PREdistribuce, a.s.
Annual Report







Professionalism
Proactiveness
Mutual trust

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Changes that occurred between the end of the accounting period (31.12.2018) and the closing date of the Annual Report (24.4.2019) are marked in italics.

This document is an unsigned English translation of the Czech Annual Report. Only the Czech version of the Annual Report is legally binding.

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 1 January 2006 for an indefinite period of time)

PREdistribuce, a.s., (PREdi) 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. It started the process of unbundling aimed at separating the distribution of electricity from trading in electricity and ensuring that an electricity distribution licence is held by a separate company.

Consequently, on 7 September 2005, Pražská energetika, a.s., founded a 100% subsidiary, PREdi, and, as of 28 December 2005, transferred there a part of its business (the Distribution division – i.e., the distribution network).

On 1 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 some of the immovable assets used for electricity distribution in this territory.

PREdi's main task is to ensure the high reliability of electricity supply as well as to operate, maintain, renovate and develop the distribution network in the licensed territory, to connect new customers and to provide other services related to electricity distribution.

On 27 November 2017, PREdi founded a 100% subsidiary PREnetcom, a.s., (PREnetcom), which started operating on 1 January 2018. It primarily focuses on planning and coordinating the construction and operation of optical networks that support smart grids, and on coordinating the use of temporarily available optical network transmission capacity by PREdi and PRE.

The company's scope of business:

- electricity distribution;
- the installation, repair, inspection 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; and,
- production, trading and services not listed in Appendices No. 1–3 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, the 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 and the administration and maintenance of real estate; and,
    - testing, measurements, analyses and inspections.

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), whose activities include electricity distribution in Prague, Roztoky and Žalov as well as the planning of the distribution system renovation and development and the construction, operation, administration and maintenance of the distribution system equipment;

PREměření, a.s., (PREm), which carries out repairs, installation and readings of electricity meters in the PRE supply territory and provides energy services to its clients;

PREzákaznická, a.s., (PREzak), which provides complete customer services to the clients of PRE, PREdi, PREm and eYello;

PREservisní, s.r.o., (PREs),* which provides services to the PRE Group, including technical monitoring on behalf of the investor, diagnostics and measurements, the purchase of materials, property administration, etc.;

eYello CZ, k.s., (eYello), which trades in electricity and gas; and,

KORMAK Praha a.s. (KORMAK Praha), which provides a complete range of engineering, design and construction services in the field of electricity infrastructure and transformer stations.

* Until 30 September 2018, KORMAK nemovitosti s.r.o.

100% subsidiary of PREdi:

PREnetcom, a.s., (PREnetcom), a subsidiary since 1 January 2018, whose task is to develop communication infrastructure within the distribution network in connection with the implementation of smart grids.

100% subsidiaries of PREm:

PRE FVE Světlík, s.r.o., which owns and operates a photovoltaic power plant under a relevant licence;

SOLARINVEST – GREEN ENERGY, s.r.o., a subsidiary since 3 May 2018, which specialises in the installation of solar and thermal systems (such as air-conditioning units, heat pumps, etc.); and,

FRONTIER TECHNOLOGIES, s.r.o., a subsidiary since 30 November 2018, which develops, produces and supplies indoor and outdoor smart lighting solutions.

Foreword of the chairperson of the Board of Directors

Distinguished readers

Looking back at 2018, I am pleased to say it was a successful year, both in terms of economic and operational results. In 2018, PREdi's network distributed 6,327 GWh, which was 39 GWh more than last year. The amount of distributed electricity is expected to increase further thanks to the likely economic growth as well as the rising demand from investors to connect new development and multi-commercial projects in previously undeveloped parts of Prague.

PREdistribuce, a.s., was founded on 1 January 2006 as a 100% subsidiary of the sole shareholder, Pražská energetika, a.s. In 2018, it marked its 13th anniversary. Its main task is to provide a high quality and uninterrupted electricity supply to all its end customers in the territory of Prague, Roztoky and Žalov covering an area of 505 km^2. PREdi holds an electricity distribution licence from the Czech Energy Regulatory Office (ERÚ) for the above mentioned territory for an indefinite period of time. Electricity distribution is an activity regulated by ERÚ, which determines how the energy industries and prices are to be regulated through its implementing legal rules. As the operator of the distribution network in the capital, PREdi has a specific position in the Czech energy industry and has to face extraordinary challenges and demands for high quality and reliability of supply. In terms of security, all the networks and operating equipment of PREdi are a part of the critical infrastructure of Prague and the Czech Republic.

The company's primary mission is to ensure the reliable distribution of electricity from transfer points with the transmission system to end customers' consumption points using a well-maintained distribution system. PREdi's distribution network consists of a system of 110 kV, 22 kV and 0.4 kV overhead lines and cable lines measuring 12,276 km, 25 distribution stations with 110/22 kV transformation, and 4,876 22/0.4 kV network transformer stations. At the end of 2018, more than 802 thousand consumption points were connected to the PREdi distribution system. The highest load of the distribution network in 2018 amounting to 1,187 MW was recorded on 28 February. It corresponded to the highest loads in the previous years as well as the highest load in history recorded in 2010.

All of the distribution equipment was maintained by 501 employees in 2018. Their main tasks include planning the renovation and development of the distribution equipment; connecting new customers following the construction of energy infrastructure and connection points; the metering of supplied electricity on the high and medium voltage levels; and the transfer of data to the market operator for the purpose of settling distribution services and supplies. PREdi's employees also manage the network assets, control the operation of the network, solve failures, and carry out planned network renovation and maintenance. In addition to its main activities, PREdi continues to supervise the activities of its sister company, PREměření, a.s., where all the activities related to electricity metering on the 0.4 kV level were transferred twelve years ago. Until July 2018, PREdi operated a street lighting dispatcher control centre and solved failures and breakdowns of street lighting owned by the capital Prague. Since then, these activities have been carried out by Prague's municipal company, Technologie hlavního města Prahy, a.s. PREdi temporarily provides support involving dispatcher control, street lighting switching and the localisation of major street lighting failures. PREdi also temporarily provides street lighting map data and processes newly acquired data in GIS. All these activities will be fully taken over by Technologie hlavního města Prahy, a.s., in 2019.

2018 saw no large-scale technical breakdowns of lines, 110/22 kV distribution stations or 22/0.4 kV nodal transformer stations, which would have impacted the electricity supply to customers in a major way. Given the specifics of the capital, high quality energy supply is indispensable for its operation. Short-term disruptions on a larger scale paralyse the city completely, potentially causing transport collapse and impeding the operation of most state authorities and companies. The performance of the entire distribution system proves the trend of decreasing

internal distribution failure rate in Prague. Throughout the year, the quality standards of electricity supply and related services were met with regard to the absolute majority of the end customers connected to the company's distribution network in accordance with ERÚ Decree No. 540/2005 Coll. PREdi also fares well in comparison with other electricity distributors in the Czech Republic and in comparable cities in the European Union, especially in terms of supply reliability on all voltage levels as recorded by ERÚ.

The high reliability and quality of electricity supply in Prague reflects the amount of investments made in the distribution network. In 2018, CZK 1,701 million (including capitalisation) was invested in the distribution equipment – i.e., in the simple renovation and development of the networks including control, telemechanisation and measuring systems. Additional CZK 241 million was invested in renovation from the operating funds. The most notable major construction completed and launched in 2018 is the Karlín transformer station, which considerably relieves the network in central parts of Prague 1 and Prague 9 and provides sufficient input for developing localities along the Vltava river all the way to Libeň. Besides several other notable constructions in the 110 kV network and the construction of a cable tunnel from the Karlín transformer station towards the Hlávka bridge, we also carried out a high number of simple renovation projects in the 22 kV and 1 kV cable network and renovated distribution transformer stations which reached the end of their physical and accounting lifetime. In line with PREdi's newly approved strategy, the 22 kV and 1 kV networks and distribution transformer stations are gradually smartened and prepared for the future transfers of data to dispatcher control centres regarding the communication between market participants and customers. The implementation of smart grid features is carried out in accordance with the National Smart Grid Action Plan (Národní akční plán pro chytré sítě) approved by the Czech government in 2015. We want to be ready in time to meet the increased distribution requirements ensuing from the growing network penetration of renewable sources, remote electricity meter readings, and the implementation of electromobility and accumulation solutions and other new technological trends. We expect the network load in Prague to increase by hundreds of MW, especially due to the expansion of electromobility.

Last year, PREdi founded a subsidiary, PREnetcom, a.s., whose task is to implement smart grids by designing and building communication infrastructure connecting individual distribution network components to facilitate a secure transfer of network data and the remote control of the network. In 2018, the company launched its first pilot commercial project in Prague's Skalka involving 550 households. Other projects will follow, aimed at selecting suitable technologies and determining the overall concept and architecture of the communication network.

I am proud to conclude that in 2018 PREdi met all the objectives and realised a profit of CZK 1,429 million, accomplishing the task set by its shareholder. I would like to thank all the company employees for their work. We owe the 2018 success to their professionalism, devotion, high productivity and compliance with procedures, regulations and safety standards. Electricity provides great convenience, but it can also cause harm and damage to lives and property. We need to keep this in mind and entrust the operation and maintenance of the electricity networks to well-qualified employees.

I believe that hard work, high productivity and good cooperation are the cornerstones of our company's future development. PREdi proudly follows in the tradition of energy related activities in the capital and wants to remain a stable and prosperous company, an irreplaceable part of Prague's life and a mainstay of the PRE Group. By providing high quality electricity distribution, we want to contribute to the happiness of Prague residents and the smooth operation of the city. Our objective for the next period is to continue in this trend and to remain a modern company that implements state-of-the-art technologies and acknowledges its responsibility towards the environment, constantly trying to enhance its protection.

Signed by

Milan Hampl
Chairperson of the Board of Directors

Company strategy

The primary mission of PREdistribuce, a.s., is to ensure the reliable distribution of electricity from transfer points with the transmission system to end customers' consumption and transfer points in the licensed territory covering 505 km² by using a well-maintained distribution system. This mission will gradually evolve into the transfer of electricity between individual points within the distribution system, but the underlying goal of ensuring reliable transfers will remain the same.

The main strategic goal is to continue optimising the network assets, ensuring their maximum utilisation for electricity distribution, and providing 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 to EU legislation and challenges related to the introduction of new technologies, which will undoubtedly require modification of the sector's structure and operation management in the near future. These changes and new challenges are common across Europe, with only speed and intensity differing in individual states.

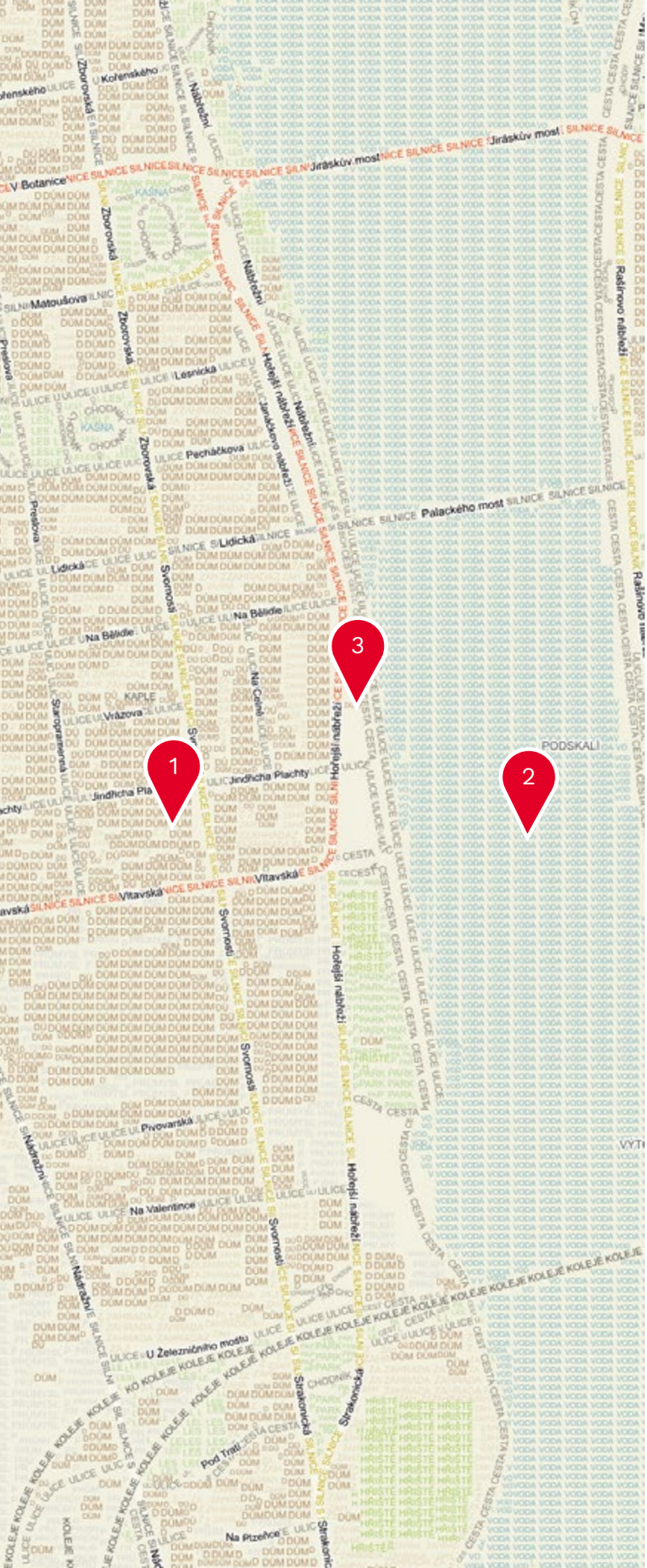
We can reasonably expect an increase in the deployment of decentralised electricity sources in the Czech Republic, partly including renewable energy sources, where generation is difficult to predict. New technologies, such as electromobility, AMM and electro-accumulation, will also gradually expand. Despite the changing conditions, distribution system operators will still be required to maintain a high level of reliability and security of electricity supply and its required quality, and to guarantee the supply even in crisis situations. There is a growing danger of abnormal operating conditions and blackouts, not only due to possible terrorist attacks, but also due to the instability of sources and the overload of some transmission network components by huge transfers of electricity.

Distribution system operators have to find and implement measures enabling them to connect more new customers, while respecting the need to maintain sufficient network robustness, demanded by the significance of the distribution network as a part of the critical infrastructure. All this while keeping the costs at a reasonable level, justifiable to shareholders.

PREdi's long-term strategy is to increase distribution efficiency by taking operational-technical and investment measures in the network as well as by optimising processes within the company and with external entities and state authorities including ERÚ.

Given the fact that PREdi operates in the capital, which is the economic centre of the Czech Republic and the seat of many state institutions, and its distribution network is a part of the critical infrastructure, the quality and security standards of supply set by ERÚ are likely to be further tightened in the future. As a distribution network operator, the company needs to guarantee, to the maximum extent possible, non-discrimination in the processes for which it bears responsibility towards all market participants, electricity traders and end users of the network. The conditions for doing so are defined in the equal treatment programme, which is available on the company website. According to the assessment of the ERÚ quality standards, PREdi has been the most reliable distribution company in the Czech Republic in recent years.

In 2014, PREdi adopted a new investment strategy, which was submitted to its shareholder for approval in 2015. Since 2016, pilot projects have been carried out to test solutions in the field of smart grids and related technologies, such as AMM, electromobility and accumulation, which are relevant to distribution networks in urban agglomerations. These projects test technical possibilities and their effect on everyday distribution network operation, including implementation and operating costs. The investment strategy aims to ensure that PREdi's distribution system is prepared for the introduction and greater penetration of new trends seen abroad, such as decentralised electricity sources, electromobility, accumulation, AMM,





1 The seat of PREdi, which holds an ERÚ electricity distribution licence for Prague, Roztoky and Žalov and has maintained and developed the distribution network, connected new customers and provided other related services for 13 years.



2 Ten years ago, the banks of the Vltava river were successfully connected by cable lines. A 110 kV cable measuring almost 2.5 km connects the TR Smíchov and the TR Karlov. The part below the river is 282 m long and laid as deep as 28 m.



3 A fish-themed transformer station near the Vltava river livens up Prague's scenery with its fresh look, bringing smiles to the faces of passers-by. The PREdělej to po svém (Redo it your own way) project was launched in 2011.



