

PREdistribuce, a.s.

ANNUAL

REPORT

2012

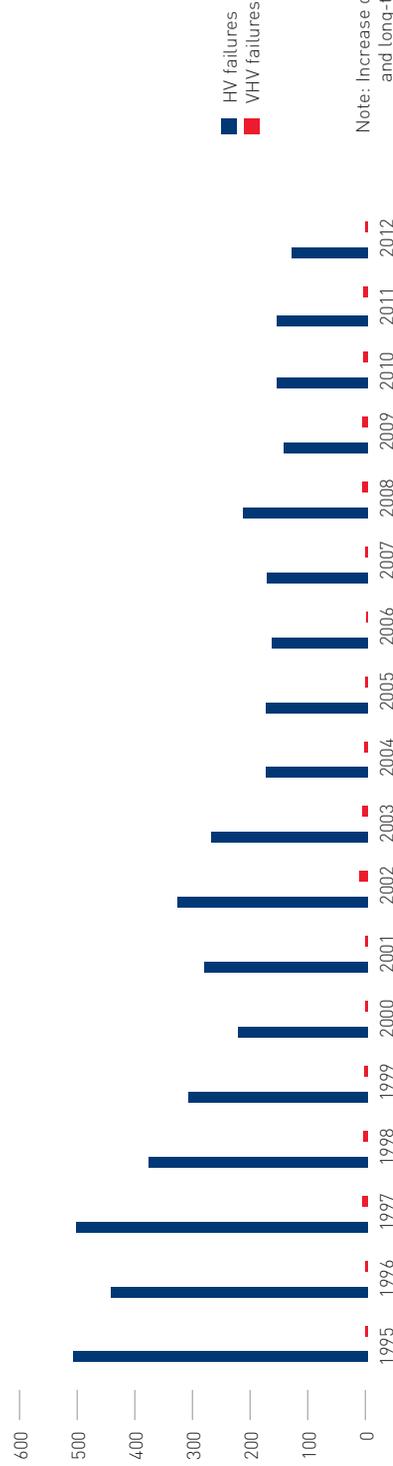
WE ARE  
THE  
ENERGY  
OF THIS  
CITY

## Main financial indicators (MCZK)

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

Note: <sup>1</sup> Since 2011, in order to provide a more faithful picture of gross profit from the sales of distribution services, the item Distribution and System Services Purchase Expenses has also reported expenses for the purchase of electricity for the Company's own consumption and expenses to cover its energy losses. The 2010 data have also been revised likewise.

## Number of VHV and HV failures

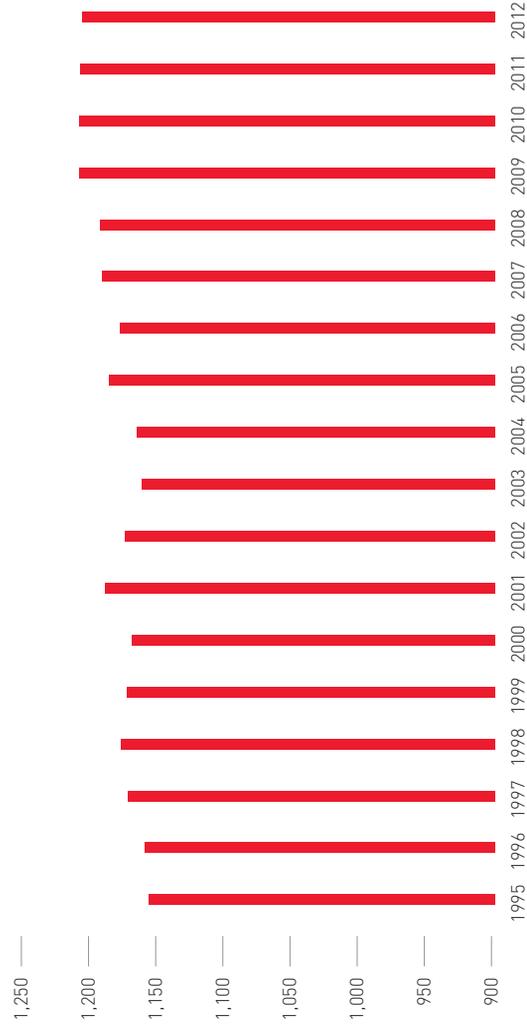


Note: Increase of failure rate in 2002-2003 was caused by floods and long-term distribution equipment shutdown from 8.8.2002.

## Other indicators

	2012	2011	2010	2009	2008	2007	2006
<b>Total distribution (balance)</b>	<b>6,278.4</b>	<b>6,310.7</b>	<b>6,450.5</b>	<b>6,339.1</b>	<b>6,372.5</b>	<b>6,172.0</b>	<b>6,085.0</b>
Total number of consumption points	759,768	754,593	749,513	744,998	735,779	726,366	713,474
of which: large	1,990	1,970	1,947	1,948	1,929	1,854	1,916
retail-small businesses	133,457	134,679	136,275	137,682	136,089	136,320	132,323
retail-households	624,321	617,944	611,291	605,368	597,761	588,192	579,235
Total length of electricity networks	11,921	11,901	11,781	11,675	11,552	11,544	11,229
of which: VHV	206	202	202	202	206	196	196
HV	3,865	3,863	3,829	3,780	3,701	3,670	3,476
LV	7,850	7,836	7,750	7,693	7,645	7,678	7,557
Number of employees – full time average	511	507	504	514	515	555	583

## Highest achieved annual load profile (MW)



Note 1: Load decrease in 2002-2003 was caused by floods and long-term distribution equipment shutdown from 8.8.2002.

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

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#### PRE Group

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

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



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Changes which have occurred since the end of the accounting period (31.12.2012) to the deadline for the issue of this Annual Report (15.4.2013) are marked *in bold italics*.

# Basic Company Data

Commercial name: PREdistribuce, a.s.

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

Identification No.: 27376516

Tax ID: CZ27376516

Legal form: joint stock company

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

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

Licence: The Company is electricity distribution licence holder No. 120504769 [in force as of 1.1.2006 for a period of 25 years]

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

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

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

PREdistribuce, a.s. thereby came into effect as of 1 January 2006 in all the rights and obligations of the Pražská energetika, a.s. for securing and operating the distribution system on the licensed territory of the Capital City of Prague, Roztoky u Prahy and the municipality of Žalov. This legal succession particularly arises from the provision of Section 476 (1) and Section 477 (1) of the Commercial Code.

PREdistribuce, a.s. thereby came into effect as of 1 January 2006 in all the rights and obligations of the Pražská energetika, a.s. for securing and operating the distribution system on the licensed territory of the Capital City of Prague, Roztoky u Prahy and the municipality of Žalov. This legal succession particularly arises from the provision of Section 476 (1) and Section 477 (1) of the Commercial Code.

As of 1 January 2006 under the granted electricity distribution licence No. 120504769 PREdistribuce, a.s. became the operator of the distribution system on the territory of the Capital City of Prague, Roztoky u Prahy and Žalov.

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

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

**PREdistribuce, a.s. (PREdi)** – electricity distribution on the territory of Prague and Roztoky u Prahy, planning the renovation and development of the distribution system, construction, operation, management and maintenance of distribution system equipment. ID No.: 27376516; Prague 5, Svornosti 3199/19a, tel.: 267 051 111, 840 550 055, fax: 267 310 817, Internet: [www.pre.cz](http://www.pre.cz), [www.predistribuce.cz](http://www.predistribuce.cz), e-mail: [pre@pre.cz](mailto:pre@pre.cz) and [distribuce@pre.cz](mailto:distribuce@pre.cz)

**PREměření, a.s. (PREm)** – repairs and installation of electricity meters on the PRE supplied territory, generation of electrical energy – FVE (photovoltaic power station). ID No.: 25677063; Prague 10, Na Hroudě 2149/19, tel.: 267 051 111, 840 550 055, fax: 267 056 777, Internet: [www.pre.cz](http://www.pre.cz), [www.premereni.cz](http://www.premereni.cz), e-mail: [pre@pre.cz](mailto:pre@pre.cz) and [mereni@pre.cz](mailto:mereni@pre.cz)

**PREleas, a.s. (until 19.10.)** – leasing operations for the PRE Group members. ID No.: 25054040; Prague 10, Limuzská 2110/8, tel.: 272 702 305, fax: 272 702 305

**eYello CZ, a.s. (from 19.10.)** – sales of electricity and gas trading on the territory of the Czech Republic excluding the Capital City. ID No.: 25054040; Prague 10, Limuzská 2110/8, tel.: 840 555 777, Internet: [www.yello.cz](http://www.yello.cz)

# Foreword of the Chairman of the Board of Directors

Dear readers,

by way of introduction, I would like to inform you, in brief, of the history, mission and main tasks of PREDistribuce, a.s. The company was established as a 100% subsidiary distribution company of the sole shareholder of Pražská energetika, a.s. and in 2012 it completed the seventh year of its existence. PREDistribuce, a.s. ensures the distribution of electricity in the City of Prague and the town of Roztoky u Prahy covering an area of 505 km<sup>2</sup>, for which it is the holder of the issued distribution licence in force as of 1 January 2006 for a period of 25 years. Electricity distribution is subject to price and qualitative regulation of the Energy Regulatory Office of the Czech Republic.

The Company's main mission is to ensure reliable distribution of electricity from sources – delivery points with a transmission system – up to the consumption or delivery points of individual customers through the maintained distribution systems. This system consists of a system of 110 kV, 22 kV and 0.4 kV overhead and cable lines, 110/22 kV transformer substations and 22/0.4 kV transformer stations.

A total of 511 Company employees took care of all the distribution equipment and among their main tasks was the planning of the development and renovation of distribution equipment, connection of new customers after the previous construction of investment energy structures and connections, operation of grid assets, management of operations, servicing and dealing with faults as well as carrying out planned repairs and maintenance of the grid in accordance with a series of preventive maintenance work, metering of supplied electricity at VHV and HV levels, and transmission of data for the billing of distribution service and supplies to the Electricity Market Operator system.

Allow me to present several basic data attesting to the output and quantity of supplied electricity to the licensed territory of Prague and Roztoky. The total grid load reached a maximum of 1,198 MW on 7 February 2012, a total of 6,278.4 GWh was distributed by the networks which covered the requirements of existing and new customers at all voltage levels. The standards of the quality of supplied electricity and related services in accordance with the ERÚ Regulation No. 540/2005, as amended, were met during the year with regard to all customers connected to the Company's distribution networks.

The failure rate and distribution operating results in Prague in the monitored 10 year period have a falling trend in terms of the numbers of cases of serious faults and the quality of supplies, as well as in the lower amount of unsupplied electricity. The achieved values of the average interruption time at 110 kV and 22 kV level, in particular, are comparable with that of the large cities in the western part of the EU. This positive trend was achieved by the long-term implemented, highly rational planning, renovation and development of distribution networks from one asset management centre and the implementation of modern technology and elements used in the EU (showing increased reliability of operation while their aesthetic appearance is acceptable even to the historical character of Prague). Even the introduction of the Work Force Management (WFM) system was positively received when the experience was utilised of EnBW, REG. Stuttgart. Our shareholders in EnBW AG had decided to apply the WFM system for managing field crews earlier. Currently the system has been working well for the second year, all crews are managed from the centre and they pass on-line information from the field about their work on the networks as well as the information about the condition of the grid to the dispatch centre or directly to their senior staff. The Company's management is also working in 2013 on taking steps to gradually increase the reliability of networks in the way they are managed and operated.

In terms of safety, all the networks and operating equipment of PREdistribuce, a.s. are part of the critical infrastructure of Prague and all of the Czech Republic. A reliable or continuous supply of electricity is really fundamental for the function and running of the City. Short-term outages of large scale paralyse the City, resulting in the collapse of the transport system, endangering the lives of people trapped in elevators and restricting the activities of most state administrative bodies and companies. In 2012, ten years after the destructive flood that swept through Prague in 2002, the distribution network was not affected by a natural disaster or calamity, no system failure was reported which would affect the lives of Prague residents in the long-term. In 2012 there were four short outages in the 110 kV networks of PREdistribuce, a.s. resulting in two interruptions of electricity supply for an average duration of 6 minutes. Of these four outages, half were caused outside the PREdistribuce, a.s. distribution system. It is our great wish to affirm these high quality results in 2013, too.

A total of MCZK 1,642.1 was invested in the distribution network, i.e. in the sole renovation and development of the network, including the control, telemechanization and metering systems, and a further MCZK 316.4 was invested in repairs from operating funds. The planned volume of investment (the need to implement all planned constructions and put them into operation by winter) also had to be met in order to constantly maintain this situation. Last year this involved the completion of the reconstruction of the Letňany standard 110/22 kV transformer station, the start of the reconstruction of the Lhotka standard 110/22 kV transformer station, the renovation of the 110/22 kV overhead lines for the Lochkov 110/22 kV transformer station, the completion of the cable duct to feed the power output from the Jih transformer station at Bohdalec. A lot of sole renovation work was also carried out in the 22 kV and 1 kV cable network, including distribution transformer stations that were already physically and economically obsolete. In addition, as requested, several hundred minor generating photovoltaic sources with a total output of 25 MW were connected to the 1 kV network.

