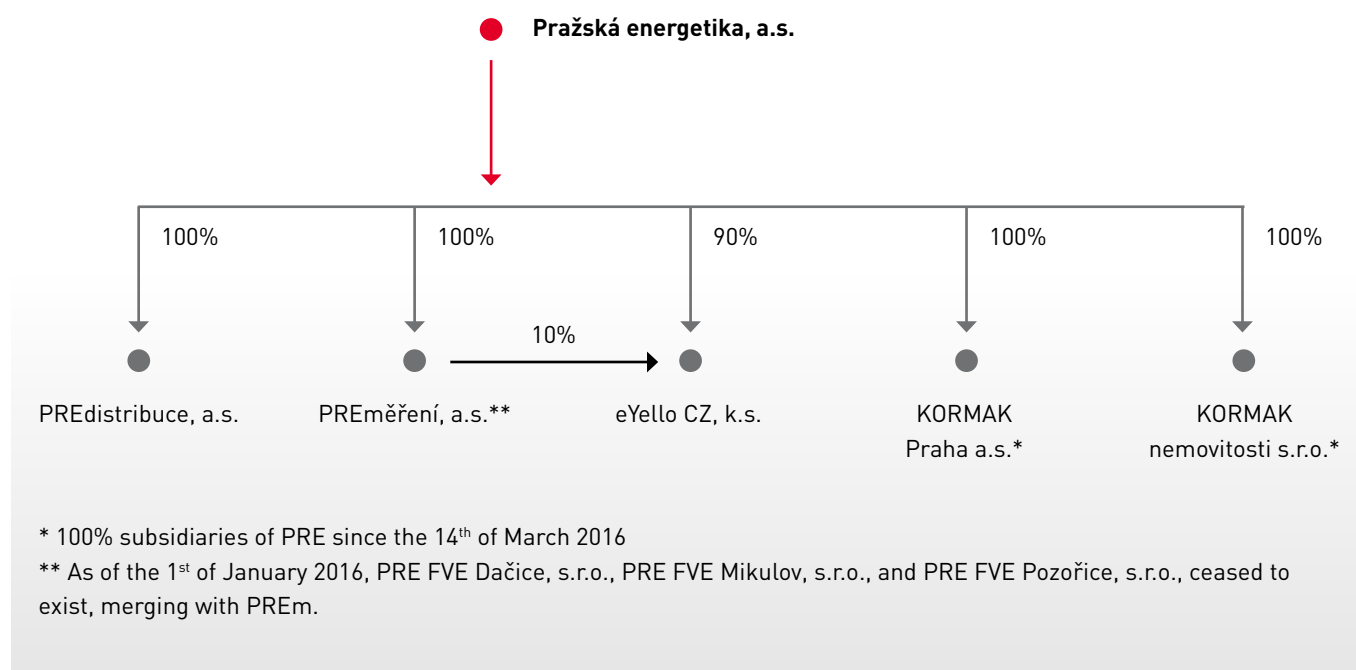
PREdi follows the internal group guidelines of PRE. PREdi is a part of the consolidation PRE Group.

The above described management of PREdi by PRE is carried out within the scope defined by applicable law, especially Section 25a of Act No. 458/2000 Coll., the Energy Act.

The role of PREdi within the PRE corporate group is to be a stable and reliable operator of the distribution system in the capital and in the city of Rostoky.

PREdi meets the requirements and expectations of the users of the distribution network by using the latest technologies and procedures.

### CHART OF THE PRE GROUP STRUCTURE



#### Other entities controlled/managed by PRE as the controlling/managing entity:

• PREměření, a.s., registered office Na Hroudě 2149/19, Prague 10, 100 05, ID No.: 25677063, registered with the Municipal Court in Prague, File ref. B 5433 (**PREm**);

• eYello CZ, k.s., registered office Kubánské náměstí 1391/11, Prague 10, 100 00, ID No.: 25054040, registered with the Municipal Court in Prague, File ref. A 76596 (**eYello**);

• KORMAK Praha a.s., registered office K Sokolovně 667, Prague 10, 104 00, ID No.: 48592307, registered with the Municipal Court in Prague, File ref. B 20181 (**KORMAK Praha**);

• KORMAK nemovitosti s.r.o., registered office K Sokolovně 667, Prague 10, 104 00, ID No.: 02065801, registered with the Municipal Court in Prague, File ref. C 215222 (**KORMAK nemovitosti**).

#### 2. OVERVIEW OF THE ACTIONS CARRIED OUT IN THE LAST ACCOUNTING PERIOD AT THE

#### INSTIGATION OR IN THE INTEREST OF THE CONTROLLING ENTITY OR ITS CONTROLLED ENTITIES IF SUCH ACTIONS CONCERNED ASSETS EXCEEDING 10% OF THE EQUITY OF THE CONTROLLED ENTITY AS IDENTIFIED IN THE LAST FINANCIAL STATEMENTS

In 2016 no actions concerning assets exceeding 10% of the equity of PREdi were carried out at the instigation or in the interest of the managing entity or its controlled entities.



### 3. OVERVIEW OF MUTUAL CONTRACTS BETWEEN THE CONTROLLED ENTITY AND THE CONTROLLING ENTITY OR BETWEEN THE CONTROLLED ENTITIES

#### a) Contracts between PREdi and PRE

Contract on Provision of Services No. PS20000016/003 – in effect from 1.1.2016 to 31.12.2018
Lease Contract No. PS20000007/003 – in effect from 1.1.2007 for an indefinite period of time, as amended – terminated on 29.2.2016
Lease Contract No. PS20000007/004 – in effect from 1.1.2007 for an indefinite period of time, as amended – terminated on 29.2.2016
Lease Contract No. P200006/05 – in effect from 1.1.2006 for an indefinite period of time, as amended – terminated on 29.2.2016
Lease Contract No. P200006/06 – in effect from 1.1.2006 for an indefinite period of time, as amended – terminated on 29.2.2016
Contract on Lease of Non-residential Premises No. P200006/09 – in effect from 1.1.2006 for an indefinite period of time, as amended – terminated on 29.2.2016
Contract on Lease of Garage Parking Space No. P200006/10 – in effect from 1.1.2006 to 31.3.2016, as amended
Contract on Lease of Non-residential Premises No. P200006/11 – in effect from 1.1.2006 for an indefinite period of time, as amended – terminated on 29.2.2016
Contract on Electricity Supply to Cover Losses in the Distribution System and for the Own Needs of the Distribution System Operator No. P200006/14 – in effect from 1.1.2006 for an indefinite period of time
Contract on Provision of Short-term Loans No. P200006/22 – in effect from 30.11.2005 for an indefinite period of time, as amended
General Mandate Contract on Construction of Telecommunication Equipment No. P200006/27 – in effect from 2.5.2006 for an indefinite period of time
Licence Contract No. PS20000011/029 – in effect from 3.1.2011 for an indefinite period of time
Lease Contract No. NO21106/015 – in effect from 2.1.2006 for an indefinite period of time, as amended
Lease Contract – Plastic Advertisement Billboards No. NO21106/001 – in effect from 30.12.2005 for an indefinite period of time, as amended
Contract for Work – Administration, Operation and Maintenance of Optical Networks No. PS21000111/079 – in effect from 1.7.2011 for an indefinite period of time
Lease Contract No. PG3530/07/2008/22 – in effect from 1.8.2008 for an indefinite period of time, as amended – terminated on 29.2.2016
Lease Contract No. NO21109/001 – in effect from 1.3.2009 to 31.12.2020, as amended – terminated on 30.6.2016
Lease Contract No. NO21109/006 – in effect from 1.4.2009 for an indefinite period of time
17 contracts on establishment of easement to place PREdi's distribution system equipment in PRE's immovable assets, concluded for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/04457/08 – in effect from 31.3.2008 to 2.4.2048
Lease Contract No. NO21111/011 – in effect from 1.4.2011 for an indefinite period of time
General Contract on Provision of GPRS Module Installation Service No. PS20000013/033 – in effect from 25.10.2013 for an indefinite period of time
Contract on Sub-lease of the Distribution System No. N21112/012 – in effect from 1.2.2012 to 31.12.2016, as amended
Contract on Long-term Loan No. 1/2014, PS20000014/021 – in effect from 18.6.2014 to 18.6.2026
Contract on Long-term Loan No. 2/2014, PS20000014/030 – in effect from 26.11.2014 to 28.11.2026
Contract on Long-term Loan No. 1/2015, PS20000015/021 – in effect from 29.6.2015 to 29.6.2027
Contract on Combined Services of Gas Supply No. PS21001015/015 – in effect from 1.11.2014 to 31.5.2016
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633025 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633226 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633022 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633026 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633021 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633024 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633027 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Garage Parking Space No. NV/S21/1634181 – in effect from 1.4.2016 for an indefinite period of time
General Contract on Electricity Distribution to Consumption Points of the Electricity Trader's Customers No. PS20000011/011 – in effect from 1.1.2011 for an indefinite period of time
PRE and PREdi have concluded contracts on the connection to the distribution system for all PRE's consumption points.