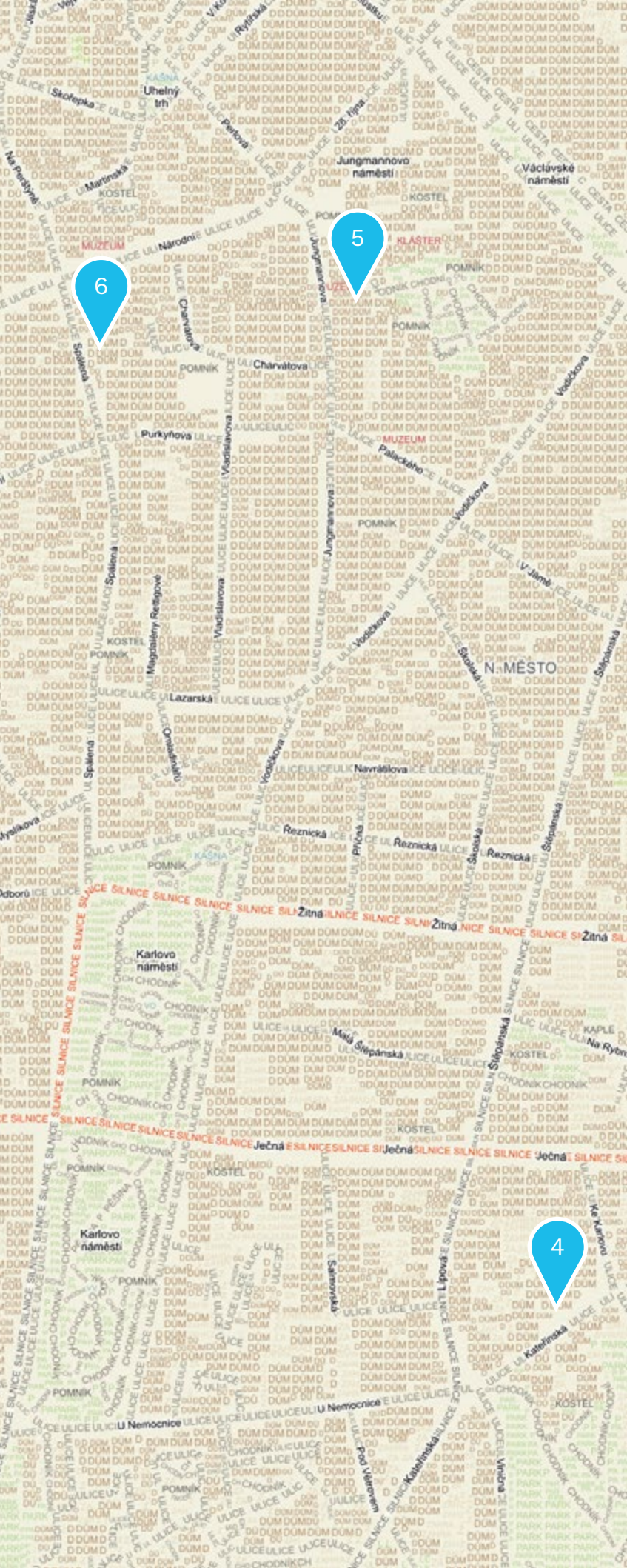
4 An administration building at the TR Karlov houses the Emergency Service tasked with restoring electricity supply in the distribution territory, and newly also PREdi's section Network Concepts and subsidiary PREnetcom.



5 The PRE Service Centre on Jungmannova street in downtown Prague offers a wide range of energy services. It also houses the PREkolo electric bike shop and rental service, carrying more than 140 models of renowned Czech and European brands.



6 The Quadrio shopping centre, located directly above the Národní třída metro station in downtown Prague, houses a switching station, which has operated since 2014, supplying not only the entire building, but also Prague's Old Town.


5
6
4
Jungmannovo náměstí
Václavské náměstí
Národní
Charvátova
Purkyňova
Vodičkova
Palackého
Na Poříčí
Martinská
Ovocný trh
Ulehlý trh
Perlová
28. října
Ryšánská
Školská
Štěpánská
Lazarská
Navrátilova
Reznická
Žitná
Ječná
Karlovo náměstí
U Nemocnice
Kateřinská
Ke Karlovu
Na Rybníčku
Na Poříčí
Vladislavova
Jindřišská
Spálená
Soukenická
Havelská
Melantrichova
Dlouhá
Na Příkopě
Na Můstku
Na Perštýně
Senovážná
Lipová
Hybernská
Opletalova
Na Florenci
Masarykovo nábřeží
Rašínovo nábřeží
Dvořákovo nábřeží
Smetanovo nábřeží
Křižovnická
Karolinum
Betlémské náměstí
Celetná
Ovocný trh
Staroměstské náměstí
Malé náměstí
Týnská
Jakubská
Dlouhá třída
Masarykovo nádraží
Hlavní nádraží
Wilsonova
Vinohradská
Jeruzalémská
Nové Město
Staré Město
Malá Strana
Hradčany
Josefov
Vyšehrad
Vltava
Most Legií
Most Jiráskův
Most Čech. legií
Most Palackého
Most Mánesův
Most Svatopluka Čecha
Most Hlávkův
Most Železniční
Most Barikádníků
Most Štefánikův
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Most Palackého
Most Mánesův
Most Svatopluka Čecha
Most Hlávkův
Most Železniční
Most Barikádníků
Most Štefánikův

the development of energy services, etc. PREdi devotes great attention to new trends and developments in the introduction of modern solutions. Last year, PREdi's subsidiary, PREnetcom, a.s., started operating, focusing on the development of fibre optic networks within the distribution system, which enable the monitoring, management and control of smart grids. PREdi also cooperates with Prague City Council on the Smart Prague initiative aimed at implementing the world-known smart city concept.

In the following years, a major portion of investments 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 centres. Good communication with the lower levels of the distribution network will enable better monitoring, measuring and managing of the network, which will have a positive effect on asset utilisation and reliability indicators. The transfer of the investments to lower voltage levels will be offset by slowing down the renovation of some parts of the backbone HV networks and by postponing the construction of some new strategic distribution stations until it is really necessary to provide or strengthen supply to the particular area.

Close cooperation with the transmission system operator, ČEPS, a.s., remains an important part of PREdi's strategy, ensuring adequate input for the development of the supply territory as well as the high reliability of the 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 distribution and transmission systems is also required by new EU network codes. We can therefore expect greater information flows between the respective operators regarding the condition of the electricity system.

PREdi 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, as non-compliance is penalised.

PREdistribuce, a.s., wants to remain a stable and prosperous energy company, a reliable electricity distributor to its customers and a partner in solving their problems with electricity distribution to their consumption points. It also wants to continue to play a key role in achieving the objectives of its shareholder, Pražská energetika, a.s., and remain a source of security and a trusted social partner to its loyal employees.

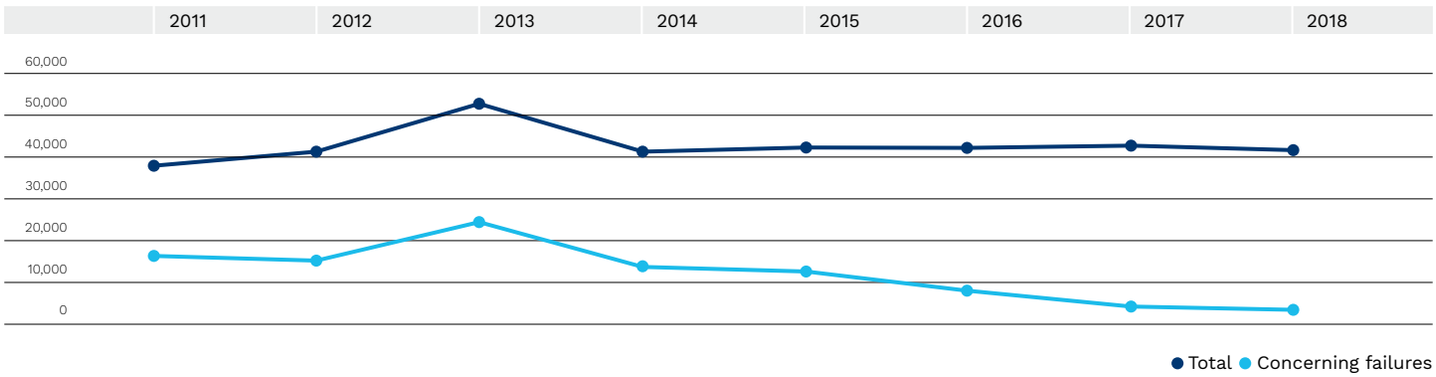
The main strategic constructions in 2019:

- the continued construction of the Hlávka bridge tunnel complex connected to a new utility corridor and the Karlín transformer station, leading out the output to the centre of Prague using 22 kV cables;
- the continued modernisation of the technological equipment at the Pražačka transformer station;
- starting the replacement of the 110 kV overhead lines between the Malešice and Jih transformer stations, which are at the end of their operational lifetime, by another 110 kV cable line, including the preparation for the looping of the Zahradní Město transformer station; and,
- starting the prolongation of the existing cable tunnel in Karlín towards Invalidovna to meet the future output needs of the residential and office developments in the territory of Rohanský island and Libeň.

Allocation of investments in 2014–2018 (MCZK including capitalisation)

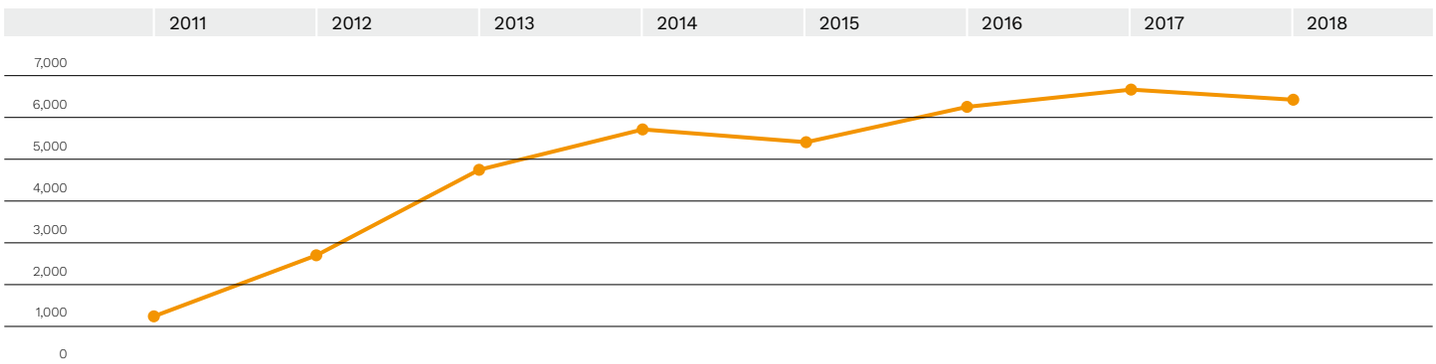
	Total investments	HV distribution equipment	MV distribution equipment	LV distribution equipment	Electricity meters
2014	1,431.3	345.7	678.0	325.4	82.2
2015	1,494.1	227.1	845.2	311.9	109.9
2016	1,583.8	329.8	815.8	328.2	110.0
2017	1,594.2	319.9	686.3	459.5	128.5
2018	**1,700.5**	**217.0**	**862.3**	**459.2**	**162.0**

Number of enquiries processed by the Distribution Emergency Line



The Distribution Emergency Line also processed 7,814 reports concerning failures and breakdowns of street lighting equipment (not included in the chart).
The contract on the provision of services ensuring the operation of street lighting in Prague was terminated on 19 July 2018.

Number of e-mails processed by the Distribution Emergency Line



The Distribution Emergency Line also processed 3,871 reports concerning failures and breakdowns of street lighting equipment (not included in the chart).
The contract on the provision of services ensuring the operation of street lighting in Prague was terminated on 19 July 2018.

Corporate bodies of the company

Board of Directors as of 31.12.2018

Milan Hampl
Chairperson

Petr Dražil
Vice-chairperson

Jindřich Broukal
Member

Tobias Mirbach
Member

Supervisory Board as of 31.12.2018

Pavel Elis
Chairperson

Alexander Manfred Sloboda
Member

Franz Retzer
Member (until 1.5.2018)

Karsten Krämer
Member (since 2.5.2018)

Drahomír Ruta
Member (until 31.12.2018)

Zdeněk Smetana
Member (since 1.1.2019)

In 2018, no members of the company bodies were subject to a conflict of interest or infringed prohibition of competition.



Milan Hampl



Petr Dražil

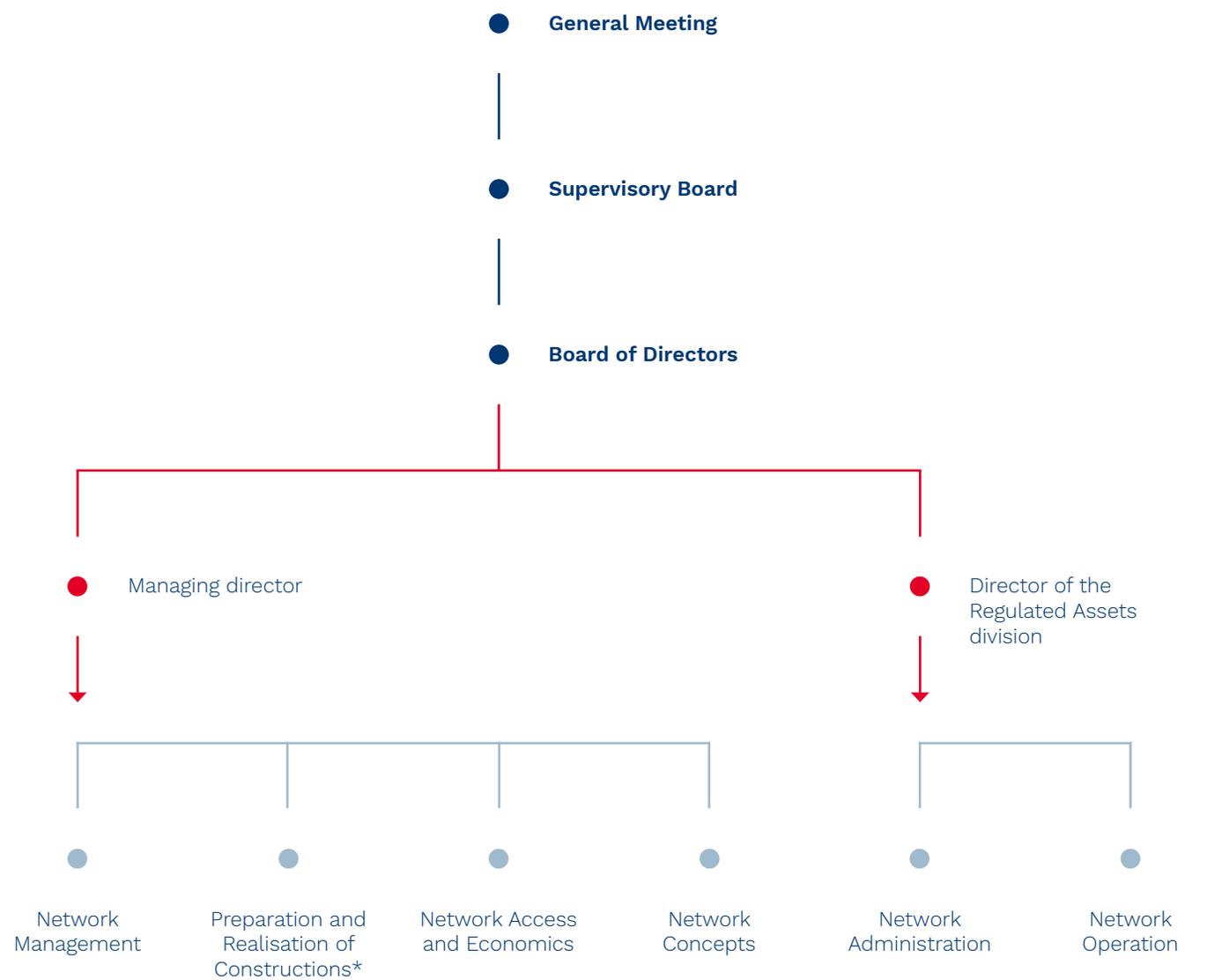


Jindřich Broukal



Tobias Mirbach

Company organisation chart



** Since 1 January 2019, Preparation of Constructions.*

Trends in the electricity sector

2018 was the third year of the fourth regulatory period.

The three-year long fourth regulatory period (1.1.2016 – 31.12.2018) has been extended until 31 December 2020. It continues to follow 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. Its main aim is to prepare objective inputs for the fifth regulatory period. According to the Energy Regulatory Office's plans, the fifth regulatory period will last at least five years starting in 2021.

Overview of relevant legislation

Decrees published in 2018

Decree No. 133/2018 Coll., from 26 June 2018, which amended 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 and came into effect on 28 June 2018.

Decree No. 154/2018 Coll., from 24 July 2018, which amended Decree No. 404/2016 Coll., which provided for the content and structure of reports necessary to produce energy network operation reports, including deadlines, scope and reporting rules (the decree on statistics), was published on 3 August 2018 and came into effect on 1 January 2019.

ERÚ price decisions published in 2018

ERÚ Price Decision No. 6/2017 from 21 November 2017, which set prices for related energy services and other regulated prices, came into effect on 1 January 2018. To regulate prices in this field during 2019, ERÚ Price Decision No. 7/2018 from 20 November 2018 was published on 22 November 2018.

ERÚ Price Decision No. 3/2017 from 26 September 2017 detailing the support for promoted energy sources and ERÚ Price Decision No. 9/2017 from 20 December 2017, which amended Price Decision No. 3/2017, came into effect on 1 January 2018. To regulate prices in this field during 2019, ERÚ Price Decision No. 3/2018 from 25 September 2018 was published on 26 September 2018 and ERÚ Price Decision No. 9/2018 from 18 December 2018, which amended Price Decision No. 3/2018, was published on 19 December 2018.

ERÚ Price Decision No. 7/2017 from 21 November 2017, which set prices for related energy services for consumers from low voltage networks, came into effect on 1 January 2018. To regulate prices in this field during 2019, ERÚ Price Decision No. 8/2018 from 20 November 2018 was published on 22 November 2018.