In conclusion, I can, with a clear conscience, declare that in 2012 the Company's employees duly met all the key tasks of the distributor in the Capital City and that PREdistribuce, a.s. in the seventh year of its existence, continued to provide worthy support for the parent company, contributed to the good reputation of the PRE Group and worked to ensure the satisfaction of Prague residents. In view of the development of the Capital City and the gradual increase of the grid load, the Company is becoming an indispensable part of the life of the Capital City. We will continue in our efforts to fulfil this role, be a good distributor in the Capital City and a socially responsible company with regard to environmental protection.



**Milan Hampl**

Chairman of the Board of Directors and Director



# Company Strategy

The electricity distribution system will be exposed to new qualitative and quantitative conditions in the near future, which will require change to its structure, operation and, most of all, the application of new technologies. Surely, on the one hand there will be an increase in the extent of implementation of decentralised sources of electricity, of which part will come from renewable energy sources with difficult to predict production, and also there will be an increase in electric mobility, on the other hand the high reliability and safety of electricity supplies will need to be maintained constantly and supply ensured during periods of crisis.

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

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

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

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

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

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

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

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

**The principal mission of the Company is to ensure a reliable transmission of electricity from delivery points of the transmission system to the consumption or delivery points of individual customers through the well maintained distribution system.**

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

# Company Bodies

## Board of Directors as at 31.12.2012

### **Milan Hampl**

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

### **Petr Dražil**

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

### **Christian Franz-Josef Schorn**

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

### **Martin Langmajer**

(48 years) | Member | Address: Tichonická 1017/30, 104 00 Prague 10 (until 1.8.), Žampiónová 197, 104 00 Prague 10 (from 1.8.)

## Supervisory Board as at 31.12.2012

### **Hermann Lüschen**

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

### **Pavel Elis**

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

### **Alexander Manfred Sloboda**

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

### **Karel Urban**

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

### **Radek Hanuš**

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

## Member of the Supervisory Board in the course of the year was

### **Petr Hulinský** (removed from the office as at 27 June)

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

### **Pavel Klega** (elected as at 11 April 2013)

(47 years) | Member | Address: MHMP, Mariánské náměstí 2, 110 00 Prague 1

From left

Petr Dražil  
Milan Hampl  
Martin Langmajer  
Christian Franz-Josef Schorn



# Important Decisions of the Parent Company Pražská energetika, a.s. affecting PREdistribuce, a.s.

## **A. The decision on the formation of the Company was made at a meeting of the Board of Directors of the parent company Pražská energetika, a.s. on 16 August 2005 (RP-82/2005).**

This decision was made in accordance with the provisions of Section 171 (1) a) and Section 172 of the Commercial Code. The line of business of the newly formed Company was:

- lease of real estate, apartments and non-residential premises without provision of other services in accordance with Section 4 of the Trade Licensing Act,
- electricity distribution.

The Company was formed for an unlimited period.

The Company's registered capital was MCZK 2 being divided into 2 registered certificated shares, of which each had the nominal value of MCZK 1.

The founder decided to subscribe and repay himself the entire registered capital which was carried out by monetary investment contribution as follows:

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

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

- electricity distribution,
- installation, repairs, inspections and testing of selected electrical devices,
- production, installation and repair of electronic equipment,
- inspection and testing of selected pressure equipment,
- repair and installation of meters,
- testing, measurement, analysis and checks,
- revisions and testing of selected lifting equipment,
- engineering work in investment construction,
- installation, maintenance and service of telecommunication equipment,
- graphic and drafting work,
- real estate activity,
- lease and hiring of movables.

The possibility was also approved of the issue of shares as collective papers that will replace individual securities.

## **C. At a meeting on 28 December 2005 (RP-159/2005) the Board of Directors of the parent company decided to increase the registered capital of PREdistribuce, a.s. with a subscription of shares and payment of the issue of subscribed shares by a non-monetary investment contribution of part of the enterprise. The registered capital was increased by the sum of MCZK 21,547 which is the value of part of the enterprise for the investment contribution based on a valuation made by an expert as at 30 June 2005.**

The Board of Directors also approved the draft of Shares Subscription Contract (RP-160/2005) and the draft Contract on the Investment Contribution of part of the Enterprise of Pražská energetika, a.s. "Distribution Division" (RP-161/2005).

Then:

- on 29 December Pražská energetika, a.s. and PREdistribuce, a.s. concluded the Contract on the Investment Contribution of Part of the Enterprise effective as of 1 January 2006,
- on 29 December 2005 Pražská energetika, a.s. and PREdistribuce, a.s. concluded the Agreement on the Subscription of Shares to the value of the above stated increase.

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

The sole shareholder approved the subscription of shares by the non-monetary investment contribution, the subject matter of which was part of the enterprise "Distribution Division" valued by an expert opinion at MCZK 21,549. The registered capital was increased based on a decision of the General Meeting of Pražská energetika, a.s. held on 28 December 2005.

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

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

It was decided:

- to reduce the Company registered capital from the sum of CZK 21,549,000,000 by the sum of CZK 3,841,066,152 to the sum of CZK 17,707,933,848,
- the reason for reducing the Company registered capital was to compensate the Company accumulated losses from previous years at a total of CZK 3,841,085,719.68 reported in the Company accounting documents in the balance sheet item A.IV. 2., it was decided that the sum of CZK 3,841,066,152 corresponding to the reduction of the Company's registered capital will be used for compensation of part of the Company's accumulated losses totaling CZK 3,841,085,719.68. The remaining part of the accumulated losses of CZK 19,567.68 will be left on the account of accumulated losses from previous years.
- the registered capital was reduced by the proportional reduction in the nominal value of all the Company's shares so that the nominal value of one hitherto Company ordinary registered certificated share worth MCZK 1 was reduced by CZK 178,248; i.e. after the reduction of registered capital one Company ordinary registered certificated share had the nominal value of CZK 821,752.

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

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

## “Asset Management” Project

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The distribution grid is a living organism which changes continuously. Some sections are restored, but new sections are also constructed as the Capital City of Prague expands. These processes cannot understandably be implemented spontaneously but must be managed and coordinated.

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### **Karel Urban**

Head of the Network Asset Management Section

Can you specify what Asset Management involves?

This is a combination of all work involving asset management which in our case is renovation, development and construction of the distribution network so this process is as effective as possible and generates the biggest possible profit. Shareholders, as well as the customer and our company must be satisfied with the result. My role lies in the coordination of individual inputs and outputs.

What sort of inputs?

These are mainly the requests of customers, requirements of the network administrator and the proposals of the department of development, renovation and construction of the distribution network. All this must be put into context with the efficiency of the distribution network and the financial plan. It means that we should always be able to ensure our customers the necessary connection and supply of electricity that they require and so that we can continually renovate the distribution network and prevent outages. Network outages represent one of the indicators which can significantly affect the profit of our business.

What about some specific examples of your work?

So for example a developer contacts us with a request for a new connection in a certain location for construction. We calculate the network and ascertain whether there is the required power input without having to carry out a new construction such as transformer stations or substations. If the power input is insufficient we prepare a draft plan emphasising the efficiency and economic return of this necessary construction. The planned construction is subsequently discussed with the relevant authorities and specialist departments. The entire process must be timed so the new buildings can be connected to the distribution system on time as required by the customer.



# Important Events

## 2006

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

## 2007

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

## 2008

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

## 2009

- February • completion of construction and launching of high voltage substation 110/22 kV Pankrác,
- March • the move of the training centre completed from the Novovysočanská building to TR Malešice, • the Fit for Future project was launched within the Group in cooperation with Facility, s.r.o.,
- 16.4. • third ordinary General Meeting held which assessed the economic results of 2008,
- April • completion of the construction of stage II of 110/22 kV TR Smíchov (fully furnished with additional equipment),

June	<ul style="list-style-type: none"> <li>• activation of anti-flood measures on the territory of the Capital City of Prague, stage I of the flooding activity on the Vltava river,</li> </ul>	May	<ul style="list-style-type: none"> <li>• PREdistribuce, a.s. for the second time retained the award "Safe Enterprise",</li> </ul>
August	<ul style="list-style-type: none"> <li>• discussion started on the Collective Agreement for the period of 2010–2012,</li> <li>• completion of stage II. of the reconstruction of the 110/22 kV Střed substation under full operation of the feeding of the City Centre without any failure in electricity supply,</li> <li>• completion of the reconstruction of stage I of VV 2 x 110 kV TR Sever – Roztoky,</li> <li>• completion of the replacement of the T 102 + T 103 transformers in TR Jinonice,</li> </ul>	June	<ul style="list-style-type: none"> <li>• intention to built cable tunnel for leading the cables out from TR Jih towards North approved,</li> </ul>
September	<ul style="list-style-type: none"> <li>• completion of the reconstruction of the building C in Novovysočanská street to which, in addition of TR Pražáčka, employees of the Network Operations were relocated,</li> </ul>	July	<ul style="list-style-type: none"> <li>• flexi-time working hours were introduced in the whole Group,</li> </ul>
October	<ul style="list-style-type: none"> <li>• completion of laying the 110 kV cable between TR Malešice and TR Střed,</li> <li>• Milan Hampl and Petr Dražil re-elected members of the Board of Directors for next term in office,</li> </ul>	August	<ul style="list-style-type: none"> <li>• Martin Langmajer and Christian Franz-Josef Schorn were re-elected members of the Board of Directors for the next term in office,</li> <li>• repair of fault in VV 303 + VV 304 TR Chodov – TR Řeporyje – section S001 completed,</li> </ul>
December	<ul style="list-style-type: none"> <li>• completion of Zličín-Jih cable tunnel.</li> </ul>	September	<ul style="list-style-type: none"> <li>• selection of SCADA dispatching system was approved,</li> <li>• Petr Hulinský was re-elected the Chairman of the Supervisory Board and Hermann Lüschen was elected the Vice Chairman,</li> <li>• renewal of transformer T 102, 40 MVA located in TR 110/22 kV Měcholupy,</li> </ul>
2010		October	<ul style="list-style-type: none"> <li>• Drahomír Ruta resigned from the Supervisory Board, Alexander Manfred Sloboda was elected to take over this position with effect from 1.1.2011,</li> <li>• repair of breakdown in VV 303 + VV 304 TR Chodov – TR Řeporyje – section S002 completed,</li> <li>• laying of 110 kV cable between TR Karlov and TR Pankrác commenced,</li> <li>• reconstruction of R 110 kV in TR Holešovice,</li> <li>• replacement of R 22 kV disconnectors in TR Jih completed,</li> </ul>
January	<ul style="list-style-type: none"> <li>• new Collective Agreement for the period of 2010–2012,</li> <li>• supervisory audit of EMS pursuant to ČSN ISO 14001 was successfully carried out,</li> </ul>	1. 12.	<ul style="list-style-type: none"> <li>• historic maximum load of 1,209 MW was achieved at 2 p.m.</li> </ul>
February	<ul style="list-style-type: none"> <li>• Milan Hampl was re-elected Chairman of the Board of Directors and also Petr Dražil was re-elected the Vice Chairman for the next term in office,</li> <li>• Petr Hulinský, Hermann Lüschen, Drahomír Ruta, Pavel Elis and Karel Urban were elected members of the Supervisory Board for the next term in office; Radek Hanuš was elected the new member of the Supervisory Board,</li> <li>• transformer station TR 110/22 kV Smíchov underwent building approval,</li> <li>• cable duct from TR Zličín-Jih underwent building approval,</li> </ul>	2011	
22.4.	<ul style="list-style-type: none"> <li>• fourth ordinary General Meeting held assessing the economic results of 2009,</li> </ul>	February	<ul style="list-style-type: none"> <li>• approved upgrade of control system and modifications of R 110 kV in TR Chodov,</li> </ul>
April	<ul style="list-style-type: none"> <li>• renewal of transformer T 103, 40 MVA in TR 110/22 kV Malešice,</li> </ul>	March	<ul style="list-style-type: none"> <li>• approved contracts for projects "Reconstruction of R 110 kV and control system in TR 110/22 kV Prague – Holešovice", "Construction of the Bohdalec Cable Tunnel", "Reconstruction of R 110 kV and complement to the control system in TR 110/22 kV Letňany",</li> <li>• work begun on the KT Bohdalec cable tunnel (215m long),</li> </ul>
		April	<ul style="list-style-type: none"> <li>• tender initiated for the purchase of the SCADA dispatching system,</li> </ul>