**b) Contracts between PREdi and PREm**

Contract on Provision of Services No. PS20000016/004 – in effect from 1.1.2016 to 31.12.2018
Contract on Supply of Defunct Metering Equipment No. S252007/003, C00261/06 – in effect from 30.12.2006 for an indefinite period of time
Contract on Supply of Used Metering Equipment No. S252007/004, C00260/06 – in effect from 30.12.2006 for an indefinite period of time
Contract for Work No. P20006/19, C00203/06 – in effect from 1.3.2006 for an indefinite period of time, as amended
Contract on Lease of Land No. N21110/016, C00418/10 – in effect from 1.4.2010 to 31.12.2030
Contract on Lease of Land No. N021110/004, C00438/10 – in effect from 1.9.2010 to 31.12.2030
Contract on Lease of Land No. N21110/039, C00436/10 – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on Lease of a Part of Real Estate No. N021110/005, C00439/10 – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on Supply of Metering Equipment No. KV/S25/1532051, M5400/RS/2015/0007 – in effect from 1.1.2016 to 31.12.2018
15 contracts on the cooperation to perform work on unmeasured parts of electricity consumption equipment
Contract on Personal Data Processing No. PS20000013/038, C00627/13 – in effect from 1.3.2013 to 28.2.2016
Contract on Personal Data Processing No. PS20000014/031, C00783/14 – in effect from 14.1.2014 to 28.2.2016
Contract for Work – Adaptation of Consumption Points No. PS21005015/082, eMR-111326 – in effect from 3.12.2015 to 31.12.2016
Contract on Provision of Service of the Distribution System from MV and HV with the Operator of Local Distribution System No. 80003131 [M6100/E/2016/0126] – in effect from 15.11.2016 for an indefinite period of time
2 contracts on the purchase of movable assets (an electric bike)
2 contracts on the purchase of movable assets (metering devices)
3 orders of separator installation
PREm and PREdi have concluded contracts on the connection to the distribution system for all PREm's consumption points.

**c) Contracts between PREdi and eYello**

General Contract on Electricity Distribution to Consumption Points of the Electricity Trader's Customers No. SOD/10390 – in effect from 16.11.2012 for an indefinite period of time.
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**d) Contracts between PREdi and KORMAK Praha**

Contract on Provision of Dispatcher Control Services and Manipulation, Operation and Works No. PS23330216/011 – in effect from 1.1.2016 to 31.12.2016
Contract for Work – Provision of Professional Services in the Network of Pražská energetika, a.s., No. PS23000205/005 – in effect from 1.1.2006 for an indefinite period of time, as amended
Contract for Work – Graphic and Drawing Documentation No. PS21002012/004 – in effect from 15.2.2012 for an indefinite period of time
Contract on Personal Data Processing – in effect from 6.1.2009 for an indefinite period of time
General Contract for Work and Contract on Provision of Services – in effect from 14.3.2016 to 31.12.2018
7 contracts for work on the provision of design and engineering services for repairs of distribution system equipment
20 contracts for work on carrying out repairs of distribution system equipment
74 contracts for work on the provision of design and engineering services for construction of distribution system equipment
84 contracts for work on carrying out construction of distribution system equipment

**e) Contracts between PREdi and KORMAK nemovitosti**

No contracts were concluded between KORMAK nemovitosti and PREdi, except for contracts on the connection to the distribution system for all consumption points of KORMAK nemovitosti.
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

#### **4. REVIEW OF WHETHER THE CONTROLLED ENTITY INCURRED DAMAGE AND A REVIEW OF ITS SETTLEMENT**

PREdi has not incurred any damages from the relation with the controlling entity or the entities controlled by the managing entity or from the above mentioned contractual relationships. Transactions arising from the above mentioned contractual relationships are agreed in prices usual at the place and time; no preferential treatment was provided to one party or the other.

#### **5. ADVANTAGES AND DISADVANTAGES ARISING FROM RELATIONS BETWEEN THE CONTROLLED ENTITY AND THE CONTROLLING ENTITY AND BETWEEN THE CONTROLLED ENTITY AND THE ENTITIES CONTROLLED BY THE CONTROLLING ENTITY, AND THE RISKS THAT ARISE FROM THEM AND INFORMATION ON THE POTENTIAL SETTLEMENT OF DAMAGES**

PREdi has not incurred any damage or faced any risks beyond the degree usual in business relations between independent entities resulting from the relation with the managing entity or the entities controlled by the managing entity, or from the above mentioned contractual relationships.

Cooperation between PREdi and PRE and the companies of the PRE Group, respectively, brought considerable advantages to PREdi thanks to the acquired know-how. Thanks to its affiliation with the corporate group, PREdi has, in particular, access to the knowledge and experience of the corporate group, as well as to the technology used, the real estate and all the advantages and synergies it brings.

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 of drawing up the Report on Relations according to Section 82 et seq. of the Business Corporations Act made full use of all the information and data which the statutory body has at its disposal and which it has ascertained acting with due diligence.

In Prague, 15<sup>th</sup> of March 2017



**Milan Hampel**  
Chairperson of the Board of Directors



**Petr Dražil**  
Vice-chairperson of the Board of Directors

# SUPERVISORY BOARD REPORT ON ACTIVITIES IN 2016

In accordance with the Articles of Association, the Supervisory Board consists of four members. As a supervisory body, it oversees the performance of the business activities of the company in compliance with the law and the Articles of Association.

In 2016, four meetings of the Supervisory Board were held and once a vote took place outside of a meeting. The meetings of the Supervisory Board were regularly attended by the Chairperson and the Vice-chairperson of the Board of Directors.

During the meetings, the Supervisory Board regularly received information about the company's economic results as well as organisational and personnel matters. It was also informed about the implementation of the investment plan and took account of the text of the Annual Report for 2015.

The Supervisory Board debated and examined the separate financial statements for 2015 and acquainted itself with the auditor's report on the separate financial statements.

The Supervisory Board also debated and examined the Report on Relations for 2015.

The Supervisory Board approved the assessment of the objectives set by the company's top management for 2015, debated the objectives of the company's top management for 2017 and approved the company's business plan for 2017.