Regulations of the Czech government published in 2018

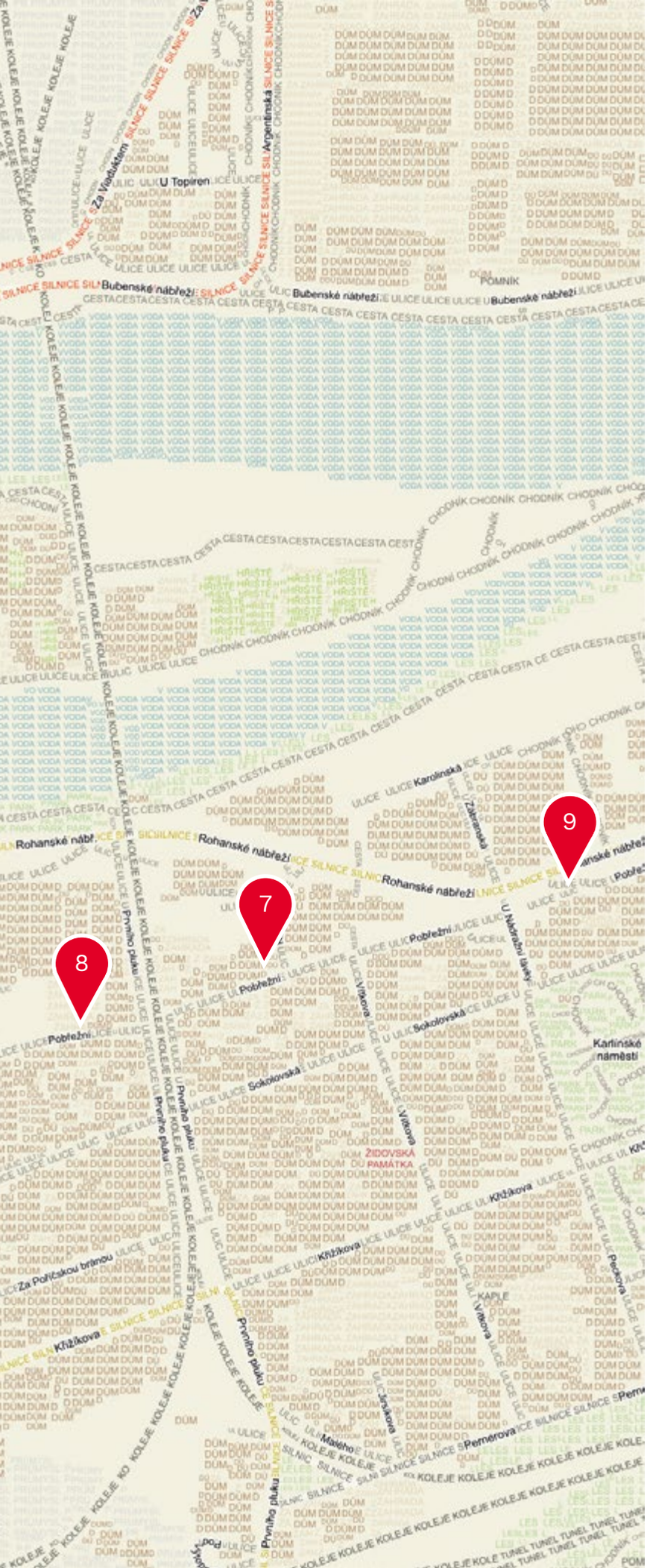
Government Regulation No. 214/2018 Coll., from 19 September 2018 on the allocation of state budget funds in 2019 pursuant to Section 28 (3) of the Act on Promoted Energy Sources, was published on 27 September 2018 and came into effect on 1 January 2019.

Main financial indicators (MCZK)

	2018	2017	2016
Total assets	**28,978**	**28,649**	**28,336**
Distribution equipment	23,941	23,700	23,624
Other fixed assets	2,685	2,542	2,325
Cash pooling receivables within the Group	0	0	106
Trade receivables	106	152	127
Other assets	2,246	2,255	2,153
Total liabilities and equity	**28,978**	**28,649**	**28,336**
Equity	19,668	19,579	19,379
Deferred tax liability	3,038	3,009	2,984
Cash pooling payables within the Group	49	13	0
Trade payables	555	607	550
Deferred revenues	1,920	1,790	1,763
Provisions	326	298	306
Liabilities	2,700	2,700	2,700
Other liabilities	722	652	654
Gross profit from the sale of distribution services	**4,917**	**4,717**	**4,636**
Profit from ordinary activity before tax	**1,767**	**1,659**	**1,431**
Profit from ordinary activity after tax	**1,429**	**1,341**	**1,141**
EBIT	**1,871**	**1,745**	**1,515**
EBITDA	**3,184**	**3,043**	**2,853**

Development of selected network indicators

Indicator	Unit	2018	2017	2016	2015	2014
Maximum network load	MW	1,187	1,196	1,172	1,093	1,149
Total length of electricity networks	km	12,276	12,104	12,054	12,014	12,006
of which: HV	km	221	214	207	207	207
MV	km	3,881	3,864	3,872	3,867	3,854
LV	km	8,174	8,026	7,975	7,940	7,945
Number of HV/MV stations (PREdi/total)	pieces	24/25	23/24	22/23	22/23	22/24
Total number of MV/MV stations and MV/LV stations	pieces	4,876	4,863	4,858	4,843	4,835
Number of MV/LV distribution stations	pieces	3,214	3,218	3,229	3,229	3,246





7 The new Karlín transformer station, launched in 2018, has a glass façade and an extensive green roof. The modern technological solution is practically maintenance-free and protects the roof against mechanical damage as well as weather conditions.



8 The Karlín cable tunnel towards the Hlávka bridge will strengthen the input from the TR Karlín to Prague 1, increasing supply reliability and freeing up the capacity of the TR Holešovice to supply developing areas in its vicinity.



9 The Karlín cable tunnel towards Invalidovna, built below Rohanské nábřeží street, will help meet the output needs of the residential and office developments in Rohanský island and Libeň. 780 m of the tunnel have already been completed.



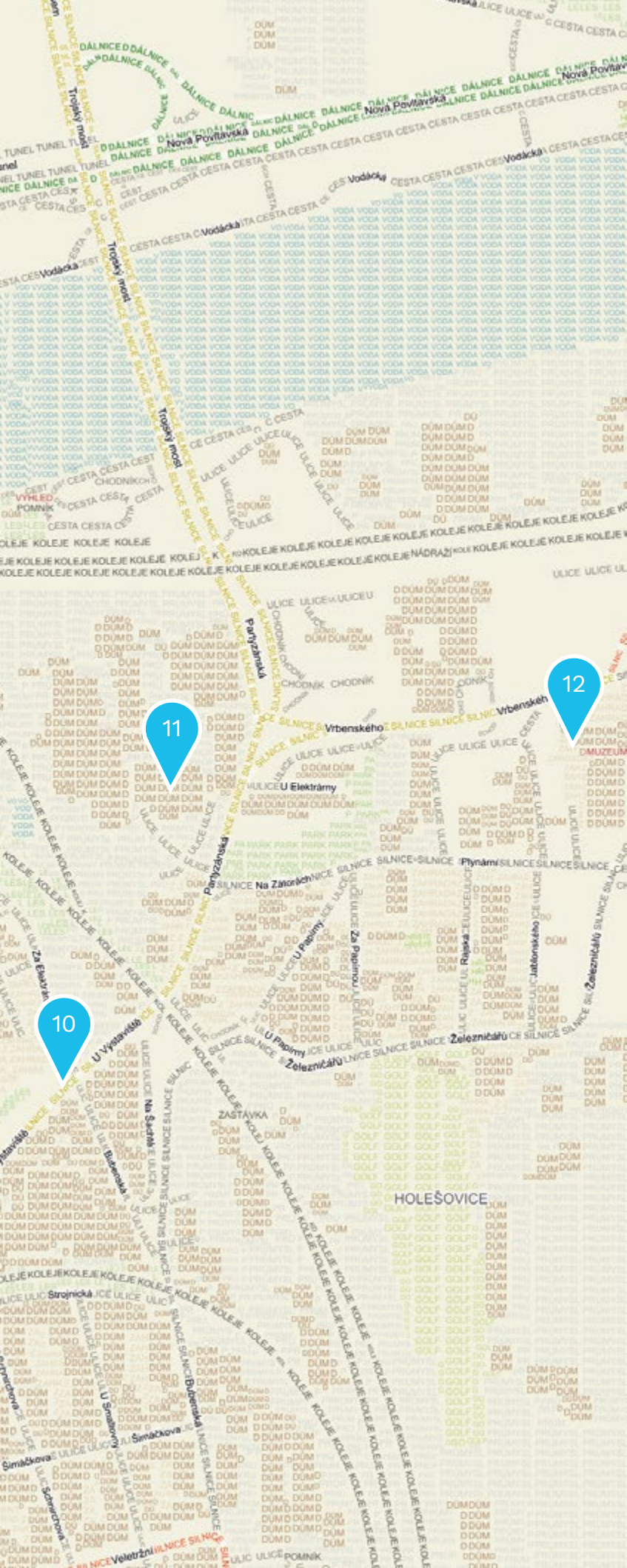
10 A pilot quick-charge station for electric vehicles located at the corner of U Výstaviště and Za Elektrárnou in Prague's Holešovice combines the functions of a quick-charge station, a photovoltaic power plant and an accumulation device.



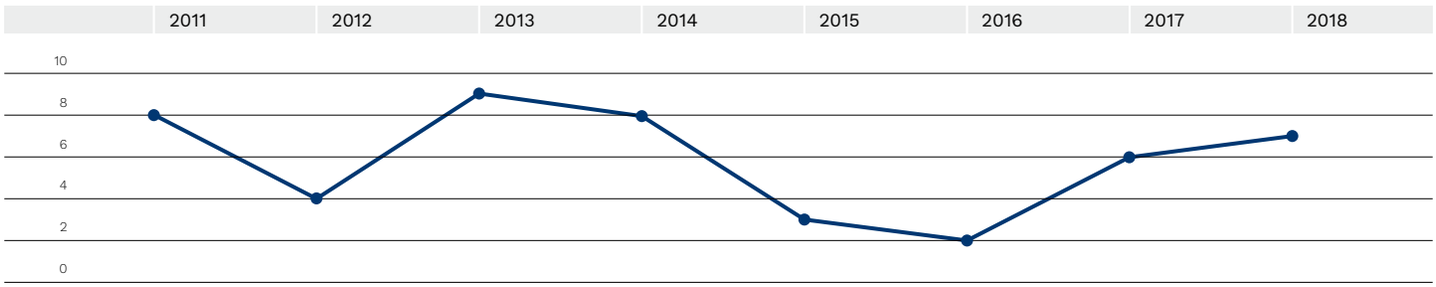
11 The subsidiary office of the Energy Regulatory Office, which has supervised the smooth operation of the Czech energy market since 2001. It regulates the energy industries and prices, and, as such, is an important partner to PREdi.



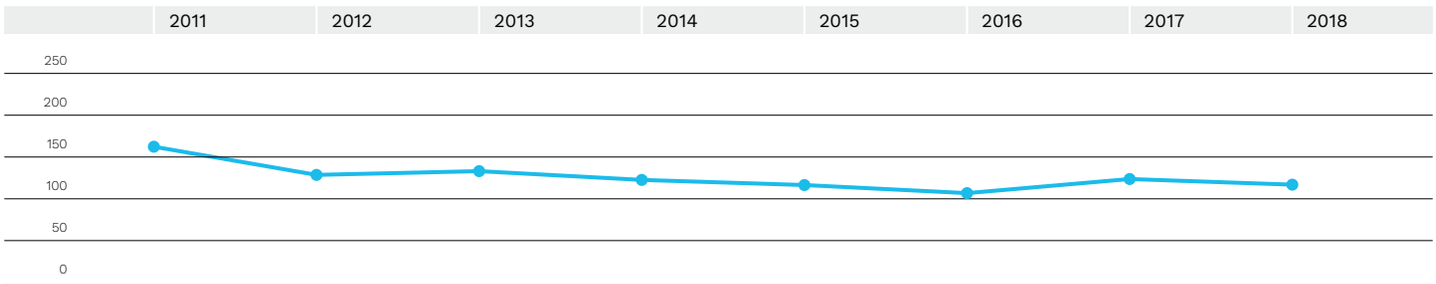
12 The TR Holešovice supplies electricity to the south-west of downtown Prague, including Prague Castle. It also houses the PRE museum with many interesting historical and present-day artefacts in four large exhibitions.


11
12
10
Vršenského
Vršenského
Pařížanská
Pařížanská
U Elektrárny
Na Zátorách
U Pazdeny
Za Pazdeny
U Pazdeny
Železničářů
Železničářů
Železničářů
Rajská
Jablonského
Plynárna
U Elektrárny
U Výstaviště
Za Elektrárnou
Na Sádkách
Buzovenská
ZASTÁVKA
HOLEŠOVICE
Strojnická
U Smaltovny
Šimáčkova
Šimáčkova
Schnirchova
Veletržní
POMNÍK
Trojský most
Trojský most
Trojský most
Vodácká
Vodácká
Vodácká
Nová Povltavská
Nová Povltavská
Nová Povltavská
DÁLNICE
KOLEJE
NÁDRAŽÍ
CESTA
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VODA
PARK
MUZEUM

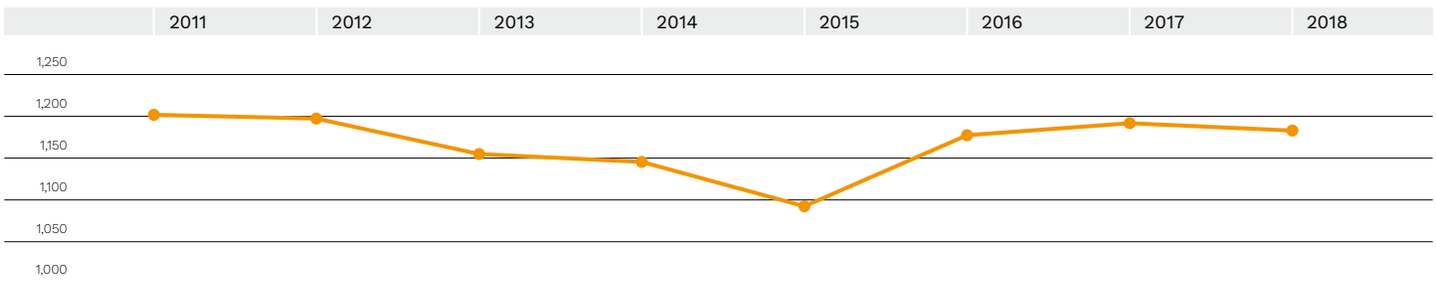
Number of HV failures



Number of MV failures



Maximum achieved load of the year (MW)



Report of the Board of Directors on the Company's Business Activities and Assets for 2018

Financial report

Financially, 2018 can be considered a successful year for PREdistribuce, a.s. The company's profit increased by CZK 88 million year-on-year, amounting to CZK 1,429 million. The profit growth was achieved thanks to higher allowed profits for distributors and the increased volume of distributed electricity (6,327 GWh), which was the highest since 2010. Both these factors also positively influenced the revenue from distribution services and other revenues, which amounted to CZK 9,667 million, increasing by CZK 217 million year-on-year. EBITDA increased by CZK 141 million year-on-year, reaching CZK 3,184 million.

The company's operating profit increased by CZK 126 million year-on-year. The most important operating revenue item is the revenue from distribution services; the most important operating expense item is the cost of transit and distribution services, which increased year-on-year due to the greater volume of distributed electricity.

In 2018, PREdi purchased services for the total of CZK 1,488 million, which was less than in 2017. This was because PREdi stopped providing the street lighting emergency maintenance (the contract on the provision of services ensuring the operation of street lighting in Prague was terminated), which also caused a decrease in revenues (namely, in other revenues). Another notable expense item related to the services provided outside the PRE Group is the cost of repair and maintenance of the distribution equipment.

The company's total personnel expenses increased by CZK 26 million year-on-year due to a blanket wage increase in accordance with the collective agreement.

Depreciation (the adjustment of operating assets value) increased year-on-year owing to the higher total value of the depreciated assets.

Other operating revenues decreased slightly year-on-year due to lower compensation for unauthorised consumption and the fact that no major relocation projects with a marked effect on the revenues and expenses were carried out in 2018, unlike in 2017.

The company's other operating expenses increased year-on-year, primarily due to the creation of provisions for future expenses related to the management of the company's distribution assets.

The company's financial expenses (especially interests) increased by CZK 18 million year-on-year, which affected the financial results.

PREdi's total assets increased year-on-year by CZK 329 million, reaching CZK 28,978 million. The increase in total assets was particularly driven by the growth in tangible fixed assets following the investments in the company's distribution equipment. In 2018, PREdi invested CZK 1,701 million (including capitalisation) in the development and renovation of the distribution equipment, which is by CZK 106 million more than in 2017.

The value of both equity and liabilities increased in 2018. The total value of equity (CZK 19,668 million) in 2018 reflects the CZK 88 million year-on-year increase in the company's profit. The liabilities grew mainly due to the increase in short-term liabilities. In 2018, 67.9% of the company's funding came from equity, 25.3% from liabilities and 6.8% from other liabilities. Other liabilities include the accrued revenue from fees paid by applicants for connection to the distribution system.

The company achieved the operating cash flow of CZK 2,804 million, which was used, together with the proceeds from investment contributions, to finance the investment programme and to pay out dividends and directors' fees (amounting to CZK 1,340 million).

Investments

Every year, PREdistribuce, a.s., develops and implements long-term, medium-term and one-year investment plans. The plans are submitted to the shareholder, Pražská energetika, a.s., for approval and are also subject to control by the regulator, ERÚ, which monitors if distributors duly plan and carry out network renovation in view of write-offs and if their networks are developed based on end customers' legitimate demands for new connections and increasing input. To ensure the required operational reliability and high quality of distribution and related services expected by customers in Prague, the company needs to be able to carry out adequate modernisation and development of equipment as well as planned repairs. Unlike in previous periods, as of 1 July 2006, non-compliance with the guaranteed legally mandated standards is financially penalised in accordance with ERÚ Decree No. 540/2005 Coll., as amended.