	<ul style="list-style-type: none"> <li>reconstruction begun of TR Letňany – stage I - replacement of the T 101, 110/22 kV transformer (40 MVA, new 110 kV cut-out switches, new disconnectors, new T 101 box),</li> </ul>		
12.5.	<ul style="list-style-type: none"> <li>fifth regular General Meeting assessing economic results of 2010,</li> </ul>		
May	<ul style="list-style-type: none"> <li>approved investment plan for the “Kabel 110 kV TR Jih - TR Malešice” project,</li> <li>approved investment plan for the “Restoration of TR 110/22 kV Lhotka” project,</li> </ul>		
June	<ul style="list-style-type: none"> <li>work begun on the restoration of the transformer T 101, 63 MVA, 110/22 kV in TR Střed,</li> </ul>		
November	<ul style="list-style-type: none"> <li>completion of the laying of cable 110 kV Pankrác - Karlov,</li> <li>completion of the first stage of the reconstruction of TR Letňany,</li> <li>work begun on the KT Slavia cable tunnel,</li> <li>completion of the modification of T 101 for the new transformer 110/22 kV, 63 MVA, in TR Střed</li> </ul>		
December	<ul style="list-style-type: none"> <li>acquisition of the ETT Energetika site in Prague 9 – Vysočany,</li> <li>completion of the stage I of reconstruction of TR 110/22 kV Holešovice,</li> <li>KT Bohdalec, construction nearing completion, finishing work underway.</li> </ul>		
<b>2012</b>			
January	<ul style="list-style-type: none"> <li>approved Contract for Work of the “Prague 8 – Karlín, cable tunnel” as part of the “Construction of Karlín TR 110/22 kV” investment plan,</li> <li>approved Contract for Work of the “Restoration of the TR 110 kV in the existing 110/22 kV Prague – Lhotka transformer” as part of the “Restoration of Lhotka TR 110/22 kV” investment plan,</li> <li>approved Contract for Work on delivery of the SCADA control system and Service Agreement for servicing the DŘS SCADA (Dispatch Control System),</li> </ul>		
February	<ul style="list-style-type: none"> <li>start of the implementation of the SCADA project,</li> </ul>		
March	<ul style="list-style-type: none"> <li>approved Contract for Work of the “Restoration of the 22 kV substation in the existing Prague – Lhotka 110/22 kV transformer” as part of the “Restoration of the Prague – Lhotka TR 110/22 kV” investment plan,</li> </ul>		
		19.4.	<ul style="list-style-type: none"> <li>sixth regular General Meeting assessing economic results of 2011,</li> </ul>
		April	<ul style="list-style-type: none"> <li>approved Contract for Work of the cable tunnel “KT Karlín - additional equipment, start of the boring of KT Karlín” as part of the “Construction of TR 110/22 kV” investment plan,</li> </ul>
		May	<ul style="list-style-type: none"> <li>approved investment plan for the “Construction of the Slivenec TR 110/22 kV” project,</li> <li>completion of the boring of the new Slávia tunnel into the existing Bohdalec tunnel,</li> </ul>
		June	<ul style="list-style-type: none"> <li>the Chairman of the Supervisory Board Petr Hulinský removed from office,</li> <li>successful takeover of KT Bohdalec,</li> </ul>
		July	<ul style="list-style-type: none"> <li>the pilot project initiated in cooperation with Comunica for the graphic design of 16 selected transformer stations,</li> </ul>
		September	<ul style="list-style-type: none"> <li>completion of the restoration of the existing lines 2 x 110 kV VV 303/VV 1923 - inlet of TR Lochkov,</li> </ul>
		October	<ul style="list-style-type: none"> <li>approved investment plan for the “Construction of Malešice - Běchovice - Měcholupy VV 110 kV including the connection to TR Uhříněves”,</li> <li>takeover of the first stage of the R 110 kV reconstruction in TR Lhotka,</li> <li>takeover of the first stage of the R 22 kV reconstruction in TR Lhotka,</li> <li>takeover of the “Restoration of VV 303/VV 1923 Lochkov - Řeporyje” project,</li> <li>takeover of KT Slávia,</li> <li>start of work on the “KT Karlín – additional equipment” project,</li> </ul>
		November	<ul style="list-style-type: none"> <li>takeover of the “Reconstruction of Holešovice TR 110/22 kV, stage II”,</li> <li>takeover of the “Reconstruction of the second stage of R 110 kV in TR Letňany” project,</li> <li>start of the “TR Chodov, restoration of the control system” project,</li> </ul>
		December	<ul style="list-style-type: none"> <li>start of work on the “KT Rohanský ostrov - boring” project,</li> <li>approved Contract for Work of the delivery of low noise transformer T 101, 110/22 kV, 40 MVA, in TR Měcholupy from SIEMENS,</li> <li>Collective Agreement for the period 2013–2015 concluded.</li> </ul>

# Brief History and current Situation in the Power Industry – Unbundling

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

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

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

## Recapitulation of important events in the power industry in 2012; overview of the relevant regulations

In 2012 all electricity customers, just as before in 2006–2011, had the opportunity of selecting their supplier upon their own discretion (Act No. 458/2000 Coll.). This year was also the third year of the third regulatory period (1 January 2010 – 31 December 2014). The existing methodology was modified for the needs of the third regulatory period which was the result of the analysis of the original methodology and experience with regulation in previous regulatory periods and the conclusions of the consultancy process with market participants in 2009. The aim of the methodology is to determine the appropriate level of profit for the distribution company for the five years of the third Regulatory Period, ensure the adequate quality of the services provided to customers while being cost effective, support future investments, ensure sources for the renewal of the network and continue to increase efficiency from which customers will also profit.

### The following Acts were issued and became effective in 2012:

Act No. 318/2012 Coll. came into force on 3 October 2012, which amended the Energy Management Act No. 406/2000 Coll., as amended.

Act No. 165/2012 Coll., on subsidised energy sources and amendment of some laws, was issued on 31 December 2012. It comes into force as of 1 January 2013, with the exception of some subsections which came into force on the date it was promulgated, i.e. on 30 May 2012.

Act No. 165/2012 Coll. also amended the Energy Management Act No. 406/2000 Coll., as amended.

Act No. 165/2012 Coll. also amended Act No. 458/2000 Coll., on the conditions of business and execution of state administration in energy sectors and amendment of some laws /the Energy Act/.

### In 2012 the following government decrees were issued and came into force:

Government Decree No. 355/2012 Coll., on determining the limit of state budget funds for providing subsidies for the payment of extra expenses associated with the subsidy of electricity from renewable sources for 2013 came into force

on 29 October 2012. Government Decree No. 429/2012 Coll., which amends Government Decree No. 355/2012 Coll., on determining the limit of state budget funds for providing grants for the payment of extra expenses associated with the subsidy of electricity from renewable sources for 2013 came into force on 30 November 2012.

**In 2012 the following regulations were issued and came into force:**

**Regulations to Act No. 458/2000 Coll.:**

Regulation No. 30/2012 Coll. on the requirements for the application of the approval of appointment, election, other establishment in office and removal of bodies of the independent transmission system operator came into force on 26 January 2012.

Regulation No. 59/2012 Coll., which repeals Regulation No. 408/2009 Coll., on regulatory accounting, came into force on 2 March 2012. This Regulation lays down the requirements and structure of regulatory statements including their templates, depreciation rates for the purposes of regulation, rules for compiling regulatory statements and dates for their submission.

Regulation No. 348/2012 Coll. of 22 November 2012, which amends Regulation No. 140/2009 Coll. on the method of regulating prices in the energy sectors and procedures for regulating prices, as amended, came into force on 5 November 2012.

Regulation No. 387/2012 Coll. of 13 November 2012, on state authorisation for the construction of electricity plant came into force on 1 December 2012.

Regulation No. 388/2012 Coll. of 13 November 2012, which amends Regulation No. 79/2010 Coll. on dispatch control of the power supply system and on delivery of data for dispatch control came into force on 1 December 2012.

Regulation No. 438/2012 Coll. of 13 December 2012, which amends Regulation No. 541/2005 Coll., on the Electricity Market Rules, principles of pricing for the activity of the electricity market operator and the implementation of some further provisions of the Energy Act as amended, came into force on 1 January 2013.

Regulation No. 445/2012 Coll. of 14 December 2012, which amends regulation No. 426/2005 Coll., on the details of granting a licence for business in the energy sectors, as amended, came into force on 1 January 2013.

Regulation No. 476/2012 Coll. of 19 December 2012, which amends Regulation No. 82/2011 Coll., on measuring electricity and the method of determining compensation for damage arising from unauthorised consumption, unauthorised supply, unauthorised transmission or unauthorised electricity distribution, came into force on 1 January 2013.

**Regulations to Act No. 165/2012 Coll.:**

Regulation No. 249/2012 Coll. of 9 July 2012, which amends Regulation No. 352/2005 Coll., on the details of the disposal of electrical equipment and electrical waste and on specific conditions of financing the disposal (Electrical Equipment and Electrical Waste Disposal Regulation), as amended, came into force on 1 August 2012.

Regulation No. 347/2012 Coll. of 12 November 2012, which determines the technical-economic parameters of renewable sources for the generation of electricity and service life of plants generating electricity from subsidised sources, came into force on 5 November 2012.

Registration Regulation No. 346/2012 Coll. of 12 November 2012, on the dates and procedures of selection of the form of subsidy, procedures of registration of subsidies at the market operator, dates and procedure of selection and change of electricity green bonus regimes and date for offering electricity compulsorily to the buyer, came into force on 5 November 2012.

Regulation No. 441/2012 Coll. of 5 December 2012, on determining the minimum effect of the utilisation of energy in the generation of electricity and thermal energy, came into force on 1 January 2013.

Regulation No. 440/2012 Coll. of 5 December 2012, on the guarantees of the origin of electricity from renewable sources of energy, came into force on 1 January 2013.

Regulation No. 439/2012 Coll. of 6 December 2012, on clearing (on determining the method and dates of settlement and payment of the price component for electricity transmission, gas transmission, electricity and gas distribution for covering the expenses associated with the subsidy of electricity, decentralised generation of electricity and biomethane, and the implementation of other provisions of the Act on subsidised energy sources), came into force on 1 January 2013.

Regulation No. 453/2012 Coll. of 13 December 2012, on electricity from highly efficient combined electricity and heat generation and electricity from secondary sources, came into force on 1 January 2013.

Regulation No. 478/2012 Coll. of 20 December 2012, on accounting and records of electricity and heat from subsidised sources and biomethane, quantity and quality of actually acquired and utilised sources and the implementation of other provisions of the Act on subsidised energy sources, came into force on 1 January 2013.

Regulation No. 477/2012 Coll. of 20 December 2012, on determining the types and parameters of subsidized renewable sources for generating electricity, heat or biomethane and on determining and storing documents, came into force on 1 January 2013.

Regulation No. 480/2012 Coll. of 20 December 2012, which repeals Regulation No. 213/2001 Coll., and Regulation No. 425/2004 Coll., on energy audit and energy expert opinion, came into force on 1 January 2013.

### **In 2012 the following ERÚ price decisions for 2013 were issued and came into force:**

ERÚ Price Decision No. 7/2011, which determines subsidy for the generation of electricity from renewable energy sources, combined generation of electricity and heat and secondary energy sources, came into force on 1 January 2012. ERÚ Price Decision No. 4/2012, which determines subsidy for subsidised energy sources, was issued for this area for 2013 on 27 November 2012.

ERÚ Price Decision No. 5/2011, which determines the prices of regulated services associated with electricity supply, came into force on 1 January 2012. ERÚ Price Decision No. 5/2012 was issued for this area for 2013 on 30 November 2012.

ERÚ Price Decision No. 6/2011, which determines the prices of regulated services associated with the supply of electricity from the low voltage grid, came into force on 1 January 2012. ERÚ Price Decision No. 6/2012 was issued for this area for 2013 on 30 November 2012.

## “WFM” Project

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The new system connected to SAP should show how busy the PREDi maintenance crews, which are managed by the Technical Coordination Department, are at a point. Its purpose is also to optimise the use of working capacities in the field. The data about the work performed go via the WFM System to SAP PM where they are processed further.

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### Tomáš Pojer

Head of the Technical Office Department

Can you please explain what the WFM System is for?

This electronic system replaced the arduous paperwork for assigning work instructions and records of service work. It allows the planning, operative and effective optimisation of the use of the workforce, in our case field work crews. Using mobile terminals the coordinator has online contact with crews. Simultaneously the system automatically quickly, accurately and provably records data about the executed tasks in the SAP PM module to the relevant report with the assigned order. The data obtained is subsequently used for accounting, billing or remuneration. The result is of economic benefit and back-tracking of all information about the work performed.

What is the effect of this system?

Making maintenance work more effective and showing its necessity. It helps to remove any duplicity of work on equipment (e.g. an urgent maintenance procedure versus close planned equipment inspection according to the Preventive Maintenance Code). It specifically shows that the maintenance section is performing important and meaningful work, visible for all other related departments. This system allows an undistorted view of the workload of the Grid Operation Department's field work crews, their highly specialised workmanship and efficiency to make good use of working hours.