## **In 2016, the Supervisory Board debated and approved the following investment projects:**

- leading out the output from the Karlín transformer station to the Hlávka bridge;
- the purchase and renovation of the "Karlovy" technological-administrative locality;
- the preparation of the construction of the Písnice transformer station.

The Supervisory Board declares that the company's economic results in 2016 were very good and expresses its thanks to the members of the Board of Directors as well as the company's employees.

In Prague, 9<sup>th</sup> of March 2017



**Pavel Elis**

Chairperson of the Supervisory Board

# INDEPENDENT AUDITOR'S REPORT



## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of PREdistribuce, a.s.

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

Deloitte Audit s.r.o.  
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Czech Republic

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Registered at the Municipal  
Court in Prague, Section C,  
File 24349  
Id. Nr.: 49620592  
Tax Id. Nr.: CZ49620592

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of PREdistribuce, a.s., for the year ended 31 December 2016 which is included in this annual report in the section 'Report on Relations'. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of PREdistribuce, a.s., for the year ended 31 December 2016 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

In Prague on 27 April 2017

Audit firm:  
**Deloitte Audit s.r.o.**  
registration no. 079

Statutory auditor:  
**Václav Loubek**  
registration no. 2037

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholder of PREdistribuce, a.s.

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

Opinion

We have audited the accompanying financial statements of PREdistribuce, a.s. (hereinafter also the "Company"), prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2016, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of PREdistribuce, a.s., as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially

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misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

#### Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Company's Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis

for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 27 April 2017

Audit firm:

**Deloitte Audit s.r.o.**

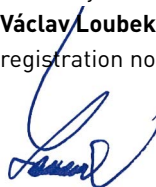
registration no. 079



Statutory auditor:

**Václav Loubek**

registration no. 2037



# SEPARATE FINANCIAL STATEMENTS

Prepared in accordance with Act No. 563/1991 Coll., the Accounting Act, as amended; 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 the Czech Accounting Standards for Businesses, as amended.

## Income statement (CZK Thousand)

Line	Text	Note	2016	2015
<b>I.</b>	<b>Sales of distribution services and other revenues</b>	<b>(1)</b>	<b>9,345,709</b>	<b>9,416,080</b>
I. 1. 1.	Sales of distribution services in the Group		5,964,519	5,923,187
I. 1. 2.	Sales of distribution services outside the Group		3,351,005	3,461,051
I. 2.	Other revenues		30,185	31,842
<b>A.</b>	<b>Purchased consumables and services</b>	<b>(3)</b>	<b>(6,152,749)</b>	<b>(6,370,194)</b>
A. 2. 1.	Costs of transit and system services and losses		(4,679,783)	(4,983,231)
A. 2. 2.	Consumed material and energy		(42,071)	(42,458)
A. 3.	Purchased services		(1,430,895)	(1,344,505)
<b>D.</b>	<b>Staff costs</b>	<b>(2)</b>	<b>(456,407)</b>	<b>(439,664)</b>
D. 1.	Payroll costs		(306,093)	(296,631)
D. 2.	Social security and health insurance costs and other costs		(150,314)	(143,033)
D. 2. 1.	Social security and health insurance costs		(107,531)	(104,989)
D. 2. 2.	Other costs		(42,783)	(38,044)
<b>E.</b>	<b>Adjustments to operating activity values</b>		<b>(1,352,026)</b>	<b>(1,447,272)</b>
E. 1.	Adjustments to the values of tangible and intangible fixed assets		(1,338,324)	(1,446,683)
E. 1. 1.	Adjustments to the values of tangible and intangible fixed assets – permanent	(6, 7)	(1,338,342)	(1,447,300)
E. 1. 2.	Adjustments to the values of tangible and intangible fixed assets – temporary		18	617
E. 3.	Adjustments to the values of receivables		(13,702)	(589)



<b>III.</b>	<b>Other operating income</b>		<b>227,027</b>	<b>242,211</b>
III. 1.	Sales of fixed assets sold		1,532	9,682
III. 2.	Sales of material		2,972	1,673
III. 3.	Other operating income	(1)	222,523	230,856
<b>F.</b>	<b>Other operating expenses</b>		<b>(97,108)</b>	<b>(28,369)</b>
F. 1.	Net book value of sold assets		(1,184)	(12,547)
F. 3.	Taxes and fees		(1,649)	(2,343)
F. 4.	Operating reserves and complex deferred expenses		(81,181)	931
F. 5.	Other operating expenses		(13,094)	(14,410)
<b>*</b>	<b>Operating profit or loss</b>		<b>1,514,446</b>	<b>1,372,792</b>
VI.	Interest income and similar income	(4)	8	7
J.	Interest expenses and similar expenses	(4)	(82,871)	(73,316)
VII.	Other financial income		3	8
K.	Other financial expenses		(274)	(288)
<b>*</b>	<b>Financial profit or loss</b>		<b>(83,134)</b>	<b>(73,589)</b>
<b>**</b>	<b>Profit or loss before tax</b>	(5)	<b>1,431,312</b>	<b>1,299,203</b>
L.	Income tax	(5)	(290,618)	(247,177)
L. 1.	Income tax payable		(268,663)	(248,745)
L. 2.	Deferred income tax		(21,955)	1,568
<b>**</b>	<b>Profit or loss after tax</b>		<b>1,140,694</b>	<b>1,052,026</b>
<b>***</b>	<b>Profit or loss for the year</b>		<b>1,140,694</b>	<b>1,052,026</b>
<b>*</b>	<b>Net turnover for the year</b>		<b>9,572,747</b>	<b>9,658,306</b>

## Balance sheet (CZK Thousand)

Line	Text	Note	2016 Gross	2016 Adjustment	2016 Net	2015 Net
	<b>TOTAL ASSETS</b>		<b>53,354,538</b>	<b>(25,018,663)</b>	<b>28,335,875</b>	<b>27,951,170</b>
<b>B.</b>	<b>Fixed assets</b>		<b>50,925,187</b>	<b>(24,975,518)</b>	<b>25,949,669</b>	<b>25,705,518</b>
B. I.	Intangible fixed assets	[7]	33,957	(23,997)	9,960	3,959
B. I. 1.	Research and development		33,877	(23,997)	9,880	3,746
B. I. 5. 2.	Intangible fixed assets under construction		80	-	80	213
B. II.	Tangible fixed assets	[6]	50,891,130	(24,951,521)	25,939,609	25,701,459
B. II. 1.	Land and structures		36,989,883	(16,774,051)	20,215,832	19,836,152
B. II. 1. 1.	Land		651,137	-	651,137	619,416
B. II. 1. 2a.	Cables and overhead power lines		21,690,979	(9,043,728)	12,647,251	12,372,767
B. II. 1. 2b.	Power structures		14,647,767	(7,730,323)	6,917,444	6,843,969
B. II. 2.	Tangible movable assets and their sets		11,499,800	(6,773,086)	4,726,714	4,818,856
B. II. 2. 2a.	Transformer station and switching station technologies		9,154,334	(5,094,619)	4,059,715	4,153,835
B. II. 2. 2b.	Logistics and management equipment/technology		2,039,245	(1,461,301)	577,944	584,930
B. II. 2. 2c.	Other fixtures and equipment		306,221	(217,166)	89,055	80,091
B. II. 4.	Other tangible fixed assets		1,986,422	(1,404,384)	582,038	580,224
B. II. 4. 3.	Other tangible fixed assets – electricity meters in the network		1,986,422	(1,404,384)	582,038	580,224
B. II. 5.	Prepayments made and tangible fixed assets under construction		415,025	-	415,025	466,227
B. II. 5. 1.	Prepayments made for tangible fixed assets		43,772	-	43,772	49,779
B. II. 5. 2.	Tangible fixed assets under construction		371,253	-	371,253	416,448
B. III.	Non-current financial assets		100	-	100	100
<b>C.</b>	<b>Current assets</b>		<b>2,427,090</b>	<b>(43,145)</b>	<b>2,383,945</b>	<b>2,243,630</b>
C. II.	Receivables		2,425,356	(43,145)	2,382,211	2,241,673
<b>C. II. 1.</b>	<b>Long-term receivables</b>		<b>166</b>	<b>-</b>	<b>166</b>	<b>45</b>
C. II. 1. 1.	Trade receivables		161	-	161	31
C. II. 1. 5.	Receivables – other		5	-	5	14
<b>C. II. 2.</b>	<b>Short-term receivables</b>		<b>2,425,190</b>	<b>(43,145)</b>	<b>2,382,045</b>	<b>2,241,628</b>
C. II. 2. 1.	Trade receivables	[8]	170,050	(43,145)	126,905	136,922
C. II. 2. 2.	Receivables – controlled or controlling entity	[16]	105,643	-	105,643	2,456
C. II. 2. 4.	Receivables – other		2,149,497	-	2,149,497	2,102,250
C. II. 2. 4. 3.	State – tax receivables		22,124	-	22,124	22,386
C. II. 2. 4. 4.	Short-term prepayments made		635	-	635	13,863
C. II. 2. 4. 5.	Estimated receivables	[16]	2,126,171	-	2,126,171	2,065,682
C. II. 2. 4. 6.	Other receivables		567	-	567	319
C. IV.	Cash		1,734	-	1,734	1,957
C. IV. 1.	Cash on hand		1,734	-	1,734	1,957
<b>D.</b>	<b>Deferred expenses</b>		<b>2,261</b>	<b>-</b>	<b>2,261</b>	<b>2,022</b>