The individual investment plans draw on the analyses of the network's technical condition, the load development in the supplied areas, transmission ability and actual operation reliability, the real physical lifetime of individual network components and the possibilities of their effective maintenance.

One of the key elements of PREdi's investment programme is strategic investments, primarily in the construction and modernisation of 110/22 kV transformer points and their systemic connection by 110 kV overhead and cable lines.

Strategic investments

Following the one-year investment plan approved by its shareholder, PREdi continued in 2018 with the necessary and carefully planned renovation and modernisation of the existing 110 kV and 22 kV networks and equipment which is part of the city's critical infrastructure so its failure could cause supply disruptions across a large territory and the collapse of transport and the city's operation. All construction in Prague has been duly coordinated with the planning departments of Prague City Council and respects the urban plan.

The most significant strategic constructions in 2018 included:

- the completion and launch of the Karlín transformer station, including leading out the output to supply the district of Karlín using MV cables;
- the continued construction of the cable tunnel between the new Karlín transformer station and the Hlávka bridge;
- the continued modernisation of the HV and MV technological equipment and the control system at the Pražačka transformer station; and,
- the completion of the renovation of the Karlov transformer station, including building alterations to create new office space for the technicians from PREdi's Network Concepts department and the employees of the subsidiary PREnetcom.

Aside from the main listed strategic constructions in the backbone 110 kV networks and the 110/22 kV distribution stations, the company also continues with the renovation of 22/0.4 kV switching and distribution stations and MV and LV cable lines. As in previous years, the systematic renovation of the 1 kV low voltage networks continued, including the renovation of construction and technological parts of distribution transformer stations.

In line with its new 2014 investment strategy, PREdi also works intensively on responding to new energy sector trends and on preparing its networks and equipment for the gradual implementation of smart grids including intelligent AMM metering.

In 2018, several dozens 22/0.4 kV transformer stations were smartened. The implementation of smart technologies will enable PREdi to control, monitor and measure the network and transfer data remotely, ensuring the high reliability of the network. Foreign studies show that the right combination of strengthening the distribution system and implementing new technologies can satisfy a significant portion of demands on the distribution network ensuing from the integration of decentralised generation, charging stations for electric vehicles, the connection of accumulation capacities, and the implementation of AMM and other elements.

In the forthcoming period, PREdi's main objective is to continue fulfilling the tasks of a distributor in terms of network 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, thus ensuring a high level of reliability and security of the networks. All investment activities are coordinated with the planning and building departments of Prague City Council as well as other entities to ensure the most favourable living and business conditions in the capital. While pursuing our objectives, we also act with the greatest possible consideration for the environment.

In Prague, 2 April 2019

Signed by

Milan Hampl
Chairperson of the Board of Directors

Signed by

Petr Dražil
Vice-chairperson of the Board of Directors

Financial analysis

Level of productivity

	Unit	2018	2017	2016	Calculation formula
Total revenue	MCZK	9,887	9,681	9,573	Total revenue from the income statement
Sales margin from the sale of distribution	MCZK	4,917	4,717	4,636	Revenue from distribution services – cost of transit and system services from the income statement
Profit after tax	MCZK	1,429	1,341	1,141	Profit after tax from the income statement

Level of profit from revenue

	Unit	2018	2017	2016	Calculation formula
Sales margin from the sale of distribution per CZK 1 of revenue	%	51.4	50.6	49.8	Sales margin from the sale of distribution / revenue from distribution services x 100
Profit before tax per CZK 1 of revenue	%	17.9	17.1	15	Profit/loss from ordinary activity before tax / total revenue x 100

Other indicators

	Unit	2018	2017	2016	Calculation formula
Current liquidity	%	184.4	195.5	204.8	Short-term assets / short-term liabilities x 100
Equity proportion to total invested capital	%	67.9	68.3	68.4	Equity / total invested capital x 100
ROCE – return on capital employed	%	7.4	6.9	6	ROCE = EBIT / (equity + long-term loans + deferred tax liability) x 100
Total revenue labour productivity	TCZK/employee	19,735	18,908	18,660	Total revenue / average adjusted number of employees
EBIT	MCZK	1,871	1,745	1,515	Operating profit/loss before interest and tax
EBITDA – profit before tax, interest and depreciation	MCZK	3,184	3,043	2,853	EBITDA = EBIT + depreciation

Human resources

Human resources management

All personnel administration and wage calculations for PREdistribuce, a.s., are carried out by the parent company, Pražská energetika, a.s., (PRE). Remuneration, healthcare and social policy in PREdi are governed by the collective agreement, which applies to PRE and its subsidiaries: PREdi, PREm, PREzak and PREs. Both tariff and negotiated wages are used in the company; specific applications of the remuneration system are provided for by relevant company standards. The SAP HR module is used for personnel administration.

Training

PREdi considers the systematic and targeted training and development of its employees to be a key tool of its strategic HR management. PREdi's employees are provided with development opportunities in the form of open courses, tailor-made trainings and manager development programmes by the HR department of the parent company, PRE, which coordinates all development initiatives and proposes new measures to foster employee development. Thanks to a range of different training and development options, the employees can attain the required level of basic and managerial skills, knowledge and competences they need to consistently deliver very good work performance in their different positions.

In 2018, the development of PREdi employees focused primarily on legally mandated and additional professional training and the optimisation of information sharing within the company. The aim of professional training is to ensure that all employees can carry out their tasks and have sufficient qualification for specific future positions. This mainly entails gaining and maintaining the qualification mandated by Decree No. 50/1978 Coll., on further electrical engineering qualification.

PREdi supports selected employees in acquiring further qualification by studying at secondary vocational schools and universities, particularly in the field of electrical engineering. As a result, it succeeds in maintaining a high level of employee expertise and competitiveness.

PREdi has also enjoyed a long-term cooperation with secondary schools and universities, offering unpaid professional internships at its workplaces to electrical engineering students in their final year. The current lack of skilled workers in the relevant technical fields attests to the importance and usefulness of these activities. In cooperation with PRE's HR department, PREdi tries to recruit new people for the positions of independent development and operation management technicians, mostly among graduates of the Faculty of Electrical Engineering of the Czech Technical University in Prague (FEL ČVUT) and of electrical engineering secondary vocational schools, such as the František Křižík Secondary Vocational School and College of Electrical Engineering (VOŠ a SPŠE Františka Křižíka). In 2018, PREdi continued to provide electrical engineering graduates with specific work placements as part of the recruitment programme. It aims to enable graduates to complement their theoretical knowledge with practical experience and to facilitate the smooth transfer of knowledge and experience related to distribution networks from employees who are about to retire to new employees who will succeed them.

Social policy

In PREdi, social policy is traditionally considered an important motivational tool. It reflects a long-standing commitment to provide a stable and robust social programme, which is enshrined in the collective agreement. The social care programme is implemented through universal and elective employee benefits. Their scope and quality meet a high standard of employee care, especially in terms of healthcare and improving the employees' social conditions, living standards and working environment. Specifically, the social care programme includes catering, interest-free social and housing loans, occupational

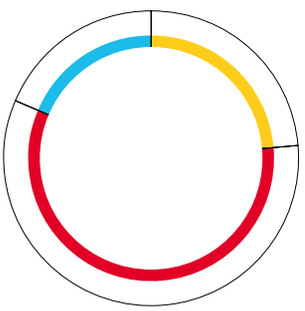
healthcare and additional preventive healthcare programmes, cultural and sporting events, recreation and wellness programmes, family vacations and summer camps for the employees' children, etc.

Healthcare

Employees are provided with occupational healthcare in compliance with the applicable legislation at PRE's premises by a medical professional from the POLIKLINIKA AGEL Praha Italská, a healthcare facility operated by the contractual partner, Dopravní zdravotnictví, a.s. In addition to the legal requirements, all employees have access to free preventive healthcare programmes. Most notably, they include breast cancer screening and treatment, urological and thyroid screening, regular vaccination against seasonal diseases and hepatitis A, as well as extra dental care and subsidised prosthodontic care. PREdi's management has also access to a preventive healthcare programme at the Na Homolce Hospital and Pavel Kolář's Centre for Musculoskeletal Medicine.

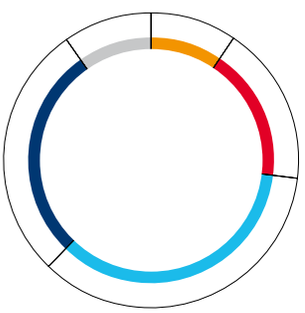
Qualification structure

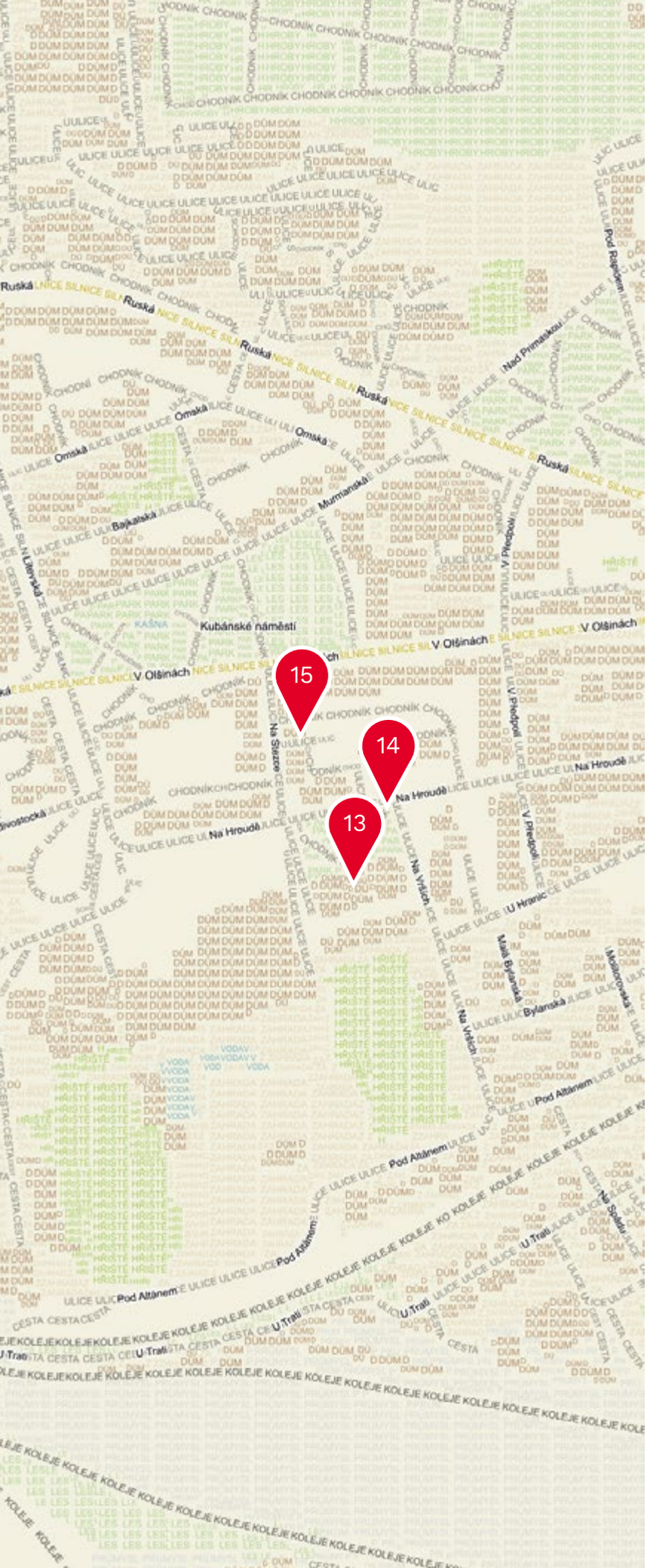
	%
University	23.75
Secondary concluded by an exam (maturita)	57.89
Secondary and secondary vocational	18.36
Primary	0.00



Age structure

	%
Under 20 years	0.00
20–30 years	9.58
30–40 years	17.37
40–50 years	35.33
50–60 years	28.14
Over 60 years	9.58







13 The seat of the parent company, PRE, contains office space for about 400 employees, as well as the PRE gallery, one of Prague's modern exhibition venues. Marking its 20th season in 2018, it continued to enrich the cultural life of Prague.



14 One of the first smart lamps was installed in front of PRE's headquarters, offering a number of useful features. Data from all the smart lamps in Prague is available in a modern app, fittingly called Chytré město PRE (PRE Smart City).



15 A transformer station near PRE's headquarters was decorated with light bulb paintings in 2017. More than 50 of Prague's transformer stations now sport a similar fresh new look.



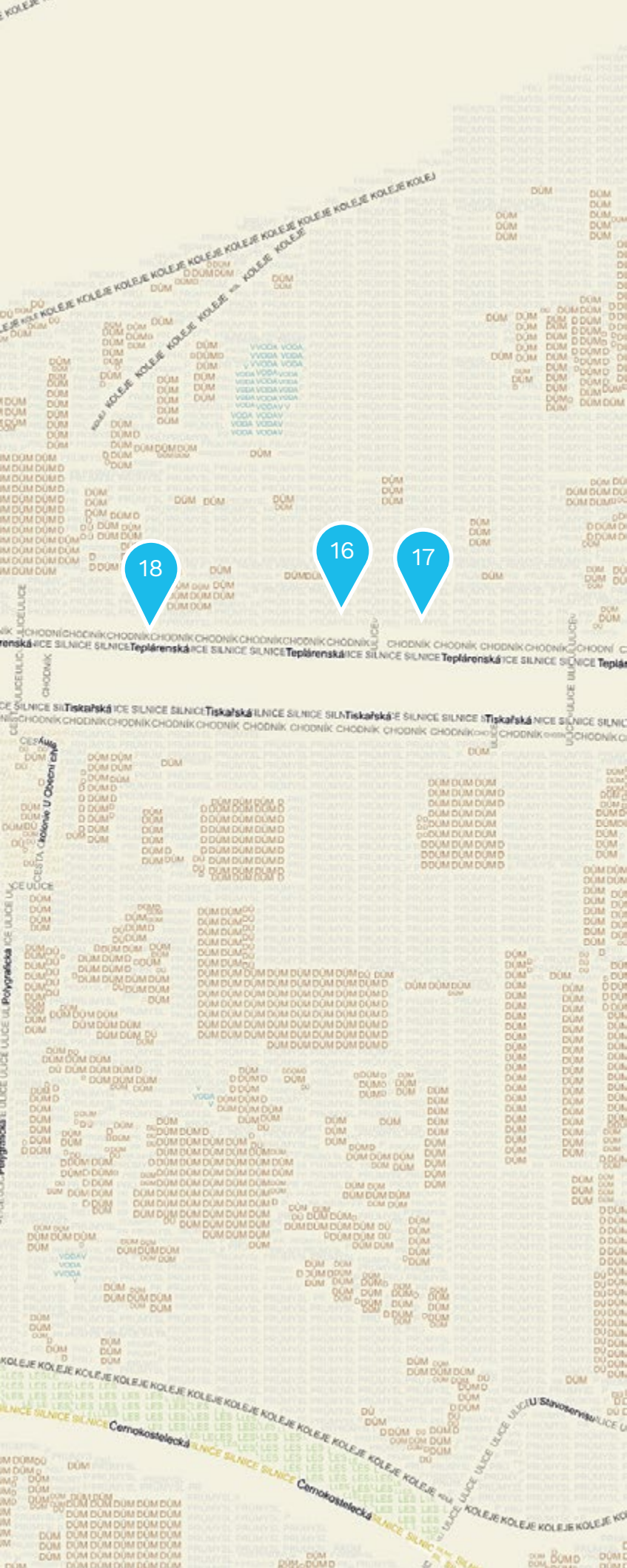
16 The TR Malešice is an important nodal transformer station, where PREdi's 110 kV distribution network connects to the 220 kV transmission network operated by ČEPS, a.s.



17 Equipped with the latest technologies, the Polygon centre at the TR Malešice hosts regular trainings for emergency service and maintenance staff and contractors aimed at the operation of MV and LV equipment in PREdi's network.



18 The first 6 km long 110 kV cable line between the TR Malešice and TR Jih was laid in 2018, replacing the 110 kV overhead power lines. Once the other cable is laid, the overhead lines in the densely populated area will be removed.


18
16
17
Teplárenská
Tiskařská
Cernokostelecká
U Stavoservisu

Environmental protection and OHS

PREdistribuce, a.s., considers responsibility for the environment and occupational health and safety to be its long-term priority. Responsible attitudes to the protection of air, soil, water and the environment in general have traditionally been an inseparable part of the company culture. In order to reduce its environmental impact, PREdi also tries to limit the amount of waste. The company continues to prioritise the occupational health and safety of its employees, aiming to minimise accidents and adverse health effects related to the operation of electrical equipment and the distribution network.

In order to maintain high safety standards and contribute to environmental protection, PREdi adopted the PRE Group policy on environmental protection, safety and energy efficiency, which was updated in 2018. The company has procedures and systems in place to manage environmental protection and occupational health and safety. It repeatedly obtains the Safe Enterprise (Bezpečný podnik) occupational safety certificate as well as the Health Supporting Enterprise (Podnik podporující zdraví) certificate and has its environmental management system certified. 2018 saw the successful certification according to ISO 14001:2016.

To meet the occupational safety and environmental protection goals, PREdi trains its employees as well as service providers and contractors. It also engages in a regular dialogue with them about the potential negative impacts of its activities on the environment and people's health and about possible remedies. The company greatly values their feedback: in 2018, it carried out a survey among its employees and organised a regular meeting with the suppliers.