When did you apply the system?

About four years ago we heard about the work management tool in the WFM System and we liked it very much. Based on conversations and exchange of experience with colleagues at EnBW we launched the trial work in 2010 to introduce WFM. In early 2011 we put the system in trial operation and in the summer into live operation. 2012 was the first year when we managed all 120 workers of the Grid Operation Section solely via the WFM System.



# Human Resources

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

The targeted professional training as part of improving the employee qualifications continued for the narrow specialization of employees arising from the law (e.g. Decree No. 50/78 Coll.). Special employee training continued aimed at deepening professional knowledge, knowledge of new decrees and laws in the economic, legal and personnel field. Courses were also held on raising the qualification of employees. Selected employees continued in improving their professional knowledge by extramural studies at universities. During the year 6 employees were improving their professional knowledge by extramural studies.

The rules of remuneration are clearly determined within the Company as their basic principles arise from collective bargaining between representatives of the trade union organization and management of all entities within the Group. A wage regulation is, among other things, a part of the Collective Agreement; in turn the relevant Company norms deal with specific application of the remuneration system.

Tariff and non-tariff wages are also enforced in the Company. The variable wage component consists of an individual or team performance component or remunerations from the fund of the section manager or director.

It is also one of the Company priorities to provide effective assistance to employees being made redundant; particularly those of a pre-pension age, single parents and the socially less privileged. In order to alleviate the negative consequences of organizational changes the Company runs a system of social and financial compensation measures.

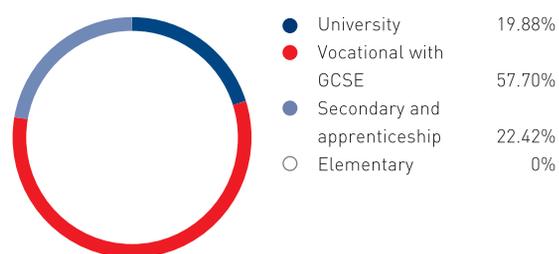
The Company applied a Collective Agreement together with three Amendments to this Collective Agreement for the period of 2010–2012. At the end of the year a new Collective Agreement was concluded for the period of 2013–2015.

Comprehensive works health care, including dental care, is also ensured for employees as was the case in previous years. A health prevention care programme is taking place in the Company meeting the requirements of the National Health Promotion Programme. The following projects are being carried out for employees beyond this scope: oncology programme (aimed at prevention and treatment of breast cancer), preventive check-up of thyroid gland, preventive urology programme, vaccination against tick-borne encephalitis, type A hepatitis and influenza. A managerial health programme is provided for senior managers.

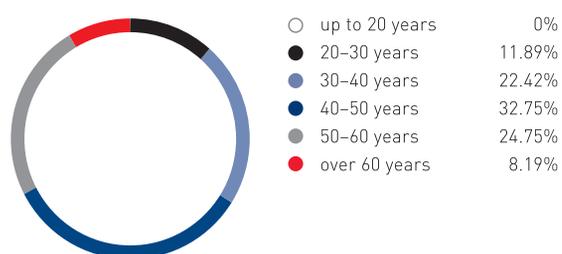
The concept of the Company social policy is based on the need to motivate employees both morally and in the form of financial contributions, remunerations and other forms of appraisal of their work. Great attention is paid to care of employees, improvement of their working and living conditions, housing,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

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

## Qualification structure



## Age structure



## Distribution Emergency Line

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

Year	2012	2011	2010	2009	2008	2007
Total	<b>41,782</b>	38,484	32,860	28,800	34,260	31,200
Of which breakdowns	<b>15,935</b>	17,364	22,160	18,650	23,300	22,300

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

Year	2012	2011	2010	2009	2008	2007
Total	<b>2,860</b>	1,156	1,577	1,230	679	100

# “Smart Metering” Project

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So-called smart grids should control the world in future. So that ordinary households can also be connected to them and make use of all the benefits of this revolutionary technology they need to be equipped with smart meters. These contain all the necessary functionalities so they can communicate with the smart grids.

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## Jiří Janda

Head of the Metering and Readings Department

What can so-called “smart meter” do?

Smart Metering, so-called “smart meter”, is equipped with a communication unit which can take readings of data from an electricity meter via a network of mobile operators or a low voltage network. Thanks to this remote two-way communication between the smart electricity meter and central office regular information can be obtained about present consumption which will open up the way for us to creating dynamic tariffs.

What about smart electricity meters?

Such a device can remotely disconnect or connect a customer provided that the consumption point is technically adapted for this purpose. It also remotely reads data from an electricity meter, not just for billing, i.e. the register of a high or low tariff, but also data applying to the quality of the distribution grid – voltage, current or power factor, possible data on the output of the consumption point. Another advantage is that some measured data are also continually stored in a 10 or 15 minute interval and by a careful analysis of these data we can detect unauthorised consumption, for example. What is also important is that a person – reader – does not have to go to such a consumption point. As part of the so-called ad-hoc immediate requested control reading, data can also be read from concealed registers in the electricity meter’s memory from which we can obtain a current overview of the consumption point. The smart electricity meter also ensures a reading from utilities such as gas and water meters etc.

What does the smart electricity meter offer in the sphere of photovoltaics?

It measures consumption and supply from the consumption to the supply point into the grid, if the customer (producer) produces so much energy that it overflows into the PREDI grid.

This new technology allows all new functionalities that apply to Smart Metering. We will certainly take this road in future but the whole system needs to be comprehensive so it can work. This means that Smart Metering must be part of the Smart Grid concept and must ensure full interoperability for all components.



# Investments

The parameters and factual contents of the PREdistribuce, a.s. Investment Programme are based in the long-term on the results of analyses respecting the technical condition, transmission capability and achieved reliability of network operation, real physical service life of the individual network components and possibility of their effective maintenance. It also takes into account the respected further trend in customer demand for new connections, or an increase in consumed output at already existing connection points on already built-up area and in the developing city's locations. The predicted future trend is supported by the specific requirements of customers and the present development constantly recorded in the last few years in Prague and the town of Roztoky u Prahy. These starting points also show the further need to maintain a virtually constant speed and scope of investment activities for the future. The distribution of funds respects the slight shift in volume in favour of the HV and VHV levels which are very important for reliable operation of the distribution system because their failure would have a greater impact on the network customers.

The investment plan, in segmentation to individual distribution equipment categories, on the one hand dealt with the extended reproduction of network systems based on the available materials and with respect to mutual links, while taking into account the expected customer requirements and corresponding development of the load in the individual locations. On the other hand, the investment plan also dealt with the simple reproduction of the distribution equipment ensuring together with the planned repairs the operating reliability and required level of distribution services expected by the customers of the Capital City of Prague. The level of supply and the services associated with this was determined by secondary ERÚ (Energy Regulatory Office) legislation. Non-fulfilment of the guaranteed standards unlike in previous years has been penalized as of 1 July 2006, by the obligation of payment for non-observance of the guaranteed standard in accordance with the decree of the ERÚ No. 540/2005 Coll., as amended.

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

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

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

## Strategic Investments

Based on the investment plan approved by the shareholders, in 2012 the Company continued especially with the trend of extending new backbone networks and careful renovation of the existing VHV and HV networks which are part of the City's critical infrastructure. There also continued optimization of HV and LV networks configuration, including the renovation of distribution transformer stations. Maintaining the backbone network and its technical level is the best means of preventing large breakdowns which could result in large territorial supply cuts and may cause a collapse of power supply to a part of the City, such as a breakdown in public transport, people being trapped in lifts and a sharp fall in housing comfort.

**In 2012 the most significant strategic constructions were:**

- completion of reconstruction of standard 110/22 kV substation in TR Letňany,
- start of reconstruction of standard 110/22 kV substation in TR Lhotka,
- completion of the control system within the reconstruction of the encapsulated 110 kV switchgear in TR Holešovice in the City Centre,
- completion of cable duct Bohdalec from TR Jih for leading 22 kV output and for a new 110 kV cable from TR Jih and TR Malešice, planned to be implemented by 2015,
- renovation of 110 kV overhead lines for 110/22 kV Lochkov transformer station (customer Cementárna Radotín/Cement Works Radotín),
- complete renovation of additional equipment in five other disconnecting TR 22/0.4 kV.

Simultaneously with main constructions in the 110 kV backbone networks or 110/22 kV substations, in 2012 the reconstruction works continued in substations and the HV and LV cable network.

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

**Main strategic constructions planned until 2015 are as follows:**

- construction of encapsulated 110/22 kV Karlín substation and provision of output through 22 kV cables for new locations in the area of Rohanský ostrov, part of district Libeň (Švábky) and strengthening the existing part of Karlín,
- complete reconstruction of TR Lhotka including the control system (ŘS),
- completion of reconstruction of R 110 kV and complement to the control system in TR Letňany,
- renovation of the control system and extension of TR Chodov by four 110 kV fields,
- renovation of outdoor 110/22 kV substation in Třeboradice which PREdistribuce, a.s. bought from Pražská plynárenská, a.s.,
- renovation of overhead 110 kV lines in the North of Prague from TR Sever up to TR Východ,
- replacement of overhead 110 kV lines between TR Malešice and TR Jih by 110 kV cable lines.

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

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

## Overview of investment funds allocations in 2006–2012 (MCZK)

	Total Investments	Distribution equipment			
		VHV	HV	LV	Electric meters
2006	1,282.2	398.2	452.4	271.7	159.9
2007	1,428.0	412.2	665.1	221.8	128.8
2008	1,723.6	851.3	438.9	341.5	91.9
2009 <sup>1</sup>	1,632.2	604.5	636.1	299.7	92.0
2010 <sup>2</sup>	1,652.8	464.3	833.5	268.4	86.7
2011 <sup>3</sup>	1,701.3	493.7	772.4	371.7	63.5
<b>2012 <sup>4</sup></b>	<b>1,642.1</b>	<b>438.4</b>	<b>785.7</b>	<b>318.9</b>	<b>99.1</b>

Note: <sup>1</sup> Without interest capitalisation 2009 [MCZK 21.281].

<sup>2</sup> Without interest capitalisation 2010 [MCZK 27.009].

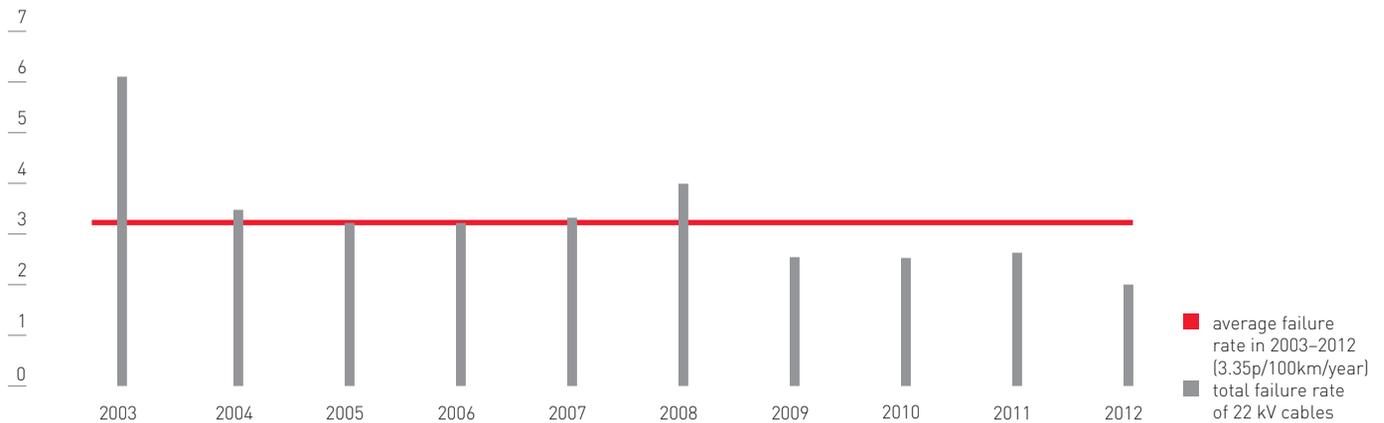
<sup>3</sup> Without interest capitalisation 2011 [MCZK 26.334].

<sup>4</sup> Without interest capitalisation 2012 [MCZK 14.691].