Line	Text	Note	2016	2015
	<b>TOTAL LIABILITIES</b>		<b>28,335,875</b>	<b>27,951,170</b>
<b>A.</b>	<b>Equity</b>	(9)	<b>19,379,473</b>	<b>19,290,879</b>
A. I.	Share capital		17,707,934	17,707,934
A. III.	Funds from profit		530,000	530,000
A. IV.	Accumulated profits brought forward		845	919
A. V.	Profit or loss for the current period		1,140,694	1,052,026
<b>B. + C.</b>	<b>Liabilities</b>		<b>7,157,303</b>	<b>6,836,282</b>
B.	Reserves	(10)	305,740	213,835
C.	Payables		6,851,563	6,622,447
C. I.	Long-term payables		5,687,786	5,667,831
C. I. 6.	Payables – controlled or controlling entity	(16)	2,700,000	2,700,000
C. I. 8.	Deferred tax liability	(11)	2,983,786	2,961,831
C. I. 9.	Payables – other		4,000	6,000
C. II.	Short-term payables		1,163,777	954,616
C. II. 3.	Short-term prepayments received		394,714	237,729
C. II. 4.	Trade payables	(12)	410,121	346,388
C. II. 6.	Payables – controlled or controlling entity	(16)	140,184	243,254
C. II. 8.	Payables – other		218,758	127,245
C. II. 8. 3.	Payables to employees		15,904	15,019
C. II. 8. 4.	Social security and health instance payables	(5)	9,968	9,524
C. II. 8. 5.	State – tax payables and subsidies	(5)	151,742	102,702
C. II. 8. 6.	Estimated payables		41,144	-
<b>D.</b>	<b>Accrued expenses and deferred income</b>		<b>1,799,099</b>	<b>1,824,009</b>
D. 1.	Accrued expenses		36,335	36,462
D. 2.	Deferred income	(13)	1,762,764	1,787,547

**Cash flow statement (CZK Thousand)**

	Note	2016	2015
Opening balance of cash and cash equivalents		1,957	1,245
<b>Operating activity</b>			
Sales of distribution services		9,393,541	9,463,267
Electricity consumption for network loss		[319,335]	[414,066]
Expenses for purchases of transit and system services		[4,228,549]	[4,614,916]
<b>Net sales of distribution services</b>	(1, 3)	<b>4,845,657</b>	<b>4,434,285</b>
Expenses in the Group	(16)	[974,752]	[953,602]
Other operating income		33,060	41,282
Operating expenses	(3)	[410,149]	[412,991]
Changes in short-term working capital		[61,486]	9,129
Staff costs	(2)	[434,568]	[424,886]
Direct taxes	(5)	[227,895]	[258,087]
Financial income and expenses	(4)	[82,511]	[60,995]
<b>Net cash flow from operating activity</b>		<b>2,687,356</b>	<b>2,374,135</b>
<b>Investment activity</b>			
Income from the sale of fixed assets		1,433	10,181
Expenses related to the acquisition of fixed assets	(6,7)	[1,572,896]	[1,494,686]
Income from investment contributions	(13)	171,772	165,077
<b>Net cash flow from investment activity</b>		<b>(1,399,691)</b>	<b>(1,319,428)</b>
<b>Financial activity</b>			
Dividends and director's fees paid		[1,052,100]	[1,091,800]
Cash pooling in the Group		[235,788]	137,805
Loans in the Group	(16)	-	[100,000]
<b>Net cash flow from financial activity</b>		<b>(1,287,888)</b>	<b>(1,053,995)</b>
Change in cash and cash equivalents		[223]	712
<b>Closing balance of cash and cash equivalents</b>		<b>1,734</b>	<b>1,957</b>

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

### General information

#### Incorporation and description of the business

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

The Company's registered office is located at Svornosti 3199/19a, Prague 5, 150 00, ID No.: 27376516.

The Company's principal activities include the distribution of electricity in the territory of Prague and of Roztoky and Žalov, covering an area of 505 km<sup>2</sup>, from which it derives most of its revenues. The distribution of electricity is carried out in public interest and the associated rights and obligations, with the exception of general legal regulations, are regulated by Act No. 458/2000 Coll., the Energy Act, as amended, and the related implementation guidance.

#### Statutory and supervisory bodies as of the 31<sup>st</sup> of December 2016

##### Board of Directors

Milan Hampl	Chairperson of the Board of Directors
Petr Dražil	Vice-chairperson of the Board of Directors
Christian Franz-Josef Schorn	Member of the Board of Directors
Miloš Langr	Member of the Board of Directors

##### Supervisory Board

Pavel Elis	Chairperson of the Supervisory Board
Alexander Manfred Sloboda	Member of the Supervisory Board
Franz Retzer	Member of the Supervisory Board
Drahomír Ruta	Member of the Supervisory Board

The sole shareholder of the Company is Pražská energetika, a.s., whose registered office is located at Na Hroudě 1492/4, Prague 10.

#### Organisational structure of the Company

The Company has two divisions, namely the CEO's division and the Regulated Assets division. The CEO's division is further organised into four sections: Network Management, Preparation and Realisation of Constructions, Network Access and Economics, and Network Concepts. The Regulated Assets division is organised into Network Administration and Network Operation.

#### The PRE Group

In 2016, the PRE Group consisted of the parent company, Pražská energetika, a.s., which is the holder of a licence for trading in electricity and gas in the Czech Republic, and its subsidiaries. These include PREdistribuce, a.s., PREměření, a.s., eYello, k.s., KORMAK Praha a.s. and KORMAK nemovitosti s.r.o.

Pražská energetika, a.s., prepares the consolidated financial statements, which include the financial statements of the parent company and its subsidiaries. The consolidated financial statements form part of the Annual Report, which is available in the Collection of Deeds of the parent company.