In 2018, several programmes were carried out, focusing on re-greening and the installation of modern new equipment which is better proofed against the leakage of dangerous substances into soil, air and water and less noise-polluting. The company has a long-term initiative aimed at gradually renovating selected 110/22 kV transformer foundations. Older 22/0.4 kV oil transformers are replaced by hermetically sealed transformers and dry transformers. PREdi systematically replaces overhead lines with cable lines. It also continues to engage in the development and promotion of alternative means of transport.

Risk management system

Risk management in PREdistribuce, a.s., draws on a common methodical framework shared by all the companies of the PRE Group.

The main objective of the risk management system is to increase the value of the company while undertaking only acceptable risks. It also ensures timely warning and serves to assess the effectiveness of risk management tools and measures. The main focus are the risks that could present the biggest threat given the assessment of their potential impact. New risks are constantly identified. All risks are recorded in a list of risks.

The monitored risks are assessed in terms of their potential impact and likelihood using three scenarios of possible development. The process of risk management includes the identification and assessment of risks and the definition and specification of controls and other measures aimed at mitigating risks and reporting specific 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 impact on the company's activities. These risks are closely linked to key regulatory parameters and other regulations applicable in the current extended fourth regulatory period (2016–2020). Depending on their nature, operational risks are usually managed in a decentralised way by individual organisational units; the most significant operational risks and their management are assessed by internal audits.

The key body of the risk management system is the Risk Management Committee, which regularly debates summary risk management reports and formulates management strategies for the most important 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 risk management system and its methodology are based on the methods and procedures of the EnBW corporate group. The monitored risks are reported at regular intervals using a unified structure stipulated by the risk management standards of the EnBW corporate group.

Report on General Meetings

In 2018, four General Meetings were held in the form of resolutions issued by the parent company as the sole shareholder.

General Meeting held on 29 March

Agenda:

- the assessment of the fulfilment of the objectives set by the Board of Directors' executive members for 2017; and,
- the payment of the variable yearly bonus to the Board of Directors' executive members.

General Meeting held on 26 April

Agenda:

- the Report of the Board of Directors on the Company's Business Activities and Assets for 2017;
- the Supervisory Board Report;
- the separate financial statements for 2017, the proposal for the distribution of 2017 profit, including the determination of the amount of dividends and directors' fees and the method of payment;
- the company's business concept for 2018;
- the Report on Relations for 2017;
- the 2017 Annual Report; and,
- the election of Karsten Krämer to the Supervisory Board to replace Franz Retzer, whose mandate expired, the approval of his contract on the performance of the duties of a Supervisory Board member, and the approval of the amendment to the contract on the performance of the duties of the Board of Directors' executive member, Petr Dražil.

General Meeting held on 26 July

Agenda:

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

General Meeting held on 20 December

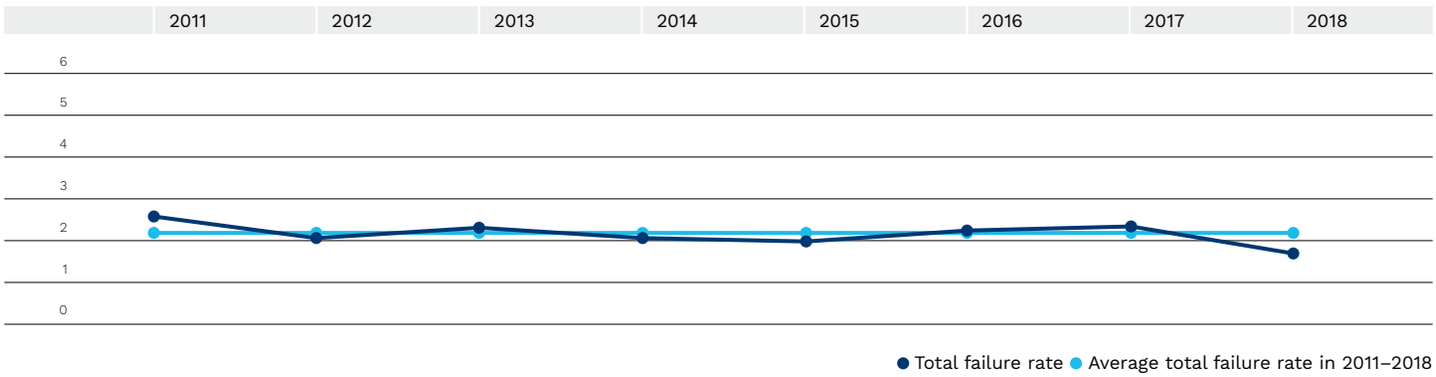
Agenda:

- the approval of the management's objectives for 2019;
- the approval of the amendments to the contracts on the performance of the duties of the Board of Directors' executive members; and,
- the election of Zdeněk Smetana to the Supervisory Board to replace Drahomír Ruta, whose mandate expired, and the approval of his contract on the performance of the duties of a Supervisory Board member.

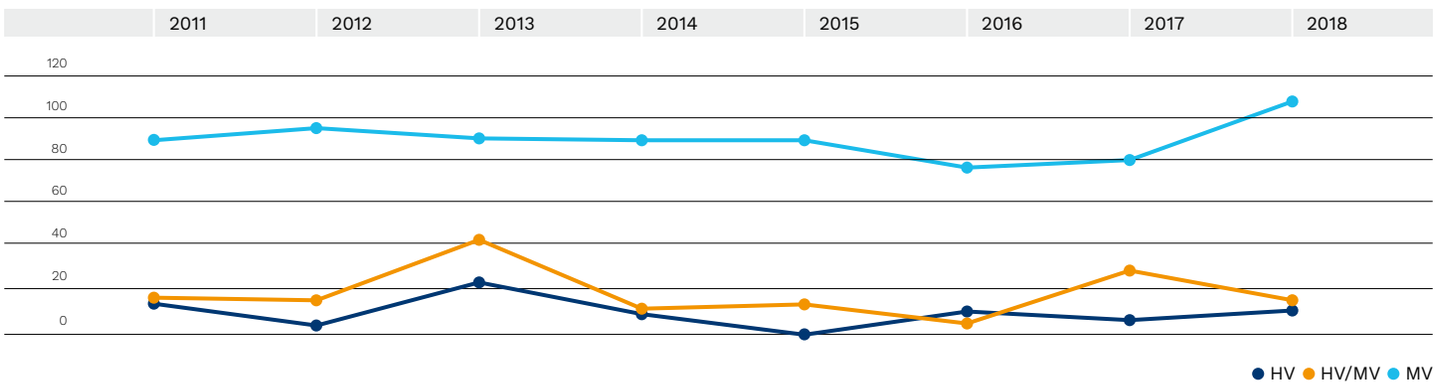
Distributed electricity

		2018	2017	2016	2015	2014
Total distribution (procured)	GWh	6,326.5	6,287.6	6,241.0	6,139.5	6,090.2
Total number of consumption points	pieces	802,164	795,025	786,267	778,138	768,562
of which: VO	pieces	2,044	2,025	2,019	2,007	2,002
MOP	pieces	126,223	127,279	127,367	128,436	126,648
MOO	pieces	673,897	665,721	656,881	647,695	639,912

Trend in 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.)



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 marked in italics.

Information about the projected developments in the accounting unit's activities
The information is presented in the chapter "Company strategy" and "Report of the Board of Directors on the Company's Business Activities and Assets for 2018".

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 OHS" and "Human resources".

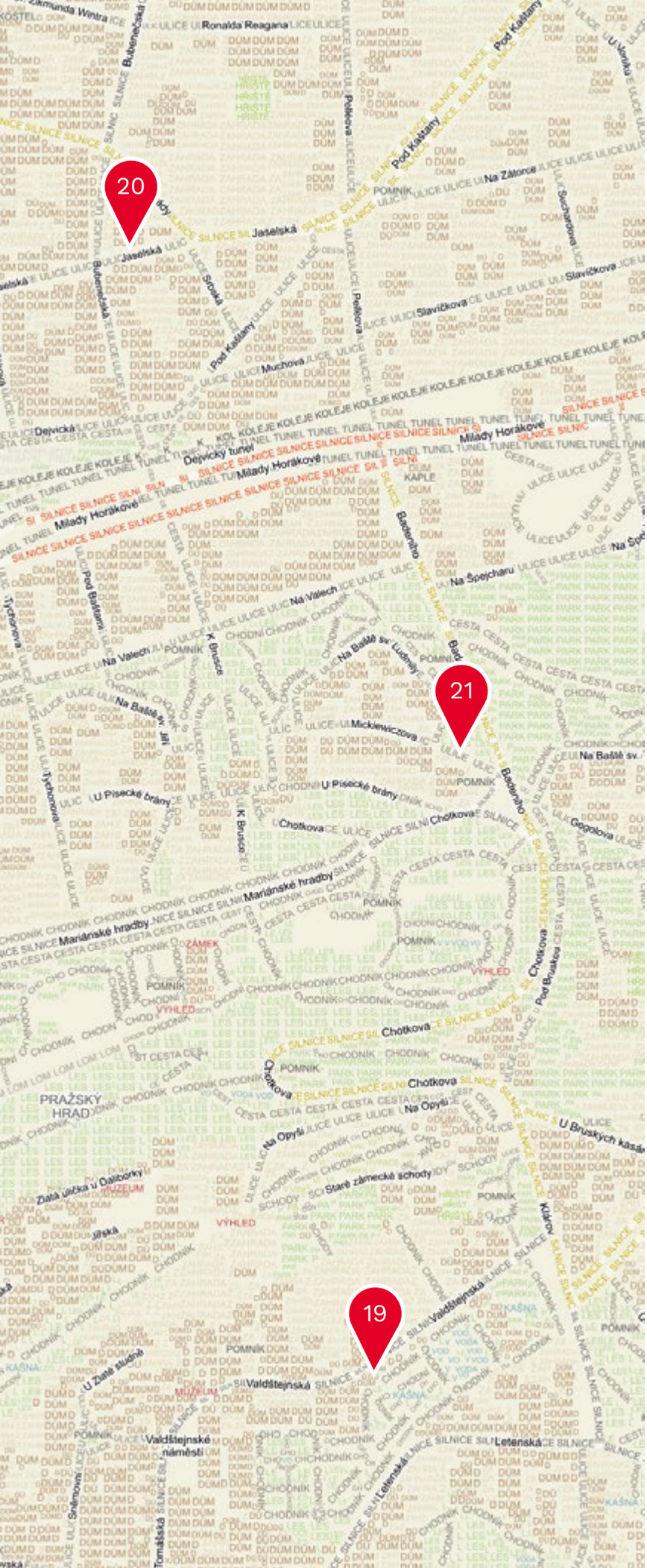
Information about risk management objectives and methods in the company
The information is presented in the chapter "Risk management system".

Information about price, credit, liquidity 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
Since 1 January 2018, the company has been a 100% shareholder in PREnetcom, a.s.

* The organisational unit in Slovakia was dissolved as of 31 December 2018.





19 The switching station on Valdštejnská street in downtown Prague was launched in 1998 to supply transformer stations in Prague's Lesser Town, including the seat of the Senate and the Chamber of Deputies of the Czech Republic.



20 The distribution transformer station on Jaselská street in Prague 6 is one of the 18 pilot smart distribution stations, which will help PREdi respond to the developments in electromobility, renewable sources and other technologies.



21 Transformer stations play a vital role in providing electricity supplies in Prague. For the past 8 years, damaged stations have been creatively refurbished. One of the spruced-up stations is located near the Letná park in Prague's Hradčany.



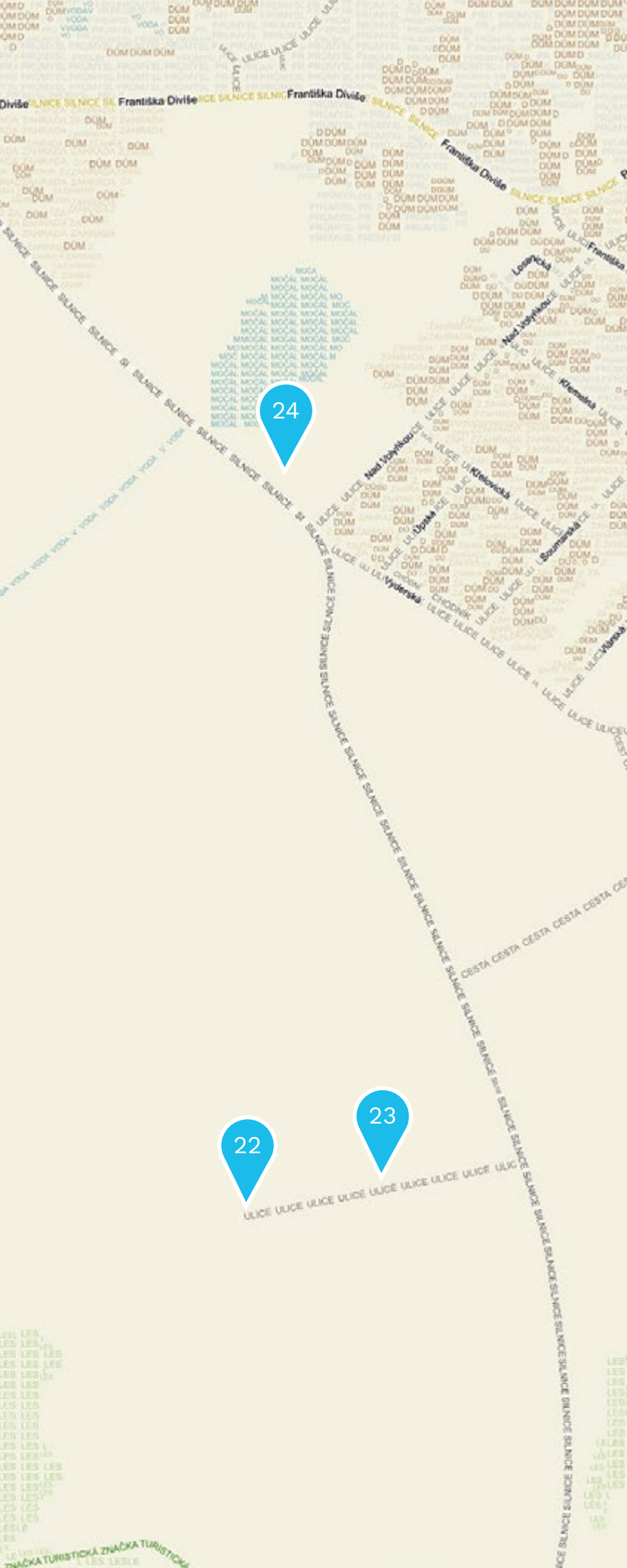
22 The TR Uhříněves was launched in 2017 to meet the energy needs of new developments in the south-east of Prague. It has improved the operation of the 22 kV network and expanded the 110 kV network.



23 The Uhříněves cable tunnel, launched in 2016, is 297 m long and laid 5 m deep. There are two 110 kV cables connecting the TR Uhříněves to the 110 kV network between the TR Malešice and the TR Jih.



24 New 22 kV output cables will strengthen the 22 kV network, enable the connection of new consumers, meet the growing needs of the existing ones, and improve the supply reliability in the area. Some of the cables are already in operation.


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Report on Relations of PREdistribuce, a.s., for 2018

(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 1.1.2018 to 31.12.2018. The relations are described in a manner respecting 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 the relations between the controlled entity and the controlling entity, role of the controlled entity and the 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., eYello CZ, k.s., KORMAK Praha a.s., PREservisní, s.r.o., (until 30.9.2018, KORMAK nemovitosti s.r.o.), and PREzákaznická, a.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. The PRE Group also includes the 100% subsidiary of PREdi, PREnetcom, a.s., and the 100% subsidiaries of PREměření, a.s.: PRE FVE Světlík, s.r.o., SOLARINVEST – GREEN ENERGY, s.r.o., (since 3.5.2018), and FRONTIER TECHNOLOGIES, s.r.o., (since 30.11.2018).