## Overview of the development of selected network indicators

Indicator	Unit	2012	2011	2010	2009	2008	2007	2006
Maximum network load	MW	<b>1,198</b>	1,205	1,209	1,207	1,147	1,141	1,090
Length of VHV network	km	<b>206</b>	202	202	202	206	196	196
Number of VHV/HV stations	Unit	<b>22/24</b>	22/24	22/24	21/24	21/24	20/23	20/23
Length of HV lines	km	<b>3,865</b>	3,863	3,829	3,780	3,701	3,670	3,476
Total number of HV/LV stations	Unit	<b>4,833</b>	4,839	4,778	4,796	4,783	4,750	4,693
Number of HV/LV substations	Unit	<b>3,274</b>	3,295	3,254	3,277	3,281	3,272	3,258
Length of LV network	km	<b>7,850</b>	7,836	7,750	7,693	7,645	7,678	7,557

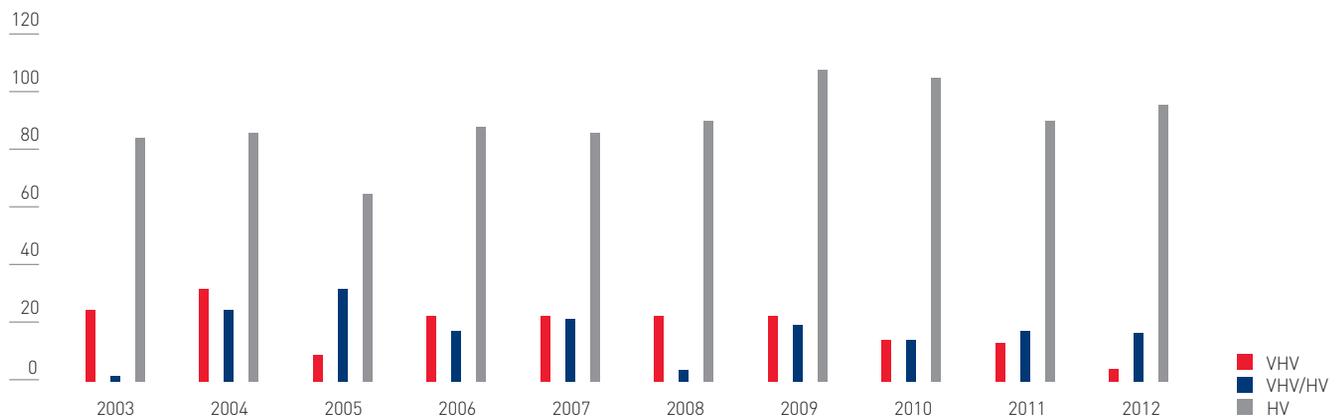
### Trend of 22 kV cable failure rate (frequency of failures f/100 km/year)



### Development of electricity distribution in 2007–2012 (GWh)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
2007	580	515	548	475	476	462	450	459	469	543	590	604	<b>6,172</b>
2008	607	552	574	524	489	473	471	470	495	546	570	603	<b>6,373</b>
2009	644	564	587	488	485	471	464	465	464	545	554	608	<b>6,339</b>
2010	640	565	578	505	501	476	480	472	482	542	563	647	<b>6,450</b>
2011	620	565	576	493	499	476	454	475	467	532	570	584	<b>6,311</b>
2012	<b>600</b>	<b>599</b>	<b>547</b>	<b>501</b>	<b>481</b>	<b>464</b>	<b>467</b>	<b>477</b>	<b>459</b>	<b>539</b>	<b>556</b>	<b>588</b>	<b>6,278</b>

### Average time of electricity supply disconnection on VHV, VHV/HV and HV (min.)



Note: The increase of average time of electricity disconnection in 2009 was caused by worse traffic conditions in the Capital City during repairs of failures in HV transformer stations.

## “Smart Grids” Project

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Smart Grids are electrical grids of the future. They will offer customers greater comfort but will above all reliably and safely transmit electricity between individual grid users even bilaterally. They will help resolve the surplus or shortage of electricity as a consequence of the unstable scattered generation.

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### Stanislav Votruba

VHV Grid and Control System Group

How active is PRE in the sphere of “Smart Grids”?

We have made relative progress in the Smart Grids Application because we can collect a lot of information from the grid. We can handle things remotely using various devices and have relatively advanced technology. We are also testing new technology in test projects. Here I could mention the smart electricity meter project. Currently we are mapping out the terrain in this area to be prepared for what awaits us with regard to the Smart Grids. But it is difficult to determine this exactly.

What can you currently offer customers in this sphere?

The PRE Group offers to those interested the smart electricity meter. It is not about implementing smart metering in the entire region of Prague, as yet this involves a dozen or so customers, but we are certainly making it clear that this is possible and that our company not only follows modern technology, but tries to take the first step sooner than others. Smart electricity meters in Prague allow us to test this technology. We are also the pioneer in electro mobility. We promote electric cars and we even ride in them. We also try to secure maximum data through the smart metering in this context.

What data?

Smart metering monitors the charging points for electric cars. It is interesting synergy when smart metering technology allows us to secure data about the behaviour of charging points and we also check the quality of the reading of these data and how they are downloaded.



# Financial Report

In 2012 PREdistribuce, a.s. generated a profit after tax of MCZK 992.6. The achieved result corresponds to the ERÚ set parameters for 2012. The margin from the sales of distribution services reached MCZK 4,406.

The operating income fell year-on-year by MCZK 207.9, especially due to the increase of purchased consumables and services (within and outside the Group), depreciation by MCZK 116.3 and due to a decrease in revenues from the sales of assets outside the Group by MCZK 58.3 thus reaching MCZK 1,289.6. Added value fell year-on-year by MCZK 90.1 to MCZK 2,845.4. With convergence to an annual billing period it was again necessary to partly secure operating cash flow through loans, therefore the financial result showed a loss of MCZK 60.

The profit created in 2012, was most significantly affected by the following expense items: expenses for transmission and distribution services of MCZK 4,900, year-on-year increase by MCZK 233.9 was caused mostly by the statutory subsidy of combined generation of electricity and heat (MCZK 223.1). A further item was purchased services (within and outside the Group) of MCZK 1,547.4 (year-on-year increase by MCZK 49.6), depreciation of long-term intangible and tangible assets MCZK 1,325.9 (year-on-year increase by MCZK 60.1), and personnel expenses MCZK 409.8 (year-on-year increase by MCZK 21.2). Total revenues from the sales of distribution services accounted for 97% of total revenues (MCZK 9,306) and other operating revenues for 2% (MCZK 222.5). Compared with 2011, total revenues increased by MCZK 154.2 which was due to the contribution from the Renewable Sources and Cogeneration item.

The Company's total assets value reached MCZK 27,437.3, major part of it is formed by the long-term assets value of MCZK 25,247 which results namely from investments to distribution networks. Current assets of MCZK 2,153.4 decreased year-on-year by MCZK 378.4, especially due to a decrease of the item Estimated Accounts Receivables (by MCZK 107.3) caused by decrease in unbilled distribution services and decrease in item Bank Accounts (by MCZK 182.2). Accruals reached the value MCZK 2.9.

In terms of liabilities, there was a decrease in equity to MCZK 19,118.6 due to a year-on-year fall of profit. The statutory reserve fund also increased to MCZK 418 as part of the equity. The items Long-term and Short-term payables as part of External Sources changed due to the repayment of one of the loans of the parent company and drawdown of a new loan. 69.7% of the financing of the Company came from the Company's own sources, 23.7% from external sources and 6.6% from other liabilities. Accruals of MCZK 1,825.6 are due particularly to the value of deferred revenues further to the shares of connection applicants.

The Company reached an operating cash flow of MCZK 2,134.1, which was used together with income from investment contributions and loans in the Group for financing the investment programme (MCZK 1,806.3) and payment of dividends and fees (MCZK 1,076.2). Just as in previous years, the cash flow had to be secured through loans in connection with the earlier convergence to an annual billing period.

	Unit	2012	2011	2010	2009	Index 2011/ 2012	Calculation formula
<b>Level of liquidity</b>							
Total revenues	MCZK	<b>9,570.1</b>	9,416.0	7,984.0	7,086.2	1.02	Total revenues
Sales margin from the distribution sales <sup>2</sup>	MCZK	<b>4,406.0</b>	4,446.7	4,119.1	4,694.8	0.99	Sales margin from distribution
Profit after tax	MCZK	<b>992.6</b>	1,133.2	910.2	684.6	0.88	Profit after tax
Profit after tax without VOD <sup>1</sup>	MCZK	<b>992.7</b>	1,126.6	905.3	675.1	0.88	Profit after tax – deferred tax
<b>Level of profitability of revenues</b>							
Sales margin from the distribution sales per CZK 1 of revenues	%	<b>47.3</b>	48.8	53.2	68.5	0.97	Sales margin from electricity sales / sales of electricity x 100
Added value per CZK 1 of revenues	%	<b>29.7</b>	31.2	33.6	33.9	0.95	Added value / total revenues x 100
Profit before tax per CZK 1 of revenues	%	<b>12.8</b>	15.3	14.2	12.0	0.84	Profit/loss from regular activity before tax / total revenues x 100
Profit without VOD <sup>1</sup> after tax per CZK 1 of revenues	%	<b>10.4</b>	12.0	11.3	9.5	0.87	Profit after tax / total revenues x 100
<b>Level of liquidity</b>							
Regular liquidity	%	<b>190.6</b>	99.3	124.1	624.2	1.92	Short-term assets / short-term payables x 100
Turnover of short-term receivables	Number of turnovers	<b>4.4</b>	3.7	3.1	2.8	1.19	Total revenues / status of short-term receivables at the end of the year
Turnover of short-term payables	Number of turnovers	<b>8.5</b>	3.7	3.8	17.8	2.30	Total revenues / status of short-term payables at the end of the year
Equity interest in total invested capital	%	<b>69.7</b>	69.8	69.7	70.1	1.00	Equity / total invested capital x 100
Equity interest to foreign capital	%	<b>229.8</b>	231.3	230.5	234.8	0.99	Equity / total foreign capital x 100
<b>Level of return</b>							
Sales margin from distribution per CZK 1 (long-term + long-term payables) x 100	%	<b>16.9</b>	17.9	16.5	17.9	0.95	Sales margin from distribution / Equity + long-term payables
Return on sales – ROS without VOD <sup>1</sup>	%	<b>10.4</b>	12.0	11.3	9.5	0.87	Profit after tax / total revenues x 100
Return on total assets – ROA without VOD <sup>1</sup>	%	<b>3.6</b>	4.1	3.3	2.5	0.88	Profit after tax / total assets x 100
Return on equity – ROE without VOD <sup>1</sup>	%	<b>5.2</b>	5.9	4.8	3.6	0.88	Profit after tax / equity x 100
Return on invested capital	%	<b>4.7</b>	5.4	4.4	3.5	0.86	(Profit before tax + expense interest) / total invested capital x 100
Turnover of total invested capital	Number of turnovers	<b>0.3</b>	0.3	0.3	0.3	1.02	Total revenues / total invested capital
Added value labour productivity	TCZK/ employee	<b>5,568.3</b>	5,790.0	5,329.8	4,676.1	0.96	Added value / average adjusted number of employees
Total revenues labour productivity	TCZK/ employee	<b>18,728.3</b>	18,571.9	15,841.2	13,786.4	1.01	Total revenues / average adjusted number of employees
Average adjusted number of employees	persons	<b>511</b>	507	504	514	1.01	Number of persons

Note: <sup>1</sup> Without the impact of deferred tax.

<sup>2</sup> In view of the more faithful picture of gross profit from the sales of distribution services the item "Distribution and System Services Purchase Expenses" has also been reporting since 2011 the electricity purchase expenses for own consumption and coverage of the Company energy losses. The data for 2010 have been revised likewise.

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

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

In the framework of environmental protection policy, considerable funds are invested to modernisation of distribution networks technology equipment which are used e.g. for protection of wild birds. In view of reducing risks of possible contamination of surface and groundwater, a continuous replacement of older oil transformers by hermetically sealed or dry transformers (without oil tanks) is carried out.

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

The ISO 14 001 – EMS system has been introduced in the Group and in the Company. A recertification audit which confirmed the rightfulness of using these certificates and extended their validity until 2015, was carried out in both Companies in 2012.

In 2012 all the VHV/HV substations were examined as regards the occurrence of environmental damage. Evaluation proved high degree of safeguarding, and secluding potential factors that may be detrimental to the environment.

## Environmental Protection Policy

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

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

## Safety and Protection of Health at Work Policy

The Company is a holder of "Safe Enterprise Award". This system of safety and health protection management at work is based on the responsibility of all employees for their health, creation of safe work procedures, technologies and observance of legal regulations in all work activities. From the very beginning, the introduction of the system brought good results, above all in work injury rate. In 2012 three work injuries were reported which is almost less than half of the number of injuries reported in previous year. Work injuries happened do to careless handling and while walking. They were not caused by breaching regulations or malfunction of technical equipment.

The PRE Group (including PREdistribuce, a.s.) has been awarded for the third time the title "Third Level Health Supporting Enterprise" which is the highest award in this area.