## Accounting policies

### Statement of compliance

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

### Basis of the preparation of the 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 overhead power lines	30, 40, 70
Fibre-optics	30
Power structures	15, 25, 30
Working machines and equipment	8, 10, 12, 20, 30
Telecommunication equipment	4, 15
Machinery and special technology equipment, communication cables	6, 8, 10
Electricity meters	12
Vehicles	4
Furniture and fixtures	6, 8
Hardware and software	4, 15
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 MV/LV 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.

**Significant accounting events**

Based on a partial review of the depreciation plan of PREdi and an increase in planning quality, the Board of Directors has decided to adjust the depreciation period in respect of part of assets. The change involved adjusting the periods of useful lives of the existing assets, which resulted in a decrease in annual depreciation charges of CZK 133 million. The greatest change was made to the depreciation of the construction part of cable tunnels from 40 to 70 years.

**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)**

<b>Revenues relating to the supply of distribution services and other revenues</b>	<b>2016</b>	<b>2015</b>
Sale of distribution and system B2B services	3,507,432	3,721,932
Sale of distribution and system B2C services (including LV B2B)	5,797,574	5,618,393
Other income	10,518	43,913
<b>Revenues relating to the supply of distribution services</b>	<b>9,315,524</b>	<b>9,384,238</b>
Income from services rendered in the Group	20,637	20,347
Income from services rendered outside the Group	9,548	11,495
of which: servicing and assembly	3,874	4,112
leases	4,359	3,779
<b>Other revenues</b>	<b>30,185</b>	<b>31,842</b>
<b>Total</b>	<b>9,345,709</b>	<b>9,416,080</b>
<b>Other operating income</b>	<b>2016</b>	<b>2015</b>
Clearance of connection fees	196,555	198,160
Compensation for unauthorised consumption	17,849	22,403
Sundry	8,119	10,293
<b>Total</b>	<b>222,523</b>	<b>230,856</b>

**(2) Staff costs (CZK Thousand)**

	<b>2016</b>	<b>2015</b>
	<b>Staff including management</b>	<b>Staff including management</b>
Average headcount	513	513
Payroll costs	268,786	261,148
Salaries paid depending on the Company's goal performance	24,481	22,619
Insurance	107,531	104,989
Remuneration of the members of the Company's bodies	12,826	12,864
Other social costs (according to the Collective Agreement)*	42,783	38,044
<b>Total</b>	<b>456,407</b>	<b>439,664</b>

\* 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.

**(3) Costs of purchase of material, services and utilities (CZK Thousand)**

	2016	2015
Electricity consumption for network loss	381,488	421,159
Services of the parent company	632,848	621,265
Lease of technologies and technology units	-	1,381
Lease of non-residential premises	68,750	69,271
Lease of cars	21,991	22,035
Assembly work and reading of meters	222,419	214,920
Repairs of fixed assets	18,935	-
Sundry	9,955	10,645
<b>Costs of purchase of material, services and utilities in the Group</b>	<b>1,356,386</b>	<b>1,360,676</b>
Purchase of distribution and system services	4,298,295	4,562,072
Consumed material and energy	38,663	38,561
Repairs of fixed assets	235,275	193,525
Lease of cable tunnels	101,122	100,812
Lease of non-residential premises	33,771	34,266
Sundries	89,237	80,282
<b>Costs of purchase of material, services and utilities outside the Group</b>	<b>4,796,363</b>	<b>5,009,518</b>
<b>Total</b>	<b>6,152,749</b>	<b>6,370,194</b>

**(4) Interest expenses (CZK Thousand)**

	2016	2015
Interest income: from cash pooling	8	7
Interest expenses: from cash pooling	(1,285)	(2,332)
from loans in the Group*	(81,095)	(70,220)
from employee benefits	(466)	(757)
other	(25)	(7)
<b>Total (net)</b>	<b>(82,863)</b>	<b>(73,309)</b>

\* Besides interest expenses from loans, part of the borrowing costs also included capitalised interest in the amount of CZK 8,814 thousand for 2016 (2015: CZK 11,965 thousand) which is included in the cost of assets.

**(5) Income tax (CZK Thousand)**

Effective tax rate	2016	2016	2015	2015
Profit or loss for the period	1,140,694		1,052,026	
Income tax	290,618		247,177	
<b>Profit before tax</b>	<b>1,431,312</b>		<b>1,299,203</b>	
Income tax using the applicable income tax rate	271,949	19.00%	246,849	19.00%
Impact of items that are never tax-deductible	18,407	1.28%	(724)	(0.05%)
Corrections of estimates of prior years' taxes	262	0.02%	1,052	0.08%
<b>Total income tax / effective tax rate</b>	<b>290,618</b>	<b>20.30%</b>	<b>247,177</b>	<b>19.03%</b>

Payables to the state	2016	2015
Payables arising from social security and health insurance contributions	9,968	9,524
State – tax payables*	151,742	102,702

\* The item primarily includes prepayments made for corporate income tax and a reserve recognised in the amount of the anticipated tax.

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

**(6) Tangible fixed assets (CZK Million)**

	Land	Power structures	Cables and overhead power lines	Telecommu- nication and information technologies	Electricity meters	Other	Assets under construction	Total
<b>Cost</b>								
<b>Balance on 31.12.2014</b>	<b>616.7</b>	<b>22,939.8</b>	<b>20,483.6</b>	<b>1,859.2</b>	<b>1,920.4</b>	<b>288.4</b>	<b>478.5</b>	<b>48,586.6</b>
Additions	3.0	453.8	612.7	115.3	94.1	3.3	210.4	1,492.6
Disposals	(0.5)	(123.1)	(171.0)	(28.5)	(58.9)	(9.3)	(0.4)	(391.7)
Reclassification	0.2	71.7	92.2	53.8	6.7	0.1	(222.3)	2.4
<b>Balance on 31.12.2015</b>	<b>619.4</b>	<b>23,342.2</b>	<b>21,017.5</b>	<b>1,999.8</b>	<b>1,962.3</b>	<b>282.5</b>	<b>466.2</b>	<b>49,689.9</b>
<b>Accumulated depreciation</b>								
<b>Balance on 31.12.2014</b>	<b>-</b>	<b>(11,790.9)</b>	<b>(8,291.9)</b>	<b>(1,325.9)</b>	<b>(1,323.1)</b>	<b>(192.2)</b>	<b>-</b>	<b>(22,924.0)</b>
Depreciation	-	(669.8)	(519.1)	(117.6)	(117.9)	(19.5)	-	(1,443.9)
Provisions	-	0.6	-	0.1	-	-	-	0.7
Accumulated depreciation on disposals	-	115.7	166.3	28.6	58.9	9.3	-	378.8
Reclassification	-	-	-	-	-	-	-	-
<b>Balance on 31.12.2015</b>	<b>-</b>	<b>(12,344.4)</b>	<b>(8,644.7)</b>	<b>(1,414.8)</b>	<b>(1,382.1)</b>	<b>(202.4)</b>	<b>-</b>	<b>(23,988.4)</b>
Net book value on 31.12.2014	616.7	11,148.9	12,191.7	533.3	597.3	96.2	478.5	25,662.6
<b>Net book value on 31.12.2015</b>	<b>619.4</b>	<b>10,997.8</b>	<b>12,372.8</b>	<b>585.0</b>	<b>580.2</b>	<b>80.1</b>	<b>466.2</b>	<b>25,701.5</b>