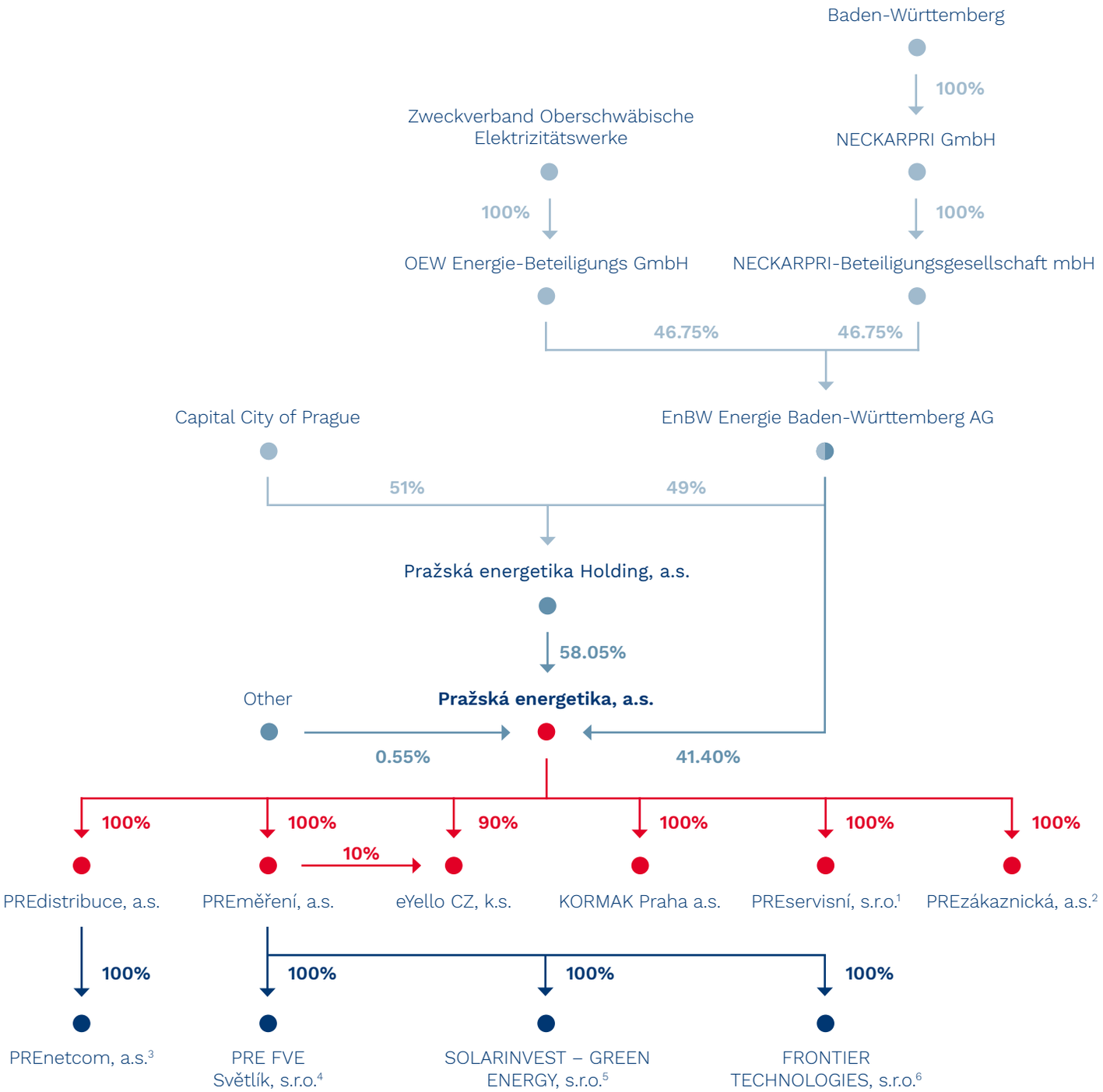
PREdi is a 100% subsidiary of PRE. PRE elects and removes members of the Board of Directors and the Supervisory Board of PREdi. PRE defines the strategic management of the PRE Group and also makes decisions about PREdi's business concept, including the rules of remuneration and the principles of collective bargaining. PRE formulates, assesses and supervises the objectives of the executive management of PREdi. PRE also gives PREdi's 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 Roztoky. PREdi meets the requirements and expectations of the distribution network users by using state-of-the-art technologies and procedures.

PREdi is at the same time the controlling entity of its 100% subsidiary PREnetcom, a.s. As such, PREdi elects and removes members of PREnetcom's Board of Directors and Supervisory Board, approves its business concept, gives strategic instructions to its Board of Directors, and supervises the Board of Directors' activities.

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)**;
- **PREzákaznická, a.s.,** registered office Na Hroudě 1492/4, Prague 10, 100 05, ID No.: 06532438, registered with the Municipal Court in Prague, file ref. B 22870 **(PREzak)**;
- **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 – Uhříněves, 104 00, ID No.: 48592307, registered with the Municipal Court in Prague, file ref. B 20181 **(KORMAK Praha)**;
- **PREservisní, s.r.o.,** (until 30.9.2018, KORMAK nemovitosti s.r.o.), registered office Na Hroudě 1492/4, Prague 10, 100 05, ID No.: 02065801, registered with the Municipal Court in Prague, file ref. C 215222 **(PREservisní)**;
- **PREnetcom, a.s.,** (a 100 % subsidiary of PREdi), registered office Na Hroudě 1492/4, Prague 10, 100 05, ID No.: 06714366, registered with the Municipal Court in Prague, file ref. B 23057 **(PREnetcom)**;
- **PRE FVE Světlík, s.r.o.,** (a 100% subsidiary of PREm), registered office Na Hroudě 2149/19, Prague 10, 100 05, ID No.: 28080378, registered with the Municipal Court in Prague, file ref. C 287994;
- **SOLARINVEST – GREEN ENERGY, s.r.o.,** (a 100% subsidiary of PREm), registered office Na Hroudě 2149/19, Prague 10, 100 05, ID No.: 28923405, registered with the Municipal Court in Prague, file ref. C 153406; and,
- **FRONTIER TECHNOLOGIES, s.r.o.,** (a 100% subsidiary of PREm), registered office Na Hroudě 2149/19, Prague 10, 100 05, ID No.: 27234835, registered with the Municipal Court in Prague, file ref. B 106530.

Chart of the controlling structure



2. Overview of the actions carried out during the last accounting period on 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 2018, no actions concerning assets exceeding 10% of PREdi's equity were carried out on 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 and between the controlled entities

a) Contracts between PREdi and PRE

Contract on the provision of services No. PS20000016/003 – in effect from 1.1.2016 to 31.12.2018, as amended
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 the 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 the 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 advertising 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. NO21109/006 – in effect from 1.4.2009 for an indefinite period of time
11 contracts on the establishment of easement to place PREdi's distribution system equipment in PRE's immovable assets, concluded for an indefinite period of time
Contract on the 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 the provision of GPRS module installation services No. PS20000013/033 – in effect from 25.10.2013 for an indefinite period of time
Contract on the sublease of the distribution system No. N21112/012 – in effect from 1.2.2012 to 31.12.2018, 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 joint gas supply services No. PS21001015/015 – in effect from 1.11.2014 for an indefinite period of time
Contract on the 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 the 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 the lease of non-residential premises for business No. NV/S21/1633022 – in effect from 1.3.2016 for an indefinite period of time, as amended

[1] Until 30 September 2018, KORMAK nemovitosti s.r.o.

[2] A 100% subsidiary of PRE since 1 November 2017.

[3] A 100% subsidiary of PREdi since 1 January 2018, founded on 27 November 2017.

[4] A 100% subsidiary of PREm since 30 November 2017.

[5] A 100% subsidiary of PREm since 3 May 2018.

[6] A 100% subsidiary of PREm since 30 November 2018.

Contract on the 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 the 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 the lease of non-residential premises for business No. NV/S21/1633024 – in effect from 1.3.2016 for an indefinite period of time, as amended
Contract on the 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 the lease of garage parking spaces 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
Contract on operational cash transfer No. PS20000017/009 – in effect from 17.2.2017 for an indefinite period of time
Contract on the provision of storage and handling services (street lighting) No. PS23000117/005 – in effect from 1.1.2017 to 31.7.2018
Contract on the execution of construction alterations No. PS20000017/046 – in effect from 18.5.2017 for an indefinite period of time
Purchase contract No. KV/G33/12450/1739062 – in effect from 16.4.2018
Contract on the cooperation on the construction of charging stations No. PS21001018/036 – in effect from 14.6.2018 to 31.12.2028
Contract for work No. IS/S24/1736825 – in effect from 15.5.2017 to 30.10.2018
Contract on the lease of a part of an immovable asset No. NO/S21/1841737 – in effect from 1.7.2018 to 30.6.2028
Contract for work regarding the provision of dispatcher control services and the operation and work on medium voltage equipment in the RS 8900 transformer station at the site of Motol University Hospital No. PS23100218/001 – in effect from 1.6.2018 to 31.5.2019
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 the provision of services No. PS20000016/004 (M5000/O/2015/0009) – in effect from 1.1.2016 to 31.12.2018
Contract on the supply of defunct metering equipment No. S252007/003 (C00261/06) – in effect from 30.12.2006 for an indefinite period of time
Contract on the 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 the lease of land No. N21110/016 (C00418/10) – in effect from 1.4.2010 to 31.12.2030
Contract on the lease of land No. NO21110/004 (C00438/10) – in effect from 1.9.2010 to 31.12.2030
Contract on the lease of land No. N21110/039 (C00436/10) – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on the lease of a part of real estate No. NO21110/005 (C00439/10) – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on the supply of metering equipment No. KV/S25/1532051 (M5400/RS/2015/0007) – in effect from 1.1.2016 to 31.12.2018
10 contracts on the cooperation on performing work on unmeasured parts of electricity consumption equipment
Contract on personal data processing No. PS20000013/038 (C00627/13) – in effect from 1.3.2013 for the time of the effect of the above-listed contracts on cooperation
Contract on the provision of distribution system services 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
Contract for work No. IS/S24/1736667 – in effect from 15.5.2017 to 30.10.2018
Contract on the establishment of easement No. VV/G33/12987/1841945 – in effect from 9.4.2018 for an indefinite period of time
2 contracts on the purchase of movable assets (electric bikes)
PREm and PREdi have concluded contracts on the connection to the distribution system for all PREm's consumption points.

c) Contracts between PREdi and PREzak

Contract on the provision of services No. PS20000018/003 – in effect from 1.1.2018 to 31.12.2018
Contract on personal data processing – in effect from 19.12.2017 for an indefinite period of time

d) Contracts concluded by PREdi and PRE with PREzak

Contract on the obligations related to transferred activities No. PS20000018/026 – in effect from 6.3.2018 to 21.3.2018

e) 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

f) Contracts between PREdi and KORMAK Praha

Contract for work – provision of expert services in the network of PREdistribuce, a.s., No. PS23000117/002 – in effect from 1.2.2017 for an indefinite period of time
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 No. PS27200018/010 – in effect from 6.1.2009 for an indefinite period of time
Contract on the cooperation on performing work on unmeasured parts of electricity consumption equipment No. PS27200018/011 – in effect from 29.2.2016 to 21.3.2018 or until the cooperating partner's certificate expires
Contract on personal data processing No. PS27200018/013 – in effect from 29.2.2016 to 28.2.2019
Contract on the cooperation on performing work on unmeasured parts of electricity consumption equipment No. PS27200018/012 – in effect from 21.3.2018 to 28.2.2019 or until the cooperating partner's certificate expires
Contract on the provision of dispatcher control services and handling No. PS23330218/011 – in effect from 1.1.2018 to 31.12.2018
General contract for work and contract on the provision of services No. PS20000016/017 – in effect from 14.3.2016 to 31.12.2018
Contract for work No. PS23320117/057 – in effect from 30.12.2017 to 31.12.2018
Contract for work No. PS23320118/019 – in effect from 1.5.2018 to 31.12.2018
4 contracts for work on the provision of design and engineering services for the repairs of distribution system equipment
6 contracts for work on carrying out repairs of distribution system equipment
92 contracts for work on the provision of design and engineering services for the construction of distribution system equipment
115 contracts for work on carrying out construction of distribution system equipment

g) Contracts between PREdi and KORMAK nemovitosti (since 1.10.2018, PREservisní)

The company has concluded contracts with PREdi on the connection to the distribution system for all its consumption points.

h) Contracts concluded by PREdi and PRE with PREservisní

Contract on the transfer of activities and related rights and obligations, dated 18.12.2018

i) Contracts between PREdi and PREnetcom

General contract on the provision of services No. PS20000018/020 – in effect from 2.1.2018 to 31.12.2018

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

PREdi has not incurred any damage 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 the 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 damage

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. Owing to its affiliation with the corporate group, PREdi has, in particular, access to the corporate group's knowledge and experience, 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 is 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, 14 February 2019

Signed by

Milan Hampl
Chairperson of the Board of Directors

Signed by

Petr Dražil
Vice-chairperson of the Board of Directors

Supervisory Board Report on Activities in 2018

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

In 2018, five meetings of the Supervisory Board were held. They were regularly attended by the chairperson and the vice-chairperson of the Board of Directors.

The Supervisory Board continuously monitored the activities of the company and the key decisions of the Board of Directors. The Board of Directors regularly informed the Supervisory Board about the current developments in the company, its economic results, the implementation of the investment plan, and the company's financial situation. To this end, the Board of Directors submitted written materials and its members commented on them when the materials were debated by the Supervisory Board.

In 2018, the Supervisory Board, amongst others:

- debated and reviewed the separate financial statements for 2017 and acquainted itself with the auditor's report on the separate financial statements;
- debated and reviewed the Report on Relations for 2017;
- debated the 2017 Annual Report;
- debated the materials to be debated by the General Meeting of the company convened on 26 April 2018;
- elected Pavel Elis to continue to serve as the chairperson of the Supervisory Board;
- debated the intended transfer of certain support activities to PREservisní, s.r.o.;
- debated the economic plan for 2019 and the draft plan for 2020–2021;
- debated and approved the fulfilment of the top management's objectives for 2017;
- debated the top management's objectives for 2019;
- debated and approved an investment project involving the renovation of the 110/22 kV Jih transformer station; and,
- debated and approved the rules of procedure.

The Supervisory Board declares that the company's economic results in 2018 were very good and expresses its thanks for them to the members of the Board of Directors as well as the company's employees.

In Prague, 20 March 2019

Signed by

Pavel Elis
Chairperson of the Supervisory Board

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This document is an unsigned English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

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

Opinion

We have audited the accompanying financial statements of PREdistribuce, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note „General information" to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

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, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations 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 accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body 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 misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those 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 matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body and Supervisory Board for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body 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 statutory body 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 statutory body 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 the oversight of 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 the above regulations 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 regulations, we exercise professional judgment and maintain professional skepticism 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 statutory body.
- Conclude on the appropriateness of the statutory body's 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 those charged with governance 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.

Report on relations

We have reviewed the factual accuracy of the information disclosed in the report on relations of PREdistribuce, a.s. ("the Company") for the year ended 31 December 2018. The responsibility for the preparation and factual accuracy on this report rests with the Company´s statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company´s personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and this provided less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion.

Based on out review, nothing has come to our attention that would lead us to believe that the report on relations of PREdistribuce, a.s. for the year ended 31 December 2018 contains material factual misstatements.

Statutory Auditor Responsible for the Engagement

Petr Škoda is the statutory auditor responsible for the audit of the financial statements of PREdistribuce, a.s as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
24 April 2019

Signed by

KPMG Česká republika Audit, s.r.o.
Registration number 71

Signed by

Petr Škoda
Partner
Registration number 1842

Separate financial statements of PREdistribuce, a.s.

In full format as at 31 December 2018

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 (TCZK)

Ident.	Text	Note	2018	2017
I.	**Revenue from distribution services and other revenues**	(1)	**9,667,472**	**9,450,389**
I. 1. 1.	Revenue from distribution services in the Group		5,832,222	5,796,574
I. 1. 2.	Revenue from distribution services outside the Group		3,737,384	3,528,782
I. 2.	Other revenues		97,866	125,033
A.	**Cost of sales**	(3)	**(6,187,947)**	**(6,160,189)**
A. 2. 1.	Cost of transit and system services and losses		(4,652,912)	(4,608,562)
A. 2. 2.	Consumed material and energy		(46,896)	(41,352)
A. 3.	Purchased services		(1,488,139)	(1,510,275)
D.	**Personnel expenses**	(2)	**(476,499)**	**(450,777)**
D. 1.	Wages and salaries		(334,363)	(313,422)
D. 2.	Social security and health insurance expenses and other expenses		(142,136)	(137,355)
D. 2. 1.	Social security and health insurance expenses		(118,422)	(110,870)
D. 2. 2.	Other expenses		(23,714)	(26,485)
E.	**Adjustments relating to operating activities**		**(1,321,002)**	**(1,305,281)**
E. 1.	Adjustments to intangible and tangible fixed assets		(1,313,014)	(1,298,166)
E. 1. 1.	Depreciation and amortisation of intangible and tangible fixed assets	(6, 7)	(1,313,227)	(1,298,184)
E. 1. 2.	Impairment of intangible and tangible fixed assets		213	18
E. 3.	Adjustments to receivables		(7,988)	(7,115)

Translation note

This version of the financial statements is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of the information, views and opinions, the Czech version of the financial statements takes precedence over this translation.