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

- safety and protection of health at work as an integral part of the Company's activity management,
- common objective of the Group's management members and all employees – to avoid risk situations and threats by consistent observance of occupational safety principles,
- system of corporate norms applying to health protection, preventive checks, OOPP and risk analysis of individual work activities ensures that legislation is upheld and the obligations of the employer and employees are observed.



## “SCADA” Project

The grid through which electricity flows to PRE customers is like an extensive cobweb which must be monitored constantly. The dispatching equipment is divided by the voltage levels and at the HV level then according to areas in a total of four dispatch rooms. The entire VHV grid and part of the HV grid is monitored by the SCADA System.

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### Ota Schmidt

Head of the Power Dispatch Department

How would you as head of dispatch briefly describe its function?

There are stations in the grid and equipment in them which continually monitor the situation of the elements, measure the currents and other parameters and send the results to us at the control centre. The SCADA System constantly processes this data. Thanks to the system we have a constant view of events in the grid and also the possibility of controlling these stations remotely.

What exactly does “control” mean?

There are many switching elements in the grid – breakers, switch isolators... These can be controlled via the SCADA System so that PREdistribuce, a.s. customers have a constant supply of power. All faults in the grid are guarded by protection. When protection “sees” a fault, it instructs the relevant breaker to “switch if off”. It sends the information about this step via the SCADA System to dispatch. Here an alarm is sounded, all the information about the fault is written up, the site of the fault is coloured in the diagram and the dispatcher can respond immediately. Sometimes it is possible to handle the fault remotely, but usually a crew needs to be sent out to the site. The dispatcher manages the crew and the steps which the crew take on site are simulated manually in the SCADA System so it can be seen what the current situation is in the grid in the field. The fact that the fault equipment is defined means the power can be redirected by other routes. This means that we can immediately restore the supply of power to customers and subsequently handle the repair.

So is this the primary function of the SCADA System?

Yes, it serves as information support for dispatchers when defining faults, which is one of the main processes of dispatch. Another is the planning of the grid operation. The grid lives, develops constantly and must be continuously maintained. Every day several dozen pieces of equipment need to be switched off as planned, and then switched back on. Thanks to the SCADA System this planned work can be prepared to minimise the impact of grid reliability and so that customers’ power supply is not interrupted.



# Risk Management System in the Company

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

The most significant body is the Risk Management Committee which discusses in detail the most important risks and determines the risk management strategy as regards the Company's main risk exposure based on the Risk Management Summary Report. The committee continually monitors the overall impact of risks on the Company's management and the consolidated unit of the PRE Group.

The main objective is to increase the Company's value by taking only acceptable risks. Other functions include the function of timely warning and assessment of the efficiency of remedial measures. The focal point of interest is the main monitored risks which, according to the assessment, potentially pose the greatest threat. Constant efforts are made to identify all current risks which are concentrated in a list of risks.

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

Identification processes, analyses, measuring, monitoring and reporting of individual risks form the basic components of the risk management system.

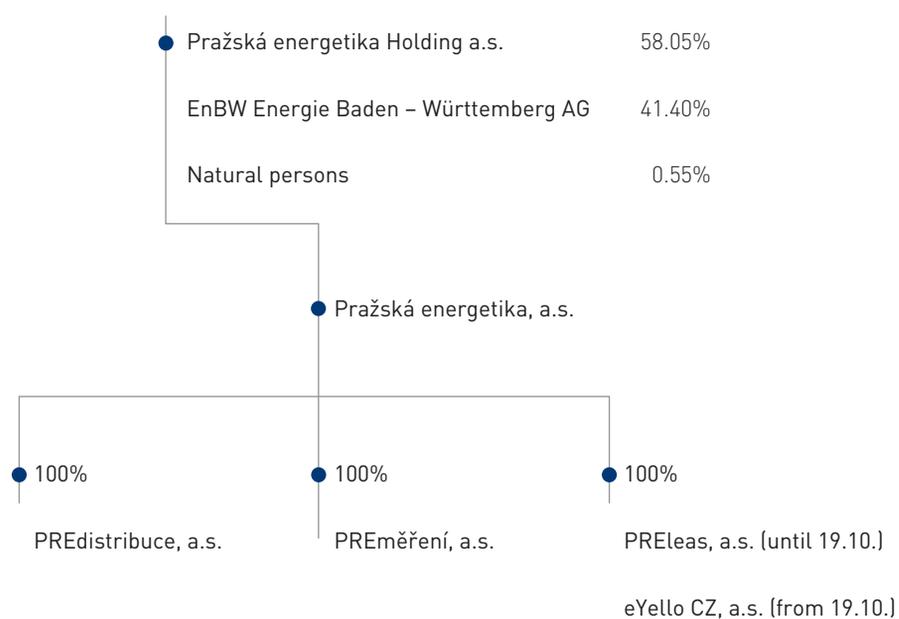
Systematic risk monitoring is performed in credit, legislative-regulatory and operating risk and other risk categories.

Legislative-regulatory risks have the strongest impact on the Company's activity; in the mid-term horizon these risks are particularly connected with possible changes accompanying the fourth regulatory period.

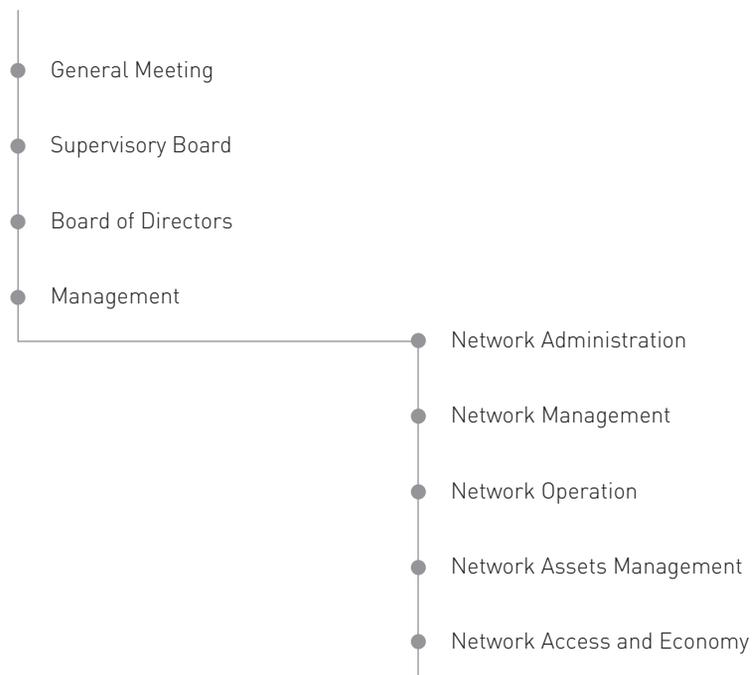
Depending on their nature operating risks are decentralised to special departments and only the most significant of these are verified by internal audits.

The risk management system and its methodology are based on procedures established in the EnBW Group. Monitored risks are reported in a uniform structure of reports and in periods set by the risk management rules of the EnBW concern. Risk reporting is supported by a uniform IT platform. The further development of the risk management system is based on the results of the continuing cooperation within the EnBW shareholder group using the know-how it shares in this area.

# The PRE Group and Company Management



# Company Organization Chart



# Report on General Meetings held during the Year

During 2012 two General Meetings were held (in the form of a decision of the parent company as the sole shareholder); one was ordinary, the other per rollam.

## General meeting on 19 April 2012

The subject of the meeting was:

- approval of:
  - the Report of the Board of Directors Report on Company management in 2011 and the state of its assets,
  - the Report on Relations between the related persons,
  - the Regular Financial Statements for 2011, distribution, remuneration of members of the Company bodies and allocations to funds,
  - the level and method of paying out dividends,
  - the Annual Report for 2011,
  - the remuneration of the members of the Company bodies and remuneration of the members of the Board of Directors who have employment relation with the Company and also the texts of contracts about the conditions for executing the position of a member of the Board of Directors,
  - the Report of the Board of Directors on the entrepreneurial policy of the Company in 2012,
- taking to consideration:
  - the Report of the auditor on the regular financial statements for 2011,
  - the Report of the Supervisory Board.

## General Meeting (per rollam) on 22 – 26 June 2012

The subject of the General Meeting was the decision (in accordance with Article 14 (3) e of the Company's Articles of Association) to remove Petr Hulinský from the office of the Supervisory Board member of PREdistribuce, a.s., effective as of 27 June.

***On 11 April 2013, the General Meeting (by the decision of the parent company as a sole shareholder) approved the change to the Articles of Association (the possibility of Company bodies being able to make decisions outside a meeting).***

# The Company Line of Business

The line of business is as follows:

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

# Information required in accordance with Legislation in Force

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

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

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

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

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

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

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

The Company did not interrupt its business in 2012.

## **Significant change of the Company's financial situation.**

No significant change in the Company's financial situation occurred since the last financial period.

## **Realization of redemption offer.**

The Company did not receive any redemption offer.

## **Assumed economic results of the Company.**

Information may be found in the following chapters of the Annual Report – "Foreword of Chairman of the Board of Directors", "Company Strategy", and "Investments or Strategic Investments".

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

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

## **Information about objectives and methods of the Risk Management in the Company.**

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

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

The data are found in the financial statements.

# Report on Relations between Connected Persons

Report on the Relations between the Controlling and Controlled Person and on the Relations between the Controlled Person and Other Persons Controlled by the Same Controlling Person in accordance with Section 66a (9) of the Commercial Code. (Report on Relations between Connected Persons).

## **The Controlling Person: Pražská energetika, a.s.**

with registered office: Prague 10, Na Hroudě 1492/4, PCN 100 05, ID No.: 60193913, entered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 2405.

## **The Controlled Person PREdistribuce, a.s.**

with registered office: Prague 5, Svornosti 3199/19a, PCN 150 00, ID No.: 27376516, entered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 10158.

## List of other Persons controlled by the same Controlling Person:

### **The Controlled Person: PREměření, a.s.**

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

### **The Controlled Person: PREleas, a.s. from 19.10.2012 entered under business name eYello, a.s.**

with registered office: Prague 10, Limuzská 2110/8, PCN 100 00, ID No.: 25054040, entered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 4033.

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

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

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

- Amendment No 1 – in force as of 28.12.2006
- Amendment No. 2 – in force as of 31.12.2007
- Amendment No. 3 – in force as of 31.12.2008
- Amendment No. 4 – in force as of 1.4.2009
- Amendment No. 5 – in force as of 15.12.2009
- Amendment No. 6 – in force as of 21.12.2010
- Amendment No. 7 – in force as of 21.6.2011
- Amendment No. 8 – in force as of 23.12.2011

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

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

- “Lease Contract” No. PS20000007/004** – in force as of 1.1.2007 for indefinite period  
 Amendment No. 1 – in force as of 1.1.2008  
 Amendment No. 2 – in force as of 1.3.2009  
 Amendment No. 3 – in force as of 1.2.2012
- “Lease Contract” No. P200006/05** – in force as of 1.1.2006 for indefinite period  
 Amendment No. 1 – in force as of 1.9.2006  
 Amendment No. 2 – in force as of 1.3.2008  
 Amendment No. 3 – in force as of 1.4.2011
- “Lease Contract” No. P200006/06** – in force as of 1.1.2006 for indefinite period  
 Amendment No. 1 – in force as of 1.9.2006  
 Amendment No. 2 – in force as of 1.4.2007  
 Amendment No. 3 – in force as of 31.12.2007
- “Contract on the Lease of Non-residential Premises” No. P200006/09** – in force as of 1.1.2006 for indefinite period  
 Amendment No. 1 – in force as of 1.12.2007  
 Amendment No. 2 – in force as of 1.9.2008  
 Amendment No. 3 – in force as of 1.4.2010  
 Amendment No. 4 – in force as of 1.4.2011
- “Contract on the Lease of Garage Parking Lot” No. P200006/10** – in force as of 1.1.2006 for indefinite period  
 Amendment No. 1 – in force as of 31.12.2007  
 Amendment No. 2 – in force as of 1.1.2010
- “Contract on the Lease of Garage Parking Lot” No. P200006/11** – in force as of 1.1.2006 for indefinite period  
 Amendment No. 1 – in force as of 1.11.2007  
 Amendment No. 2 – in force as of 1.1.2008  
 Amendment No. 3 – in force as of 1.4.2010  
 Amendment No. 4 – in force as of 1.2.2011
- “Contract on the Lease of Garage Parking Lot” No. P200006/13** – in force as of 1.1.2006 for indefinite period
- “Contract on Electricity Supplies to cover Losses in the Distribution System for the Distribution System Operator Own Needs” No. P200006/14** – in force as of 1.1.2006 for indefinite period
- “General Contract on Electricity Distribution to Customers’ Consumption Points of the Trader with Electricity” PS20000011/011** – in force as of 1.1.2011 for indefinite period
- “Contract on Provision Short-term Loans” No. P200006/22** – in force as of 30.11.2005 for indefinite period  
 Amendment No. 1 – in force as of 25.1.2006  
 Amendment No. 2 – in force as of 17.6.2008  
 Amendment No. 3 – in force as of 25.6.2008  
 Amendment No. 4 – in force as of 13.10.2008
- “General Mandate Contract for Construction of Telecommunications Equipment” No. P200006/27** – in force as of 2.5.2006 for indefinite period
- “Licence Contract” No. PS20000011/029** – in force as of 3.1.2011 for indefinite period
- “Lease Contract” No. N021106/015** – in force as of 2.1.2006 for indefinite period  
 Amendment No. 1 – in force as of 31.12.2008  
 Amendment No. 2 – in force as of 9.12.2009  
 Amendment No. 3 – in force as of 6.12.2011