	Land	Power structures	Cables and overhead power lines	Telecommu- nication and information technologies	Electricity meters	Other	Assets under construction	Total
<b>Cost</b>								
<b>Balance on 31.12.2015</b>	<b>619.4</b>	<b>23,342.2</b>	<b>21,017.5</b>	<b>1,999.8</b>	<b>1,962.3</b>	<b>282.5</b>	<b>466.2</b>	<b>49,689.9</b>
Additions	32.0	448.6	736.8	75.2	100.1	26.8	154.8	1,574.3
Disposals	(0.3)	(68.4)	(143.5)	(65.9)	(91.5)	(3.5)	0.0	(373.1)
Reclassification	-	79.7	80.2	30.1	15.5	0.5	(206.0)	-
<b>Balance on 31.12.2016</b>	<b>651.1</b>	<b>23,802.1</b>	<b>21,691.0</b>	<b>2,039.2</b>	<b>1,986.4</b>	<b>306.3</b>	<b>415.0</b>	<b>50,891.1</b>
<b>Accumulated depreciation</b>								
<b>Balance on 31.12.2015</b>	<b>-</b>	<b>(12,344.4)</b>	<b>(8,644.7)</b>	<b>(1,414.8)</b>	<b>(1,382.1)</b>	<b>(202.4)</b>	<b>-</b>	<b>(23,988.4)</b>
Depreciation	-	(548.0)	(542.5)	(112.3)	(113.8)	(18.3)	-	(1,334.9)
Provisions	-	-	-	-	-	-	-	-
Accumulated depreciation on disposals	-	67.5	143.5	65.8	91.5	3.5	-	371.8
Reclassification	-	-	-	-	-	-	-	-
<b>Balance on 31.12.2016</b>	<b>-</b>	<b>(12,824.9)</b>	<b>(9,043.7)</b>	<b>(1,461.3)</b>	<b>(1,404.4)</b>	<b>(217.2)</b>	<b>-</b>	<b>(24,951.5)</b>
Net book value on 31.12.2015	619.4	10,997.8	12,372.8	585.0	580.2	80.1	466.2	25,701.5
<b>Net book value on 31.12.2016</b>	<b>651.1</b>	<b>10,977.2</b>	<b>12,647.3</b>	<b>577.9</b>	<b>582.0</b>	<b>89.1</b>	<b>415.0</b>	<b>25,939.6</b>

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

**(7) Intangible fixed assets (CZK Million)**

	Intangible fixed assets		
	Other	under construction	Total
<b>Cost</b>			
<b>Balance on 31.12.2014</b>	<b>25.4</b>	<b>2.6</b>	<b>28.0</b>
Additions	1.1	0.2	1.3
Disposals	-	-	-
Reclassification	0.2	(2.6)	(2.4)
<b>Balance on 31.12.2015</b>	<b>26.7</b>	<b>0.2</b>	<b>26.9</b>
<b>Accumulated amortisation</b>			
<b>Balance on 31.12.2014</b>	<b>(19.6)</b>	<b>-</b>	<b>(19.6)</b>
Amortisation	(3.4)	-	(3.4)
Accumulated amortisation on disposals	-	-	-
Reclassification	-	-	-
<b>Balance on 31.12.2015</b>	<b>(23.0)</b>	<b>-</b>	<b>(23.0)</b>
Net book value on 31.12.2014	5.8	2.6	8.4
<b>Net book value on 31.12.2015</b>	<b>3.7</b>	<b>0.2</b>	<b>3.9</b>

	Intangible fixed assets		
	Other	under construction	Total
<b>Cost</b>			
<b>Balance on 31.12.2015</b>	<b>26.7</b>	<b>0.2</b>	<b>26.9</b>
Additions	9.3	0.1	9.4
Disposals	(2.3)	-	(2.3)
Reclassification	0.2	(0.2)	-
<b>Balance on 31.12.2016</b>	<b>33.9</b>	<b>0.1</b>	<b>34.0</b>
<b>Accumulated amortisation</b>			
<b>Balance on 31.12.2015</b>	<b>(23.0)</b>	<b>-</b>	<b>(23.0)</b>
Amortisation	(3.4)	-	(3.4)
Accumulated amortisation on disposals	2.4	-	2.4
Reclassification	-	-	-
<b>Balance on 31.12.2016</b>	<b>(24.0)</b>	<b>-</b>	<b>(24.0)</b>
Net book value on 31.12.2015	3.7	0.2	3.9
<b>Net book value on 31.12.2016</b>	<b>9.9</b>	<b>0.1</b>	<b>10.0</b>

**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 84,723 thousand (2015: CZK 83,222 thousand). The Company holds no low-value intangible fixed assets.



**(8) Trade receivables (CZK Thousand)**

Trade receivables	2016	2015
Up to 6 months past due	33,788	15,485
6 to 12 months past due	5,721	4,459
More than 12 months past due	25,536	25,908
<b>Gross past-due trade receivables</b>	<b>65,045</b>	<b>45,852</b>
Before due	105,005	120,513
<b>Total gross trade receivables</b>	<b>170,050</b>	<b>166,365</b>

The Company recognised the following provisions against receivables past their due dates:

<b>Balance on 31.12.2014</b>	<b>28,853</b>
Recognition and use in the current period	590
<b>Balance on 31.12.2015</b>	<b>29,443</b>
Recognition and use in the current period	13,702
<b>Balance on 31.12.2016</b>	<b>43,145</b>

**(9) Equity (CZK Thousand)****Registered share capital and types of shares as of the 31<sup>st</sup> of December 2016**

The Company's share capital comprises 21,549 registered shares in the certificate form (2015: 21,549 shares) with the nominal value of CZK 821,752 (2015: CZK 821,752).

**Distribution of profit**

The General Meeting will decide on the distribution of profit in the amount of CZK 1,140,694 thousand (2015: CZK 1,052,026 thousand).

## Statement of changes in equity

	Share capital	Reserve fund	Profit or loss	Retained earnings	Total equity
<b>Balance on 31.12.2014</b>	<b>17,707,934</b>	<b>530,000</b>	<b>1,092,564</b>	<b>155</b>	<b>19,330,653</b>
Creation of the reserve fund	-	-	-	-	-
Dividends paid	-	-	(1,080,000)	-	(1,080,000)
Director's fees paid	-	-	(11,800)	-	(11,800)
Retained earnings	-	-	(764)	764	-
Net profit for 2015	-	-	1,052,026	-	1,052,026
<b>Balance on 31.12.2015</b>	<b>17,707,934</b>	<b>530,000</b>	<b>1,052,026</b>	<b>919</b>	<b>19,290,879</b>
Creation of the reserve fund	-	-	-	-	-
Dividends paid	-	-	(1,040,926)	(74)	(1,041,000)
Director's fees paid	-	-	(11,100)	-	(11,100)
Retained earnings	-	-	-	-	-
Net profit for 2016	-	-	1,140,694	-	1,140,694
<b>Balance on 31.12.2016</b>	<b>17,707,934</b>	<b>530,000</b>	<b>1,140,694</b>	<b>845</b>	<b>19,379,473</b>

## (10) Reserves (CZK Thousand)

	Business risks	Salaries	Employee benefits	Total
<b>Balance on 31.12.2014</b>	<b>36,455</b>	<b>34,980</b>	<b>136,088</b>	<b>207,523</b>
Creation of reserves in the current period	-	756	15,345	16,101
Use of reserves in the current period	(931)	-	(8,858)	(9,789)
<b>Balance on 31.12.2015</b>	<b>35,524</b>	<b>35,736</b>	<b>142,575</b>	<b>213,835</b>
Creation of reserves in the current period	83,284	1,156	18,151	102,591
Use/release of reserves in the current period	(2,104)	-	(8,582)	(10,686)
<b>Balance on 31.12.2016</b>	<b>116,704</b>	<b>36,892</b>	<b>152,144</b>	<b>305,740</b>
Long-term reserves	116,704	-	140,846	257,550
Short-term reserves	-	36,892	11,298	48,190
<b>Total</b>	<b>116,704</b>	<b>36,892</b>	<b>152,144</b>	<b>305,740</b>

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:

	2016	2015
Fixed assets	3,029,617	3,003,240
Receivables	(4,358)	(1,511)
Reserves	(13,359)	(13,539)
Liabilities arising from the Collective Agreement	(28,114)	(26,359)
<b>Total</b>	<b>2,983,786</b>	<b>2,961,831</b>

**(12) Trade payables (CZK Thousand)**

The Company carries no trade payables past their due dates.