III.	Other operating revenues		219,583	230,609
III. 1.	Proceeds from disposals of fixed assets		3,303	2,886
III. 2.	Proceeds from disposals of raw materials		1,426	5,035
III. 3.	Other operating revenues	(1)	214,854	222,688
F.	Other operating expenses		(30,456)	(19,862)
F. 1.	Net book value of fixed assets sold		(2,181)	(2,122)
F. 3.	Taxes and charges		(1,343)	(1,602)
F. 4.	Provisions relating to operating activity and complex prepaid expenses		(9,034)	(274)
F. 5.	Other operating expenses		(17,898)	(15,864)
*	Operating profit (loss)		1,871,151	1,744,889
VI.	Interest revenue and similar revenue	(4)	349	5
J.	Interest expense and similar expense	(4)	(103,890)	(85,652)
VII.	Other financial revenue		6	6
K.	Other financial expense		(247)	(262)
*	Profit (loss) from financial operations		(103,782)	(85,903)
* *	Profit (loss) before tax	(5)	1,767,369	1,658,986
L.	Income tax	(5)	(338,397)	(318,210)
L. 1.	Current income tax		(309,745)	(292,532)
L. 2.	Deferred income tax		(28,652)	(25,678)
* *	Profit (loss) after tax		1,428,972	1,340,776
* * *	Profit (loss) for the period		1,428,972	1,340,776
*	Net turnover for the period		9,887,410	9,681,009

Balance sheet (TCZK)

			2018			2017
Ident.	ASSETS	Note	Gross	Adjust.	Net	Net
	TOTAL ASSETS		**55,767,964**	**(26,789,943)**	**28,978,021**	**28,649,336**
B.	**Fixed assets**		**53,357,030**	**(26,731,695)**	**26,625,335**	**26,242,184**
B. I.	Intangible fixed assets	(7)	43,571	(27,640)	15,931	14,084
B. I. 1.	Research and development		32,239	(24,987)	7,252	10,629
B. I. 2. 1.	Software		11,013	(2,653)	8,360	3,108
B. I. 5. 2.	Intangible fixed assets under construction		319	-	319	347
B. II.	Tangible fixed assets	(6)	53,311,359	(26,704,055)	26,607,304	26,228,000
B. II. 1.	Land and buildings		38,713,856	(18,029,500)	20,684,356	20,433,357
1.	Land		690,866	-	690,866	688,465
2a.	Cables and overhead power lines		23,083,526	(9,893,106)	13,190,420	12,881,068
2b.	Power structures		14,939,464	(8,136,394)	6,803,070	6,863,824
2.	Plant and equipment		12,016,660	(7,359,429)	4,657,231	4,639,103
2a.	Transformer station and distribution plant technology		9,587,384	(5,640,158)	3,947,226	3,955,277
2b.	Dispatching and control system equipment		2,107,214	(1,485,502)	621,712	586,605
2c.	Other equipment		322,062	(233,769)	88,293	97,221
4.	Other tangible fixed assets		2,033,765	(1,315,126)	718,639	651,169
3.	Other tangible fixed assets – electricity meters in the network		2,033,765	(1,315,126)	718,639	651,169
5.	Advance payments for tangible fixed assets and tangible fixed assets under construction		547,078	-	547,078	504,371
1.	Advance payments for tangible fixed assets		30,178	-	30,178	21,271
2.	Tangible fixed assets under construction		516,900	-	516,900	483,100
B. III.	Long-term investments	(8)	2,100	-	2,100	100
C.	**Current assets**		**2,410,010**	**(58,248)**	**2,351,762**	**2,405,829**
C. II.	Receivables		2,408,525	(58,248)	2,350,277	2,404,487
C. II. 1.	**Long-term receivables**		**53**	**-**	**53**	**180**
1.	Trade receivables		48	-	48	175
5.	Receivables – other		5	-	5	5
2.	**Short-term receivables**		**2,408,472**	**(58,248)**	**2,350,224**	**2,404,307**
1.	Trade receivables	(9)	164,392	(58,248)	106,144	152,081
2.	Receivables – group undertakings	(18)	41	-	41	86
4.	Receivables – other		2,244,039	-	2,244,039	2,252,140
3.	Tax receivables		-	-	-	-
4.	Short-term advances paid		372	-	372	494
5.	Estimated receivables	(18)	2,243,404	-	2,243,404	2,249,027
6.	Other receivables		263	-	263	2,619
C. IV.	Cash		1,485	-	1,485	1,342
C. IV. 1.	Cash on hand		1,485	-	1,485	1,342
D.	**Deferrals**		**924**	**-**	**924**	**1,323**

Ident.	LIABILITIES AND EQUITY	Note	2018	2017
	TOTAL LIABILITIES AND EQUITY		28,978,021	28,649,336
A.	Equity	(10)	19,668,021	19,579,149
A. I.	Share capital		17,707,934	17,707,934
A. III.	Funds from profit		530,000	530,000
A. IV.	Retained profits		1,115	439
A. V.	Profit (loss) for the period		1,428,972	1,340,776
B. + C.	Liabilities		7,344,137	7,242,168
B.	Provisions		326,391	298,491
B. 2.	Income tax provision		29,661	-
B. 4.	Other provisions	(11)	296,730	298,491
C.	Payables		7,017,746	6,943,677
C. I.	Long-term liabilities		5,742,116	5,713,464
C. I. 6.	Liabilities – group undertakings	(18)	2,700,000	2,700,000
8.	Deferred tax liability	(12)	3,038,116	3,009,464
9.	Liabilities – other		4,000	4,000
C. II.	Short-term payables		1,275,630	1,230,213
C. II. 3.	Short-term advances received		514,696	397,402
4.	Trade payables	(13)	345,732	413,797
6.	Liabilities – group undertakings	(18)	257,381	206,446
8.	Liabilities – other		157,821	212,568
3.	Payables to employees		18,064	16,680
4.	Social security and health insurance liabilities	(5)	10,482	10,244
5.	Tax liabilities and subsidies	(5)	87,906	125,464
6.	Estimated payables		41,369	60,180
D.	Accruals		1,965,863	1,828,019
D. 1.	Accrued expenses		45,978	37,566
2.	Deferred revenues	(14)	1,919,885	1,790,453

Cash flow statement (TCZK)

	Note	2018	2017
Cash and cash equivalents at the beginning of the period		(11,906)	107,287
Operating activity			
Accounting profit from ordinary activities before taxation		**1,767,369**	**1,658,987**
Depreciation and amortisation	(6, 7)	1,313,227	1,298,184
Write-off of doubtful receivables and other assets		2,022	1,074
Change in adjustments and provisions	(9, 11)	6,015	(151)
Investment contributions accounted for in revenues	(14)	(191,319)	(192,775)
Gains (losses) from sale and disposal of fixed assets		3,042	613
Interest	(4)	101,594	84,059
Net cash flow from operating activity before changes in working capital		**3,001,950**	**2,849,991**
Change in receivables from operating activity and deferrals		31,941	(19,410)
Change in short-term payables from operating activity and accruals		178,268	(50,187)
Net cash flow from operating activity before taxation and interest		**3,212,159**	**2,780,394**
Interest paid	(4)	(94,204)	(82,944)
Interest received	(4)	291	2
Income tax paid		(313,937)	(277,822)
Net cash flow from operating activity		2,804,309	2,419,630
Investment activity			
Cash paid for acquisition of fixed assets		(1,718,378)	(1,593,477)
Proceeds from investment contributions	(14)	215,671	196,742
Proceeds from sale of fixed assets		3,303	2,882
Net cash flow from investment activity		**(1,499,404)**	**(1,393,853)**
Financial activity			
Change in intercompany receivables and payables from financing	(18)	-	(3,870)
Dividends paid and directors' fees paid		(1,340,100)	(1,141,100)
Net cash flow from financial activity		**(1,340,100)**	**(1,144,970)**
Change in cash and cash equivalents		(35,195)	(119,193)
Cash and cash equivalents at the end of the period		**(47,101)**	**(11,906)**

General information

Establishment and description of the Company

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

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

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

Statutory and supervisory bodies as at 31 December 2018

Board of Directors	
Milan Hampl	Chairperson of the Board of Directors
Petr Dražil	Vice-chairperson of the Board of Directors
Tobias Mirbach	Member of the Board of Directors
Jindřich Broukal	Member of the Board of Directors

Supervisory Board	
Pavel Elis	Chairperson of the Supervisory Board
Alexander Manfred Sloboda	Member of the Supervisory Board
Karsten Krämer	Member of the Supervisory Board
Drahomír Ruta	Member of the Supervisory Board

The Company's sole shareholder is Pražská energetika, a.s., with its registered office at Na Hroudě 1492/4, Prague 10.

Organisational structure

The Company has two divisions, namely the Managing Director's division and the Regulated Assets division. The Managing Director's division is further organised into four sections including 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 2018, the PRE Group consisted of the parent company, Pražská energetika, a.s., which is the holder of licences for trading in electricity and gas in the Czech Republic, and its subsidiaries. These include PREdistribuce, a.s., PREměření, a.s., eYello CZ, k.s., KORMAK Praha a.s., PREservisní, s.r.o., (formerly KORMAK nemovitosti s.r.o.), PRE FVE Světlík, s.r.o., and PREzákaznická, a.s. New members of the PRE Group include: PREnetcom, a.s., since 1 January 2018, SOLARINVEST – GREEN ENERGY, s.r.o., since 3 May 2018, and FRONTIER TECHNOLOGIES, s.r.o., since 30 November 2018.

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

The consolidated financial statements of the widest group of entities to which the Company as a consolidated entity belongs are prepared by EnBW Energie Baden-Württemberg AG, with its registered office at Durlacher Allee 93, 76131 Karlsruhe, Germany. These consolidated financial statements are available at the consolidating entity's registered office.

Accounting principles

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 for the preparation of the financial statements
These financial statements are presented in thousands of Czech crowns (TCZK) and millions of Czech crowns (MCZK). 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 owned 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 TCZK 40 and TCZK 60, 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 TCZK 2 and TCZK 40 with an individual useful life exceeding one year are classified as low-value tangible assets and software equipment costing less than TCZK 60 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
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	4, 5, 6, 8, 10, 12, 20, 29, 30
Telecommunication equipment	4, 8, 15
Machinery and special technology equipment, communication cables	4, 6, 8, 10
Electricity meters	15
Vehicles	4
Furniture and fixtures	6, 8
Hardware and software	4, 8, 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 fee 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. Cash pooling is regarded as a cash equivalent for the cash flow purposes.

Adjustments to the value of 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, an adjustment is recorded to reflect the impairment of the asset.

Share capital

Issued shares
The Company issued registered ordinary shares (refer to the note on 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. Cash pooling is regarded as a cash equivalent for the cash flow purposes.

Provisions
Provisions 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 decided to prepare its cash flow statement using an indirect method since 2018 to be consistent with the method applied by its parent company. Cash pooling is regarded as a cash equivalent for the cash flow purposes.

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
On 1 January 2018, the Company established a new subsidiary, PREnetcom, a.s.

Contents of the notes to the financial statements

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9. Trade receivables
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16. Fees payable to auditors
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20. Material subsequent events

(1) Revenues (TCZK)

Revenues relating to the supply of distribution services and other revenues	2018	2017
Sale of distribution and system services to B2B customers	3,506,619	3,373,314
Sale of distribution and system services to B2C (including low voltage B2B)	6,051,690	5,940,752
Other revenues	11,297	11,290
Revenues relating to the supply of distribution services	**9,569,606**	**9,325,356**
Revenues from services rendered in the Group	18,651	20,343
Revenues from services rendered outside the Group	79,215	104,690
of which: servicing and installation	74,197	98,375
leases	4,054	3,960
Other revenues	**97,866**	**125,033**
Total	**9,667,472**	**9,450,389**

Other operating revenues	2018	2017
Release of connection fees accruals	191,319	192,775
Compensation for unauthorised consumption	12,586	17,998
Sundry	10,949	11,915
Total	**214,854**	**222,688**

(2) Personnel expenses (TCZK)

	2018	2017
	Employees and executives	Employees and executives
Average headcount	501	512
Salaries	285,426	274,572
Salaries paid depending on the Company's goal performance	35,629	25,826
Insurance	118,422	110,870
Remuneration paid to members of the Company's bodies	13,308	13,024
Other social costs (according to the collective agreement)*	23,714	26,485
Total	**476,499**	**450,777**

* 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 and contributions to pension insurance.

(3) Purchase of material, services and utilities (TCZK)

	2018	2017
Electricity consumption for grid losses*	336,407	316,111
Services of the parent company	470,295	635,257
Lease of non-residential premises	68,167	68,736
Lease of cars	22,148	22,225
Installation work and reading of meters	216,438	223,738
Customer service	163,320	-
IT support	10,921	-
Repairs of fixed assets	23,907	35,651
Sundry	11,783	12,216
Costs of purchase of material, services and utilities in the Group	**1,323,386**	**1,313,934**
Purchase of distribution and system services	4,316,505	4,292,451
Consumed material and energy	43,215	37,711
Repairs of fixed assets	268,513	288,986
Lease of cable tunnels	107,789	104,776
Lease of non-residential premises	33,157	33,521
Sundry	95,382	88,810
Costs of purchase of material, services and utilities outside the Group	**4,864,561**	**4,846,255**
Total	**6,187,947**	**6,160,189**

* Electricity grid losses and own electricity consumption are technologically related. These costs cannot be reliably separated and are therefore presented on an aggregate basis in electricity consumption for grid losses.

(4) Interest expense (TCZK)

	2018	2017
Interest income: from cash pooling	349	5
Interest expense: from cash pooling	(4,635)	(1,524)
from loans in the Group*	(97,300)	(82,540)
from employee benefits	(1,947)	(1,588)
other	(8)	-
Total (net)	**(103,541)**	**(85,647)**

* In addition to interest expense, part of the borrowing costs also included capitalised interest of TCZK 8,870 for 2018 (2017: TCZK 8,297), which is included in the acquisition cost of assets.

(5) Income tax (TCZK)

Effective tax rate		2018		2017
Profit/loss for the period	1,428,972		1,340,776	
Income tax	338,397		318,210	
Profit before tax	**1,767,369**		**1,658,986**	
Income tax using the applicable income tax rate	335,800	19.00%	315,207	19.00%
Impact of items that are never tax-deductible	2,852	0.16%	2,771	0.17%
Corrections of estimates of prior years' taxes	(255)	(0.01%)	232	0.01%
Total income tax / effective tax rate	**338,397**	**19.15%**	**318,210**	**19.18%**

Payables to the state	2018	2017
Social security and health insurance liabilities	10,482	10,244
Tax liabilities*	87,906	125,464

* Tax liabilities as at 31 December 2017 primarily included paid corporate income tax prepayments and a recorded income tax provision equalling the tax estimate. The Company calculated a corporate income tax liability as at this date and reports it in tax liabilities. As of 31 December 2018, the income tax is reported in provisions and tax liabilities primarily include VAT liabilities.

None of these liabilities are overdue.

(6) Tangible fixed assets (MCZK)

	Land	Power structures	Cables and overhead power lines	Telecommu-nication and information technologies	Electricity meters	Sundry	Assets under construction	Total
Acquisition cost								
Balance on 31.12.2016	**651.1**	**23,802.1**	**21,691.0**	**2,039.2**	**1,986.4**	**306.3**	**415.0**	**50,891.1**
Additions	38.0	317.7	726.9	92.1	122.2	25.8	264.0	1,586.7
Disposals	(0.7)	(69.6)	(125.1)	(136.5)	(105.7)	(12.8)	(1.3)	(451.7)
Reclassification	0.1	74.8	59.9	25.4	10.0	3.1	(173.3)	-
Balance on 31.12.2017	**688.5**	**24,125.0**	**22,352.7**	**2,020.2**	**2,012.9**	**322.4**	**504.4**	**52,026.1**
Accumulated depreciation								
Balance on 31.12.2016	**-**	**(12,824.9)**	**(9,043.7)**	**(1,461.3)**	**(1,404.4)**	**(217.2)**	**-**	**(24,951.5)**
Depreciation	-	(549.1)	(553.1)	(108.8)	(63.0)	(20.8)	-	(1,294.8)
Adjustments	-	-	-	-	-	-	-	-
Disposals	-	68.1	125.1	136.5	105.7	12.8	-	448.2
Reclassification	-	-	-	-	-	-	-	-
Balance on 31.12.2017	**-**	**(13,305.9)**	**(9,471.7)**	**(1,433.6)**	**(1,361.7)**	**(225.2)**	**-**	**(25,798.1)**
Net book value on 31.12.2016	651.1	10,977.2	12,647.3	577.9	582.0	89.1	415.0	25,939.6
Net book value on 31.12.2017	**688.5**	**10,819.1**	**12,881.0**	**586.6**	**651.2**	**97.2**	**504.4**	**26,228.0**

	Land	Power structures	Cables and overhead power lines	Telecommu-nication and information technologies	Electricity meters	Sundry	Assets under construction	Total
Acquisition cost								
Balance on 31.12.2017	**688.5**	**24,125.0**	**22,352.7**	**2,020.2**	**2,012.9**	**322.4**	**504.4**	**52,026.1**
Additions	3.4	326.9	818.7	78.3	134.0	8.5	322.4	1,692.2
Disposals	(1.3)	(78.0)	(148.3)	(46.3)	(119.0)	(9.7)	(4.2)	(406.8)
Reclassification	0.3	153.0	60.4	55.0	5.9	0.9	(275.5)	-
Balance on 31.12.2018	**690.9**	**24,526.9**	**23,083.5**	**2,107.2**	**2,033.8**	**322.1**	**547.1**	**53,311.5**
Accumulated depreciation								
Balance on 31.12.2017	**-**	**(13,305.9)**	**(9,471.7)**	**(1,433.6)**	**(1,361.7)**	**(225.2)**	**-**	**(25,798.1)**
Depreciation	-	(548.0)	(569.8)	(98.2)	(72.4)	(18.4)	-	(1,306.8)
Adjustments	-	0.2	-	-	-	-	-	0.2
Disposals	-	77.1	148.4	46.3	118.9	9.8	-	400.5
Reclassification	-	-	-	-	-	-	-	-
Balance on 31.12.2018	**-**	**(13,776.6)**	**(9,893.1)**	**(1,485.5)**	**(1,315.2)**	**(233.8)**	**-**	**(26,704.2)**
Net book value on 31.12.2017	688.5	10,819.1	12,881.0	586.6	651.2	97.2	504.4	26,228.0
Net book value on 31.12.2018	**690.9**	**10,750.3**	**13,190.4**	**621.7**	**718.6**	**88.3**	**547.1**	**26,607.3**

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

(7) Intangible fixed assets (MCZK)

	Software	Sundry	Assets under construction	Total
Acquisition cost				
Balance on 31.12.2016	**-**	**33.9**	**0.1**	**34.0**
Additions	3.2	3.9	0.4	7.5
Disposals	-	(6.2)	-	(6.2)
Reclassification	-	0.1	(0.1)	-
Balance on 31.12.2017	**3.2**	**31.7**	**0.4**	**35.3**
Accumulated depreciation				
Balance on 31.12.2016	**-**	**(24.0)**	**-**	**(24.0)**
Depreciation	(0.1)	(3.3)	-	(3.4)
Disposals	-	6.2	-	6.2
Reclassification	-	-	-	-
Balance on 31.12.2017	**(0.1)**	**(21.1)**	**-**	**(21.2)**
Net book value on 31.12.2016	-	9.9	0.1	10.0
Net book value on 31.12.2017	**3.1**	**10.6**	**0.4**	**14.1**

	Software	Sundry	Assets under construction	Total
Acquisition cost				
Balance on 31.12.2017	**3.2**	**31.7**	**0.4**	**35.3**
Additions	7.8	0.3	0.2	8.3
Disposals	-	-	-	-
Reclassification	-	0.3	(0.3)	-
Balance on 31.12.2018	**11.0**	**32.3**	**0.3**	**43.6**
Accumulated depreciation				
Balance on 31.12.2017	**(0.1)**	**(21.1)**	**-**	**(21.2)**
Depreciation	(2.5)	(3.9)	-	(6.4)
Disposals	-	-	-	-
Reclassification	-	-	-	-
Balance on 31.12.2018	**(2.6)**	**(25.0)**	**-**	**(27.6)**
Net book value on 31.12.2017	3.1	10.6	0.4	14.1
Net book value on 31.12.2018	**8.4**	**7.3**	**0.3**	**16.0**

Low-value fixed assets

In line with the Company's accounting policies (refer to "Accounting principles"), low-value fixed assets are expensed upon acquisition. The acquisition cost of low-value tangible assets with the acquisition cost of up to TCZK 40 that were in use as of the balance sheet date amounts to TCZK 96,329 (2017: TCZK 86,154). The Company holds no low-value intangible fixed assets.