**"Lease Contract – Plastic Billboards" No. NO21106/001** – in force as of 30.12.2005 for indefinite period  
 Amendment No. 1 – in force as of 1.1.2010  
 Amendment No. 2 – in force as of 1.1.2011  
 Amendment No. 3 – in force as of 29.12.2011

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

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

**"Lease Contract" No. PG3530/07/2008/22** – in force as of 1.8.2008 for indefinite period  
 Amendment No. 1 – in force as of 1.1.2009

**"Contract on Loan No. 1/2009" No. PS20000009/017** – in force from 6.6.2009 to 30.6.2012  
 Amendment No. 1 – in force as of 29.6.2009  
 Amendment No. 2 – in force as of 29.6.2010  
 Amendment No. 3 – in force as of 29.6.2011

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

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

**"Contract on Creation of Easement" No. VV/G33/03236/07/3065** – in force as of 22.1.2007 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/03502/07/4849** – in force as of 22.1.2007 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/03665/07/4394** – in force as of 16.11.2007 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/03938/08/5562** – in force as of 31.3.2008 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/04067/07/6065** – in force as of 9.11.2007 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/04295/08** – in force as of 4.2.2008 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/04449/08/5877** – in force as of 10.10.2008 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/04457/08** – in force from 31.3.2008 to 2.4.2048

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

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

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

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

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

**"Contract on Creation of Easement" No. VV/G33/08100/1215718** – in force as of 6.6.2012 for indefinite period

**"Contract on Creation of Easement" No. VV/G33/08212/1216021** – in force as of 20.4.2012 for indefinite period

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

**"Contract on Sublease of Distribution System" No. N21112/012** – in force from 1.2.2012 to 31.12.2013

**"Contract on Advertising" No. N21112/039** – in force from 26.3.2012 to 31.12.2012

**"Lease Contract" No. NO21112/016** – in force from 1.11.2012 to 30.6.2013

**"Lease Contract" No. NO21112/017** – in force from 1.12.2012 to 31.3.2013

**"Contract on Loan No. 1/2011" PS20000011/028** – in force from 28.11.2011 to 30.11.2014  
 Amendment No. 1 – in force as of 29.11.2011

**"Contract on Loan No. 1/2012" No. PS20000012/032** – in force from 28.6.2012 to 29.6.2015  
 Amendment No. 1 – in force as of 29.6.2012

**"Contract for Work on Provision of Dispatching Services, Operation and Work on HV equipment in RS 8900 transformer station in premises of FN Motol" No. PS23330212/0025** – in force from 1.1.2012 to 31.12.2012

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

### PREměření, a.s.

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

Amendment No. 1 – in force as of 1.1.2008

Amendment No. 2 – in force as of 1.1.2009

Amendment No. 3 – in force as of 1.1.2010

Amendment No. 4 – in force as of 1.1.2011

Amendment No. 5 – in force as of 1.7.2011

Amendment No. 6 – in force as of 1.1.2012

**“Contract on Delivery of Malfunctioning Metering Equipment” No. S252007/003, C00261/06** – in force as of 30.12.2006 for indefinite period

**“Contract on Delivery of used Metering Equipment” No. S252007/004, C00260/06** – in force as of 30.12.2006 for indefinite period

**“Contract for Work” No. P20006/19, C00203/06** – in force as of 1.3.2006 for indefinite period

Amendment No. 1 – in force as of 2.1.2008

**“Contract on Lease of Land” No. N21110/016, C00418/10** – in force from 1.4.2010 to 31.12.2030

**“Contract on Lease of Land” No. N021110/004, C00438/10** – in force from 1.9.2010 to 31.12.2030

**“Contract on Lease of Land” No. N21110/039, C00436/10** – in force from 1.10.2010 to 31.12.2035

Amendment No. 1 – in force as of 9.12.2010

**“Contract on Lease of a Part of Property” No. N021110/005, C00439/10** – in force from 1.10.2010 to 31.12.2035

Amendment No. 1 – in force as of 9.12.2010

**“Contract on Delivery of Metering Equipment” No. KV/S21/1215317, C00546/11** – in force from 10.1.2012 to 31.12.2012

**“Contract on Settlement of Regulated Payments for Electricity Generated from Renewable Sources No. 65024896/2010, PS25002110/133, PS25002110/033, PS25002110/208, PS25002110/209, PS25002110/210, PS25002110/213, PS25002110/214 (C00462/10)** – in force as of 20.12.2010 for indefinite period

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

Amendment No. 1 – in force as of 1.4.2011

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

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

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

Amendment No. 1 – in force as of 1.4.2011

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

Amendment No. 1 – in force as of 1.4.2011

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

Amendment No. 1 – in force as of 1.4.2011

Amendment No. 2 – in force as of 1.4.2011

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

Amendment No. 1 – in force as of 1.4.2011

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

Amendment No. 1 – in force as of 1.4.2011

**"Contract on Electricity Supply from Renewable Sources" (C00469/10) (FVE Hrouda)** – in force as of 28.12.2010 for indefinite period  
Amendment No. 1 – in force as of 1.4.2011

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

**"Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200012/003, C00564/12**  
– in force from 2.3.2012 to 28.2.2013

**"Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200012/002, C00571/12**  
– in force from 10.4.2012 to 28.2.2013

**"Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200012/005, C00619/13**  
– in force from 20.6.2011 to 28.2.2013

**"Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200012/004, C00620/13**  
– in force from 1.2.2011 to 28.2.2013

**PREleas, a.s. from 19.10.2012 entered under business name eYello, a.s.**

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

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

**Leasing contract No. 0400006** – in force as of 1.2.2004

**Leasing contracts No. 0500001 to 0500003** – in force as of 1.2.2005

### III. Commentary of the Statutory Body

Further to Section 66a (9) of the Commercial Code the abovementioned contracts were concluded or were already in force for the last accounting period between Pražská energetika, a.s., as the controlling person, and PREdistribuce, a.s., as the controlled person, and also between PREdistribuce, a.s., as the controlled connected person and the controlled and connected persons, the companies PREměření, a.s. and eYello, a.s. (former PREleas, a.s.).

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

The Company has decided not to disclose the values of fulfillment under the terms of the stated contracts due to business confidentiality.

In Prague, 31 January 2013



**Milan Hampl**  
Chairman of the Board of Directors



**Petr Dražil**  
Vice Chairman of the Board of Directors

# Supervisory Board Report

In 2012 the Supervisory Board performed tasks as laid down by the law and the Company's Articles of Association. In accordance with § 197 – § 201 of the Act No. 513/1991 Coll. as amended, the Supervisory Board supervised the activities of the Board of Directors, its performance of business activities, fulfilment of the instructions of the Company's General Meeting and assessment of the Company's business plan. In 2012 the Supervisory Board met four times.

At its meetings the Supervisory Board continuously became acquainted with the economic results, organisational and personnel matters. The Supervisory Board was also during the meetings informed about the fulfilment of the investment plan and proposals of investment projects.

The Supervisory Board discussed and analysed the regular financial statements for the year 2011 and became acquainted with the auditor's report to these regular financial statements.

The Supervisory Board also discussed and analyzed the Report on Relations between the Controlling and Controlled Person and Relations between the Controlled Person and other Persons Controlled by the same Controlling Person in accordance with § 66a, (9) of the Commercial Code for 2011, this year for 2012.

Thereafter the Supervisory Board also approved:

- explicit tasks of the Company's Director for 2012,
- assessment of tasks stipulated by the Company's Director for 2011,
- text of the Annual Report for 2011,
- Compliance Programme aimed at elimination of discriminatory behaviour of the distribution system operator.

At its meeting held in 2013, the Supervisory Board discussed and analyzed the regular financial statements for 2012 and became acquainted with the auditor's report to the regular financial statements; it approved the text of the Annual Report for 2012.

The Supervisory Board states that the Company's economic results in 2012 were very good and expresses its thanks to the members of the Company's Board of Directors and employees.

In Prague on 25 March 2013



**Hermann Lüschén**  
Vice Chairman of the Supervisory Board

# Independent Auditor's Report

To the Shareholders PREdistribuce, a.s.

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

Identification number: 273 76 516

## Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 25 February 2013 on the financial statements which are included in this annual report on pages 54 to 71:

We have audited the accompanying financial statements of PREdistribuce, a.s., which comprise the balance sheet as of 31 December 2012, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Statutory Body's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of PREdistribuce, a.s. as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

## Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of PREdistribuce, a.s. for the year ended 31 December 2012 which is included in this annual report on pages 46 to 50. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of PREdistribuce, a.s. for the year ended 31 December 2012 contains material factual misstatements.

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

## Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2012 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company is consistent, in all material respects, with the financial statements referred to above.

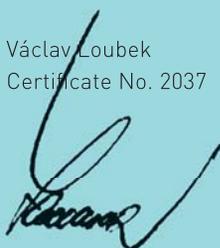
In Prague on 22 May 2013

Audit firm:

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

Statutory auditor:

Václav Loubek  
Certificate No. 2037



# Separate Financial Statements in Full Version as at 31 December 2012

Prepared in accordance with the Accounting Act 563/1991 Coll., as amended; the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

## Income Statement (CZK thousand)

Line	Text	Note	2012	2011
I. 1.	Sales of distribution services in the Group		6,872,679	7,118,282
I. 2.	Sales of distribution services outside the Group		2,433,296	1,994,509
A.	Costs of distribution and system services		(4,899,985)	(4,666,108)
<b>+</b>	<b>Gross margin</b>	<b>(1)</b>	<b>4,405,990</b>	<b>4,446,683</b>
II.	Other income	(1)	34,881	28,161
II. 1.	Income from other services		34,881	28,161
B.	Purchased consumables and services	(3)	(1,595,452)	(1,539,295)
B. 1.	Consumed material and energy		(48,067)	(41,512)
B. 2.	Purchased services		(1,547,385)	(1,497,783)
<b>+</b>	<b>Added value</b>		<b>2,845,419</b>	<b>2,936,814</b>
C.	Staff costs	(2)	(409,758)	(388,545)
C. 1.	Payroll costs		(277,741)	(263,903)
C. 2.	Remuneration to members of statutory bodies		(3,141)	(3,286)
C. 3.	Social security and health instance costs		(97,775)	(94,002)
C. 4.	Social costs		(31,101)	(27,354)
D.	Taxes and fees		(14,547)	(9,274)
E.	Depreciation of tangible and intangible fixed assets	(7, 8)	(1,325,920)	(1,265,792)
III.	Sales of fixed assets and material		(6,780)	(66,736)
III. 1.	Sales of fixed assets		(6,762)	(66,735)
III. 2.	Sales of material		18	1
F.	Net book value of sold fixed assets		(18,010)	(28,754)
G.	Change in reserves and provisions		5,013	(809)
IV.	Other operating income	(1)	222,502	207,790
H.	Other operating expenses		(21,855)	(19,409)
<b>*</b>	<b>Operating profit or loss</b>		<b>1,289,624</b>	<b>1,497,492</b>
X.	Interest income	(4)	–	471
N.	Interest expenses	(4)	(59,732)	(53,648)
XI.	Other financial income		7	28
O.	Other financial expenses		(213)	(147)
<b>*</b>	<b>Financial profit or loss</b>		<b>(59,938)</b>	<b>(53,296)</b>
Q.	Income tax on ordinary activities	(5)	(237,092)	(276,698)
Q. 1.	- payable		(236,984)	(275,196)
Q. 2.	- deferred		(108)	(1,502)

Line	Text	Note	2012	2011
<b>**</b>	<b>Profit or loss on ordinary activities</b>		<b>992,594</b>	<b>1,167,498</b>
R.	Extraordinary expenses	(6)	–	(42,378)
S.	Income tax from extraordinary activities	(5)	–	8,052
S. 2.	- deferred		–	8,052
<b>** *</b>	Extraordinary loss		–	(34,326)
<b>****</b>	<b>Profit or loss for the current period</b>		<b>992,594</b>	<b>1,133,172</b>