**(13) Temporary liabilities (CZK Thousand)****Deferred income**

<b>Balance on 31.12.2014</b>	<b>1,818,576</b>
Investment contributions received	167,131
Investment contributions recognised in income*	(198,160)
<b>Balance on 31.12.2015</b>	<b>1,787,547</b>
Investment contributions received	171,772
Investment contributions recognised in income*	(196,555)
<b>Balance on 31.12.2016</b>	<b>1,762,764</b>

\* 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 HV and MV cable conduits, non-residential premises for MV/LV transformers and administrative buildings. The lease contracts have been concluded for an indefinite period of time.

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

	2016	2015
Cable conduits	101,122	100,812
Non-residential premises	33,771	34,266
Administrative buildings	68,750	69,271
Vehicles	22,697	22,035
<b>Total</b>	<b>226,340</b>	<b>226,384</b>

**(15) Related parties (CZK Thousand)**

Persons having managing authority include members of the Board of Directors, the Company's directors and members of the Supervisory Board. Selected members having managing authority use company cars for both business and private purposes.

Total bonuses for members of the statutory and supervisory bodies and senior management:

	2016	2015
Number	8	8
Bonuses (CZK Thousand)	24,354	25,101

**Transactions with members of statutory bodies and executive management**

As of the 31<sup>st</sup> of December 2016, the Company recorded receivables from the members of the Board of Directors and the Supervisory Board in the aggregate amount of CZK 13 thousand (2015: CZK 8 thousand). These receivables were settled during January 2017.

**(16) Group relationships (CZK Thousand)**

	PREdi's receivables as of 31.12.		PREdi's payables as of 31.12.	
	2016	2015	2016	2015
<b>Pražská energetika, a.s.</b>	<b>1,790,646</b>	<b>1,630,349</b>	<b>2,825,368</b>	<b>2,949,362</b>
of which: trade receivables/payables	-	2,426	89,033	82,665
trade receivables/payables from cash pooling	105,553	-	-	130,235
accrued income/expenses from cash pooling	-	-	127	254
long-term loan*	-	-	2,700,000	2,700,000
accrued expenses (loan interest)	-	-	36,208	36,208
estimated amounts – unbilled distribution services**	1,685,093	1,627,923	-	-
<b>eYello CZ, k.s.</b>	<b>37</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PREměření, a.s.</b>	<b>45</b>	<b>30</b>	<b>45,920</b>	<b>30,354</b>
<b>KORMAK Praha a.s.</b>	<b>8</b>	<b>-</b>	<b>5,231</b>	<b>-</b>
<b>Total</b>	<b>1,790,736</b>	<b>1,630,379</b>	<b>2,876,519</b>	<b>2,979,716</b>

\* The long-term loan consists of three parts: a loan of CZK 600 million maturing on the 18<sup>th</sup> of June 2026 that bears interest at 3Y CZK IRS + mark-up of 3.1% p.a., a loan of CZK 700 million maturing on the 28<sup>th</sup> of 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 the 29<sup>th</sup> of June 2015 that was refinanced and replaced with a loan of CZK 1,400 million maturing on the 29<sup>th</sup> of June 2027 that bears interest at 3Y CZK IRS + 2.5% p.a. The loans serve for financing the operating and investment needs of the debtor.

\*\* Estimated receivables reported in the balance sheet amount to CZK 2,126,171 thousand (as of the 31<sup>st</sup> of December 2015: CZK 2,065,682 thousand), of which the amount of CZK 1,685,093 thousand (as of the 31<sup>st</sup> of December 2015: CZK 1,627,923 thousand) represents unbilled distribution services provided to Pražská energetika, a.s., and the amount of CZK 441,078 thousand (as of the 31<sup>st</sup> of December 2015: CZK 437,759 thousand) represents unbilled distribution services and unbilled credit notes, if any, related to these services provided outside the PRE Group.



	PREdi's income		PREdi's costs	/expenses
	2016	2015	2016	2015
<b>Pražská energetika, a.s.</b>	<b>5,977,783</b>	<b>5,935,860</b>	<b>(2,400,319)</b>	<b>(2,489,987)</b>
of which: distribution services	5,958,577	5,916,547	-	-
services, consumed material	19,102	19,151	(733,544)	(723,216)
consumed electricity for the Company's own purposes and losses	-	-	(381,488)	(421,159)
material	-	-	(153,093)	(180,999)
fixed assets	-	-	-	(96)
other income	96	154	-	-
dividends	-	-	(1,041,000)	(1,080,000)
interest on cash pooling	8	8	(1,285)	(2,332)
interest on loans	-	-	(89,909)	(82,185)
<b>eYello CZ, k.s.</b>	<b>5,942</b>	<b>6,643</b>	<b>-</b>	<b>(1,380)</b>
of which: distribution services	5,942	6,640	-	-
services – leases	-	-	-	(1,380)
other income	-	3	-	-
<b>PREměření, a.s.</b>	<b>1,207</b>	<b>1,207</b>	<b>(332,417)</b>	<b>(324,919)</b>
of which: assembly and electricity meters	1,207	1,207	(332,417)	(324,919)
<b>KORMAK Praha a.s.</b>	<b>365</b>	<b>-</b>	<b>(163,808)</b>	<b>-</b>
of which: fixed assets	-	-	(144,873)	-
repairs of fixed assets	-	-	(18,935)	-
services	335	-	-	-
other income	30	-	-	-
<b>Total</b>	<b>5,985,297</b>	<b>5,943,710</b>	<b>(2,896,544)</b>	<b>(2,816,286)</b>

All transactions with the 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.

In Prague, 27<sup>th</sup> of April 2017



**Milan Hampl**  
Chairperson of the Board of Directors



**Petr Dražil**  
Vice-chairperson of the Board of Directors

# AFFIDAVIT

To the best of our knowledge, the Annual Report, in exercising all reasonable due diligence, presents a true and honest picture of the financial situation, business activities and economic results of PREdistribuce, a.s., in 2016, and of the prospects for the company's future development. No facts have been deliberately omitted from or distorted in the Annual Report which could have altered its meaning.