(8) Long-term investments (TCZK)

	Note	Share	2018	2017
PREnetcom, a.s.	Non-marketable	100%	2,000	-
Sundry*			100	100
Total			**2,100**	**100**

* Sundry investments include a member's share in the Czech Association of Regulated Power Supply Companies.

PREnetcom, a.s., in which the Company holds a 100% share, was established on 1 January 2018.

Other information about the subsidiary
Information about the subsidiary derives from the separate financial statements of this company, prepared under the Czech Accounting Standards.

Company name: **PREnetcom, a.s.**
The company was established for the purpose of meeting the PRE group's long-term goals with respect to the communication between individual distribution network components to ensure safe transfer of network data and the remote control of the network. It cooperates with PREdistribuce, a.s., on the designing, planning and coordination of optical infrastructure construction and maintenance.

	2018	2017
Registered office: Prague 10, Na Hroudě 1492/4		
ID No.: 06714366		
Average headcount	2	-
Financial data (TCZK) – unaudited		
Share capital	2,000	-
Equity	3,197	-
Profit/loss after tax	1,197	-
Revenue from sale of products and services	11,560	-

(9) Trade receivables (TCZK)

Trade receivables	2018	2017
Up to 6 months past due	5,859	14,785
6 to 12 months past due	11,030	7,102
More than 12 months past due	48,485	42,317
Gross past-due trade receivables	**65,374**	**64,204**
Before due	99,018	138,137
Total gross trade receivables	**164,392**	**202,341**

The Company recorded the following adjustment to past-due receivables:

Balance on 31.12.2016	43,145
Additions and utilisation during the current period	7,115
Balance on 31.12.2017	50,260
Additions and utilisation during the current period	7,988
Balance on 31.12.2018	58,248

(10) Equity (TCZK)

Registered share capital and types of shares as at 31 December 2018

The Company's share capital comprises 21,549 registered shares in the certificate form (2017: 21,549 shares) with the nominal value of CZK 821,752 (2017: CZK 821,752).

Distribution of profit

The General Meeting will decide on the distribution of profit of TCZK 1,428,972 (2017: TCZK 1,340,776).

Statement of changes of equity

	Share capital	Fund from profit – reserve fund	Profit/loss	Retained earnings	Total equity
Balance on 31.12.2016	17,707,934	530,000	1,140,694	845	19,379,473
Additions to the reserve fund	-	-	-	-	-
Dividend payments	-	-	(1,129,594)	(406)	(1,130,000)
Directors' fees paid	-	-	(11,100)	-	(11,100)
Retained earnings	-	-	-	-	-
Net profit for 2017	-	-	1,340,776	-	1,340,776
Balance on 31.12.2017	17,707,934	530,000	1,340,776	439	19,579,149
Additions to the reserve fund	-	-	-	-	-
Dividend payments	-	-	(1,329,000)	-	(1,329,000)
Directors' fees paid	-	-	(11,100)	-	(11,100)
Retained earnings	-	-	(676)	676	-
Net profit for 2018	-	-	1,428,972	-	1,428,972
Balance on 31.12.2018	17,707,934	530,000	1,428,972	1,115	19,668,021

(11) Other provisions (TCZK)

	Business risks	Salaries	Employee benefits	Total
Balance on 31.12.2016	116,704	36,892	152,144	305,7400
Additions to provisions in the current period	1,770	54,574	232	56,576
Utilisation/release of provisions in the current period	(1,496)	(36,892)	(25,437)	(63,825)
Balance on 31.12.2017	116,978	54,574	126,939	298,491
Additions to provisions in the current period	9,714	46,499	7,958	64,171
Utilisation/release of provisions in the current period	(680)	(54,574)	(10,678)	(65,932)
Balance on 31.12.2018	126,012	46,499	124,219	296,730
Long-term provisions	126,012	-	111,084	237,096
Short-term provisions	-	46,499	13,135	59,634
Total	126,012	46,499	124,219	296,730

Provisions are recognised in respect of the following:
- business risks – arising from the operation of fixed assets;
- salaries – include salaries paid in dependence on the fulfilment of the plan, charged to personnel expenses; and,
- employee benefits – a provision for future liabilities arising from the collective agreement, principally retirement benefits, benefits for work and life anniversaries and unused optional benefits, charged to personnel expenses. The long-term portion of the liability was discounted at the balance sheet date.

(12) Deferred tax liability (TCZK)

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:

	2018	2017
Fixed assets	3,079,461	3,052,488
Receivables	(1,533)	(2,881)
Provisions	(16,953)	(16,771)
Liabilities arising from the collective agreement	(22,859)	(23,372)
Total	3,038,116	3,009,464

(13) Trade payables (TCZK)

The Company carries no trade payables past their due dates.

(14) Temporary liabilities (TCZK)

Deferred revenues	
Balance on 31.12.2016	**1,762,764**
Investment contributions received	196,742
Investment contributions accounted for in revenues*	(192,775)
Correction factor of permitted revenues**	23,723
Balance on 31.12.2017	**1,790,453**
Investment contributions received	215,671
Investment contributions accounted for in revenues*	(191,319)
Correction factor of permitted revenues**	105,080
Balance on 31.12.2018	**1,919,885**

* Investment contributions accounted for in revenues are part of other operating revenues in the income statement.

** This involves part of revenues from distribution services associated with the delivery of distribution services in 2019 and 2020.

(15) Leased assets (TCZK)

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.

	2018	2017
Cable conduits	107,789	104,776
Non-residential premises	33,157	33,521
Administrative buildings	68,167	68,736
Vehicles	22,906	22,963
Total	**232,019**	**229,996**

(16) Fees payable to auditors (TCZK)

Fees payable to auditors for a statutory audit of the financial statements for the period ended on 31 December 2018 were TCZK 990 (31.12.2017: TCZK 685).

(17) Related parties (TCZK)

Persons having managing authority include the members of the Board of Directors, the Company's management and the members of the Supervisory Board.

Some of the members who have managing authority use company cars for both business and private purposes.

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

	2018	2017
Number	8	8
Bonuses in TCZK	24,847	24,687

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

As at 31 December 2018, the Company recorded receivables from the members of the Board of Directors and the Supervisory Board in the aggregate amount of TCZK 21 (2017: TCZK 19). These receivables were settled during January 2018.

(18) Intra-company relations (TCZK)

	Receivables of PREdi as at 31.12.		Payables of PREdi as at 31.12.	
	2018	2017	2018	2017
Pražská energetika, a.s.	**1,695,900**	**1,692,226**	**2,943,565**	**2,896,468**
of which: trade receivables/payables	-	-	149,001	145,654
trade receivables/payables from cash pooling	-	-	48,586	13,248
accrued revenues/expenses from cash pooling	-	-	459	184
long-term loan*	-	-	2,700,000	2,700,000
accrued expenses (loan interest)	60	3	45,519	37,382
estimated amounts – unbilled distribution services**	1,695,840	1,692,223	-	-
eYello CZ, k.s.	**105**	**37**	**-**	**-**
PREměření, a.s.	**36**	**62**	**41,554**	**40,700**
KORMAK Praha a.s.	**5**	**24**	**712**	**6,844**
PREzákaznická, a.s.	**-**	**-**	**16,309**	**-**
PREnetcom, a.s.	**-**	**-**	**1,219**	**-**
Total	**1,696,046**	**1,692,349**	**3,003,359**	**2,944,012**

* The long-term loan consists of three parts: a loan of MCZK 600 maturing on 18 June 2026 that bears interest at 3Y CZK IRS + mark-up of 3.1% p.a.; a loan of MCZK 700 maturing on 28 November 2026 that bears interest at 3Y CZK IRS + mark-up of 3.0% p.a.; and a loan of MCZK 1,400 maturing on 29 June 2027 that bears interest at 3Y CZK IRS + mark-up of 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 TCZK 2,243,404 (31.12.2017: TCZK 2,249,027), of which TCZK 1,695,840 (31.12.2017: TCZK 1,692,223) represents unbilled distribution services provided to Pražská energetika, a.s., and TCZK 545,003 (31.12.2017: TCZK 556,804) represents unbilled distribution services and unbilled credit notes, if any, related to these services provided outside the PRE Group, and TCZK 2,561 represents other unbilled services (31.12.2017: TCZK 0).

	PREdi revenues		PREdi expenses	
	2018	2017	2018	2017
Pražská energetika, a.s.	**5,840,750**	**5,808,980**	**2,541,412**	**2,475, 210**
of which: distribution services	5,823,755	5,789,902	-	-
services, consumed material	16,640	19,047	572,393	738,434
electricity for grid losses and own consumption	-	-	336,407	316,111
material	-	-	189,962	198,304
fixed assets	-	-	2,845	-
other revenues	6	26	-	-
dividends	-	-	1,329,000	1,130,000
interest on cash pooling	349	5	4,635	1,524
interest on loans	-	-	106,170	90,837
eYello CZ, k.s.	**8,470**	**6,676**	**-**	**-**
of which: distribution services	8,465	6,673	-	-
other revenues	5	3	-	-
PREměření, a.s.	**1,520**	**1,211**	**378,394**	**352,246**
of which: installation and supply of electricity meters	1,520	1,211	378,394	352,246
KORMAK Praha a.s.	**478**	**1,649**	**260,990**	**232,428**
of which: fixed assets	-	-	237,083	196,777
repairs of fixed assets	-	-	23,907	35,651
services	289	89	-	-
other revenues	189	1,560	-	-
PREzákaznická, a.s.	**210**	**-**	**163,320**	**-**
of which: customer and other services	210	-	163,320	-
PREnetcom, a.s.	**-**	**-**	**10,921**	**-**
of which: services – IT support	-	-	10,921	-
Total	**5,851,428**	**5,818,516**	**3,355,037**	**3,059, 884**

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

	Intra-company sales		Intra-company purchases	
	2018	2017	2018	2017
Relations with subsidiaries and associates	**184,869**	**113,197**	**25,666**	**24,320**
Capital City of Prague	184,869	113,197	25,666	24,320
Relations with other entities	**425,114**	**404,464**	**111,080**	**107,282**
Dopravní podnik hl. m. Prahy, a.s.	416,487	399,397	3,549	2,653
Kolektory Praha, a.s.	-	-	107,520	104,508
TRADE CENTRE PRAHA, a.s.	3,907	538	-	109
Pražská plynárenská, a.s.	4,720	4,529	11	12
Total	**609,983**	**517,661**	**136,746**	**131,602**

	Receivables		Payables	
	2018	2017	2018	2017
Relations with subsidiaries and associates	**896**	**15,685**	**1,908**	**1,865**
Capital City of Prague	896	15,685	1,908	1,865
Relations with other entities	**23,051**	**21,313**	**23,867**	**35,547**
Dopravní podnik hl. m. Prahy, a.s.	22,085	19,838	44	23,703
Pražská plynárenská, a.s.	966	1,475	23,823	11,844
Total	**23,947**	**36,998**	**25,775**	**37,412**

(19) Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents are defined to include cash in hand, cash in transit, cash at the bank and other financial assets whose valuation can be reliably determined and that can be readily converted to cash. Receivables and payables from cash pooling that are reported in short-term receivables – group undertakings and short-term payables – group undertakings are also deemed cash and cash equivalents for the cash flow statement purposes. The balances of cash and cash equivalents as at the year-end are as follows:

	Balance on 31.12.	
	2018	2017
Cash	1,485	1,342
Cash pooling	(48,586)	(13,248)
Total	**(47,101)**	**(11,906)**

(20) Material subsequent events

No events have occurred since the balance sheet date that would have any material impact on the financial statements.

In Prague, 24 April 2019

Signed by

Milan Hampl
Chairperson of the Board of Directors

Signed by

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 2018, 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, 24 April 2019

Signed by

Milan Hampl
Chairperson of the Board of Directors

Signed by

Petr Dražil
Vice-chairperson of the Board of Directors

List of abbreviations

AMM	Automatic metering management
B2B	Big customers
B2C	Small customers
EnBw	EnBW Energie Baden-Württemberg AG
ERÚ	Energy Regulatory Office (Energetický regulační úřad)
eYello	eYello CZ, k.s., a 90% subsidiary of PRE and a 10% subsidiary of PREm
FVE	Photovoltaic power plant
GWh	Gigawatt hour
HV	High voltage
KORMAK Praha	KORMAK Praha a.s., a 100% subsidiary of PRE
kV	Kilovolt
LV	Low voltage
MOO	Retail – households
MOP	Retail – small businesses
MV	Medium voltage
MW	Megawatt
OHS	Occupational health and safety

PRE	Pražská energetika, a.s.
PREdi	PREdistribuce, a.s., a 100% subsidiary of PRE
PREm	PREměření, a.s., a 100% subsidiary of PRE
PREnetcom	PREnetcom, a.s., a 100% subsidiary of PREdi
PREs	PREservisní, s.r.o., a 100% subsidiary of PRE
PREzak	PREzákaznická, a.s., a 100% subsidiary of PRE
PRE Group	PRE + PREdi + PREm + PREzak + PREs + eYello + KORMAK Praha + PREnetcom + PRE FVE Světlík, s.r.o. + SOLARINVEST – GREEN ENERGY, s.r.o. + FRONTIER TECHNOLOGIES, s.r.o.
TR	110/22 kV transformer station
VO	Wholesale

Contact information

	Address	Postal code	Phone number
PREdistribuce, a.s. ID No.: 27376516	**Prague 5, Svornosti 3199/19a** Web: www.predistribuce.cz E-mail: distribuce@predistribuce.cz	**150 00**	**800 550 055** For calls from foreign numbers: +420 267 055 555
Distribution Emergency Line	Prague 2, Kateřinská 1528/9 E-mail: poruchy@predistribuce.cz	120 00	800 823 823
Pražská energetika, a.s. ID No.: 60193913	**Prague 10, Na Hroudě 1492/4** Web: www.pre.cz E-mail: pre@pre.cz	**100 05**	**800 550 055** For calls from foreign numbers: +420 267 055 555
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PREměření, a.s. ID No.: 25677063	**Prague 10, Na Hroudě 2149/19** Web: www.premereni.cz E-mail: mereni@pre.cz	**100 05**	**800 550 055** For calls from foreign numbers: +420 267 055 555
Emergency line	for PRE customers in case of main circuit-breaker failures: www.premereni.cz/opravy		+420 733 143 143
PRE Service Centre	Prague 1, Jungmannova 747/28 E-mail: centrum.sluzeb@pre.cz	110 00	
PREmobilita Orders of energy services	E-mail: premobilita@pre.cz E-mail: servis.prem@pre.cz		
PREzákaznická, a.s. ID No.: 06532438	**Prague 10, Na Hroudě 1492/4** Web: www.prezakaznicka.cz E-mail: pre@pre.cz	**100 05**	**800 550 055** For calls from foreign numbers: +420 267 055 555
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eYello CZ, k.s. ID No.: 25054040	**Prague 10, Kubánské náměstí 1391/11** Web: www.yello.cz E-mail:yello@yello.cz	**100 00**	**+420 267 056 704**
KORMAK Praha a.s. ID No.: 48592307	**Prague 10, K Sokolovně 667** Web: www.kormak.cz E-mail: kormak@kormak.cz	**104 00**	**+420 271 071 311**
PREnetcom, a.s. ID No.: 06714366	**Prague 10, Na Hroudě 1492/4** Web: www.prenetcom.cz E-mail: pre@pre.cz	**100 05**	**800 550 055** For calls from foreign numbers: +420 267 055 555
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SOLARINVEST – GREEN ENEGY, s.r.o. ID No.: 28923405	**Prague 10, Na Hroudě 2149/19** Web: www.solarinvest.cz E-mail: info@solarinvest.cz	**100 05**	**+420 321 677 966**
FRONTIER TECHNOLOGIES, s.r.o. ID No.: 27234835	**Prague 10, Na Hroudě 2149/19** Web: www.frontier-technologies.eu E-mail: info@frontier-technologies.eu	**100 05**	**+420 277 002 333**

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