In Prague, 27<sup>th</sup> of April 2017



**Milan Hampl**

Chairperson of the Board of Directors



**Petr Dražil**

Vice-chairperson of the Board of Directors

# LIST OF ABBREVIATIONS

**AMM** : Automatic metering management

**B2B** : Big customers

**B2C** : Small customers

**ČSRES** : Czech Association of Regulated Power Supply Companies (České sdružení regulovaných elektroenergetických společností)

**EMS** : Environmental management system

**EnBW** : EnBW Energie Baden-Württemberg AG

**ERÚ** : Energy Regulatory Office (Energetický regulační úřad)

**EU** : European Union

**eYello** : eYello CZ, k.s., 90% subsidiary of PRE, 10% subsidiary of PREm

**FVE** : Photovoltaic power plant

**FVE Dačice** : PRE FVE Dačice, s.r.o., 100% subsidiary of PREm

**FVE Mikulov** : PRE FVE Mikulov, s.r.o., 100% subsidiary of PREm

**FVE Pozořice** : PRE FVE Pozořice, s.r.o., 100% subsidiary of PREm

**GWh** : Gigawatt-hour

**HV** : High voltage

**KORMAK Praha** : KORMAK Praha a.s., 100% subsidiary of PRE

**KORMAK nemovitosti** : KORMAK nemovitosti s.r.o., 100% subsidiary of PRE

**kV** : Kilovolt

**LV** : Low voltage

**M00** : Retail – households

**MOP** : Retail – small businesses

**MV** : Medium voltage

**MW** : Megawatt

**PRE** : Pražská energetika, a.s.

**PREdi** : PREdistribuce, a.s., 100% subsidiary of PRE

**PREm** : PREměření, a.s., 100% subsidiary of PRE

**PRE Group** : PRE + PREdi + PREm + eYello + KORMAK Praha + KORMAK nemovitosti

**TR** : Transformer station

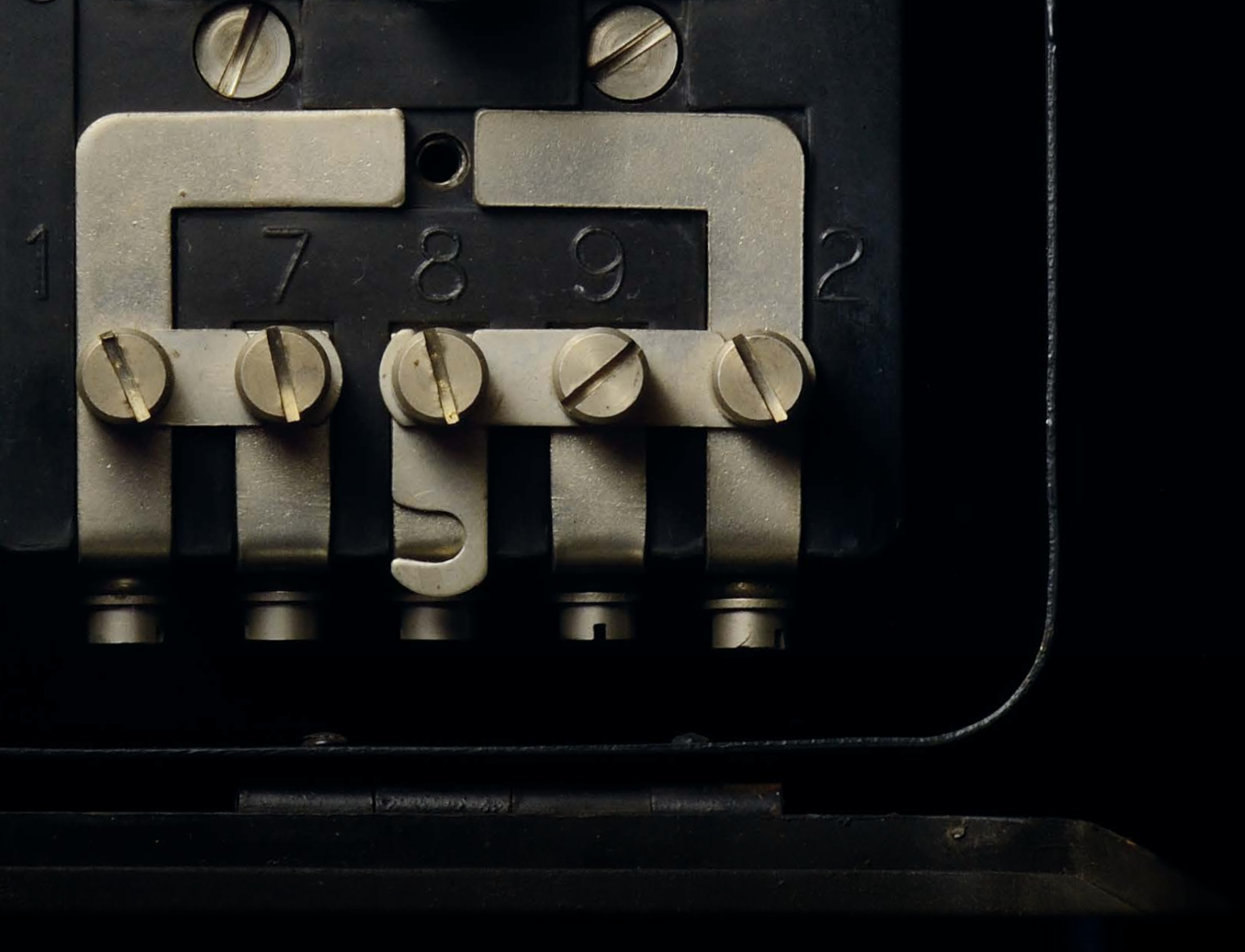
**VO** : Wholesale

# ADDRESSES AND CONTACT INFORMATION

	Address	Postal code	Telephone number
<b>PREdistribuce, a.s.</b>	<b>Prague 5, Svornosti 3199/19a</b>	<b>150 00</b>	<b>+420 267 055 555</b>
Web:	www.pre.cz, www.predistribuce.cz		
E-mail:	pre@pre.cz, distribuce@pre.cz		
ID No.:	27376516		
<b>Pražská energetika, a.s.</b>	<b>Prague 10, Na Hroudě 1492/4</b>	<b>100 05</b>	<b>+420 267 055 555</b>
Web:	www.pre.cz		
E-mail:	pre@pre.cz		
ID No.:	60193913		
<b>PREměření, a.s.</b>	<b>Prague 10, Na Hroudě 2149/19</b>	<b>100 05</b>	<b>+420 267 055 555</b>
Web:	www.pre.cz, www.premereni.cz		
E-mail:	pre@pre.cz, mereni@pre.cz		
IČO:	25677063		
<b>eYello CZ, k.s.</b>	<b>Prague 10, Kubánské náměstí 1391/11</b>	<b>100 00</b>	<b>+420 267 056 704</b>
Web:	www.yello.cz		
E-mail:	yello@yello.cz		
ID No.:	25054040		
<b>KORMAK Praha a.s.</b>	<b>Prague 10, K Sokolovně 667</b>	<b>104 00</b>	<b>+420 271 071 311</b>
Web:	www.kormak.cz		
E-mail:	kormak@kormak.cz		
ID No.:	48592307		
<b>KORMAK nemovitosti s.r.o.</b>	<b>Prague 10, K Sokolovně 667</b>	<b>104 00</b>	<b>+420 271 071 311</b>
Web:	www.kormak.cz		
E-mail:	kormak@kormak.cz		
ID No.:	02065801		
<b>PRE Customer Centre</b>	<b>Prague 1, Jungmannova 36/31</b>	<b>110 00</b>	<b>+420 267 055 555</b>
	<b>Prague 4, Vladimírova 64/18</b>	<b>140 00</b>	<b>+420 267 055 555</b>
<b>Distribution Emergency Line</b>	<b>Prague 2, Kateřinská 1528/9</b>	<b>120 00</b>	<b>1236, e-mail: poruchy@pre.cz</b>
<b>PRE Call Centre</b>	<b>Prague 10, Kubánské náměstí 1391/11</b>	<b>100 00</b>	<b>+420 267 055 555</b>
<b>PRE Service Centre</b>	<b>Prague 1, Jungmannova 747/28</b>	<b>110 00</b>	<b>+420 733 143 143</b>
<b>PRE Press Relations</b>	<b>Prague 10, Na Hroudě 1492/4</b>	<b>100 05</b>	<b>+420 267 051 102</b>







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