## Balance Sheet (CZK thousand)

Line	Text	Note	2012			2011
			Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>		<b>48,402,365</b>	<b>(20,965,032)</b>	<b>27,437,333</b>	<b>27,504,513</b>
<b>B.</b>	<b>Fixed assets</b>		<b>46,226,890</b>	<b>(20,945,867)</b>	<b>25,281,023</b>	<b>24,970,165</b>
B. I.	Intangible fixed assets	(8)	45,287	(11,324)	<b>33,963</b>	40,068
B. I. 2.	Research and development		24,622	(11,242)	<b>13,380</b>	4,906
3.	Software		82	(82)	–	–
7.	Intangible fixed assets under construction		20,583	–	<b>20,583</b>	35,162
B. II.	Tangible fixed assets	(7)	46,181,503	(20,934,543)	<b>25,246,960</b>	24,929,997
B. II. 1.	Land		564,062	–	<b>564,062</b>	474,172
2a.	Cable and external wiring		19,480,593	(7,552,573)	<b>11,928,020</b>	11,762,062
2b.	Power structures		13,355,219	(6,625,653)	<b>(6,729,566)</b>	6,645,515
3a.	Transformer station and switching station technologies		8,488,195	(4,063,193)	<b>4,425,002</b>	4,454,483
3b.	Logistics and management equipment/technology		1,678,646	(1,278,006)	<b>400,640</b>	369,327
3c.	Other fixtures and equipment		266,173	(159,926)	<b>106,247</b>	92,594
6.	Other tangible fixed assets – electricity meters in the network		1,920,788	(1,255,192)	<b>665,596</b>	718,571
7b.	Other tangible fixed assets under construction		383,208	–	<b>383,208</b>	371,703
8.	Prepayments for tangible fixed assets		44,619	–	<b>44,619</b>	41,570
B. III.	Non-current financial assets		100	–	<b>100</b>	100
<b>C.</b>	<b>Current assets</b>		<b>2,172,586</b>	<b>(19,165)</b>	<b>2,153,421</b>	<b>2,531,862</b>
C. II.	Long-term receivables		32	–	<b>32</b>	39
C. II. 1.	Trade receivables		18	–	<b>18</b>	25
5.	Long-term prepayments made		14	–	<b>14</b>	14
C. III	Short-term receivables		2,170,813	(19,165)	<b>2,151,648</b>	2,348,113
C. III. 1.	Trade receivables	(10)	111,140	(19,165)	<b>91,975</b>	105,684
2.	Receivables – controlling entity	(17)	21,686	–	<b>21,686</b>	49,541
6.	State – tax receivables		12,790	–	<b>12,790</b>	60,199
7.	Short-term prepayments made		1,599	–	<b>1,599</b>	1,735
8.	Estimated receivables	(17)	2,022,511	–	<b>2,022,511</b>	2,129,799
9.	Other receivables		1,087	–	<b>1,087</b>	1,155

Line	Text	Note	2012			2011
			Gross	Adjustment	Net	Net
C. IV.	Current financial assets		1,741	–	<b>1,741</b>	183,710
C. IV. 1.	Cash on hand		1,741	–	<b>1,741</b>	1,496
	2. Cash at bank		–	–	–	182,214
D. I.	Deferred expenses and accrued income		2,889	–	<b>2,889</b>	2,486
D. I. 1.	Deferred expenses		2,889	–	<b>2,889</b>	2,486

Line	Text	Note	2012	2011
	<b>TOTAL LIABILITIES</b>		<b>27,437,333</b>	<b>27,504,513</b>
<b>A.</b>	<b>Equity</b>	(11)	<b>19,118,603</b>	<b>19,202,209</b>
A. I.	Share capital		<b>17,707,934</b>	17,707,934
A. I. 1.	Share capital		<b>17,707,934</b>	17,707,934
A. III.	Funds from profit		<b>418,000</b>	361,000
A. III. 1.	Statutory reserve fund		<b>418,000</b>	361,000
A. IV.	Profit or loss for prior periods		<b>75</b>	103
A. IV. 1.	Retained earnings		<b>75</b>	103
A. V.	Profit or loss for the current period		<b>992,594</b>	1,133,172
<b>B.</b>	<b>Liabilities</b>		<b>6,493,088</b>	<b>6,416,384</b>
B. I.	Reserves	(12)	<b>216,528</b>	218,585
	4. Other reserves		<b>216,528</b>	218,585
B. II.	Long-term payables		<b>5,146,927</b>	3,646,851
B. II. 2.	Payables - controlling entity	(17)	<b>2,200,000</b>	700,000
	9. Other payables		–	32
	10. Deferred tax liability	(9)	<b>2,946,927</b>	2,946,819
B. III.	Short-term payables		<b>1,129,633</b>	2,550,948
B. III. 1.	Trade payables	(13)	<b>258,788</b>	475,659
	2. Payables – controlling entity	(17)	<b>765,229</b>	1,898,492
	5. Payables to employees		<b>15,924</b>	14,489
	6. Social security and health instance payables	(5)	<b>9,778</b>	9,579
	7. State – tax payables and subsidies	(5)	<b>7,374</b>	79,980
	8. Short-term prepayments received		<b>71,620</b>	72,749
	9. Estimated payables		<b>920</b>	–
C. I.	Accrued expenses and deferred income		<b>1,825,642</b>	1,885,920
C. I. 1.	Accrued expenses		<b>25,251</b>	25,383
	2. Deferred income	(14)	<b>1,800,391</b>	1,860,537

## Cash Flow Statement (CZK thousand)

	Note	2012	2011
Opening balance of cash and cash equivalents		183,710	1,863
<b>Operating activity</b>			
Sales of distribution service		9,285,261	9,337,473
Electricity consumption for network loss		(587,381)	(570,363)
Expenses for purchases of transit and system services		(4,286,826)	(3,987,434)
<b>Net sales of distribution services</b>	<b>(1)</b>	<b>4,411,054</b>	<b>4,779,676</b>
Expenses in the Group	(17)	(1,046,004)	(1,016,789)
Other operating expenses	(3)	(545,880)	(521,330)
Operating income	(1)	44,630	51,429
Short-term changes in working capital		57,592	40,197
Personnel expenses	(2)	(397,241)	(377,289)
Direct tax	(5)	(331,907)	(219,042)
Financial income and expenses	(4)	(58,186)	(51,349)
<b>Net cash flow from operating activity</b>		<b>2,134,059</b>	<b>2,685,504</b>
<b>Investment activity</b>			
Income from the sale of fixed assets		34,754	38,557
Expenses related to the acquisition of fixed assets	(7, 8)	(1,841,068)	(1,548,377)
Income from investment contributions	(14)	183,131	173,075
<b>Net cash flow from investment activity</b>		<b>(1,623,184)</b>	<b>(1,336,746)</b>
<b>Financial activity</b>			
Dividends and director's fees paid		(1,076,200)	(864,200)
Cash pooling in the Group		(16,644)	497,289
Loans in the Group	(17)	400,000	(800,000)
<b>Net cash flow from financial activity</b>		<b>(692,844)</b>	<b>(1,166,911)</b>
Change in cash and cash equivalents		(181,969)	181,847
<b>Closing balance of cash and cash equivalents</b>		<b>1,741</b>	<b>183,710</b>

## Notes to the financial statements – for the year ended 31.12.2012

### General Information

#### Establishment and Description of the Company

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

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

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

#### Statutory and Supervisory Bodies as of 31 December 2012

##### Board of Directors

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

##### Supervisory Board

Hermann Lüschen	Vice Chairman, EnBW AG, Germany
Pavel Elis	Member, Chairman of the Board of Directors and CEO of PRE
Alexander Manfred Sloboda	Member, Vice-Chairman of the Board of Directors of PRE and Sales Director of PRE
Karel Urban	Member, PREdi employee
Radek Hanuš	Member, PREdi employee

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

#### Organisational Structure:

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

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

## Accounting Policies

### Statement of Compliance

The financial statements were prepared in accordance with the Accounting Act 563/1991 Coll., as amended, the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

### Basis of the Preparation of Financial Statements

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

### Foreign Currency Translation

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

### Tangible and Intangible Fixed Assets

#### Assets Held by the Company

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

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

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

#### Low Value Tangible and Intangible Assets

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

#### Improvements

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

## Depreciation

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

Asset category	Depreciation period in years
Buildings and halls	50
Cable tunnels, cables and external wiring	40
Fibre-optics	30
Power structures	15, 25, 30
Working machines and equipment	5, 10, 12 and 20
Telecommunication equipment	4, 15
Machinery and special technology equipment, communication cables	10
Electricity meters	10, 12 and 16
Furniture and fixtures	8
Hardware, software	4

## Short-Term Receivables

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

## Investment Contributions

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

## Cash and cash equivalents

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

## Impairment Losses on Assets

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

## Share Capital

### Issued Shares

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

### Dividends

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

## Cash pooling

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

## Reserves

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

### Short-Term Payables

Short-term payables are stated at their nominal value.

### Revenue Recognition

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

### Expense Recognition

#### Operating Leases

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

#### Finance Leases

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

### Income Tax

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that it will be utilised in the following accounting periods.

### Cash Flow Statement

The Company decided to prepare its cash flow statements using the direct method starting from 2012. The statement prepared using the direct method provides more information for the operational management of the Company. Comparative information has been presented on a similar basis.

### Significant Accounting Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates. The Company considers the determination of the unbilled distribution of electricity the key area which is subject to the use of estimates. The increase in unbilled distribution is determined using the balance sheet approach as equal to the difference between the aggregate electricity input and output including losses and actual consumption for the relevant period. The total closing level is additionally reviewed by making a control calculation in the customer system.

## Contents of the Notes to the Financial Statements

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

### (1) Revenue (CZK thousand)

<b>Revenues and expenses relating to the supply of distribution services</b>	<b>2012</b>	<b>2011</b>
Sale of distribution and system services B2B	3,660,339	3,503,236
Sale of distribution and system services B2C (including B2B LV)	5,602,386	5,569,258
Other income	43,250	40,297
<b>Total income</b>	<b>9,305,975</b>	<b>9,112,791</b>
Costs of the purchase of distribution and system services	(4,899,985)	(4,666,108)
<b>Gross profit from the sale of distribution services</b>	<b>4,405,990</b>	<b>4,446,683</b>

<b>Other income</b>	<b>2012</b>	<b>2011</b>
Income from services rendered in the Group	19,369	13,980
Income from services rendered outside the Group	15,512	14,181
of which: servicing and assembly	9,660	7,032
lease of real estate	4,200	4,717
<b>Total</b>	<b>34,881</b>	<b>28,161</b>

<b>Other operating income</b>	<b>2012</b>	<b>2011</b>
Connection fees	179,102	169,807
Compensation for unauthorised consumption	27,329	24,598
Sundry	16,071	13,385
<b>Total</b>	<b>222,502</b>	<b>207,790</b>

## (2) Personnel Expenses (CZK thousand)

	2012	2011
	Staff including management	Staff including management
Average headcount	511	507
Payroll costs	251,071	241,479
Salaries paid depending on the Company's performance	26,670	22,424
Insurance	97,775	94,002
Remuneration of the members of the Company's bodies	3,141	3,286
Other social costs (according to the Collective Agreement) *)	31,101	27,354
<b>Total</b>	<b>409,758</b>	<b>388,545</b>

\*) Primarily costs of severance pays and employee benefits defined by the Collective Agreement, specifically catering contributions, bonuses paid to employees in relation to work or life anniversaries, retirement and contributions to additional pension insurance.

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

	2012	2011
Services of the parent company under the management contract	685,015	645,778
Lease of technologies and technology units	35,692	39,282
Lease of non-residential premises	71,830	71,323
Lease of cars	21,133	21,846
Assembly work and reading of meters	214,162	222,757
Sundry	12,810	12,065
<b>Costs of purchase of material, services and energies in the Group</b>	<b>1,040,642</b>	<b>1,013,051</b>
Material and consumed energies	42,765	36,142
Repairs of fixed assets	308,727	297,491
Lease of cable tunnels	93,470	91,366
Lease of non-residential premises	37,559	38,281
Sundry	72,289	62,964
<b>Costs of purchase of material, services and outside of the Group</b>	<b>554,810</b>	<b>526,244</b>
<b>Total</b>	<b>1,595,452</b>	<b>1,539,295</b>

#### (4) Interest Expenses and Income (CZK thousand)

	2012	2011
Interest income arising from cash pooling	–	471
Interest expenses: from cash pooling	(7,666)	(1,643)
from intercompany loans	(65,136)	(76,157)
from employee benefits *)	(1,621)	(2,179)
capitalised interest	14,691	26,334
other	–	(3)
<b>Total (net)</b>	<b>(59,732)</b>	<b>(53,177)</b>

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

#### (5) Income Taxes (CZK thousand)

Effective tax rate	2012		2011	
Profit or loss for the period after tax	992,594	–	1,133,172	–
Income tax from ordinary activity	237,092	–	276,698	–
Income tax from extraordinary activity	–	–	(8,052)	–
<b>Profit before tax</b>	<b>1,229,686</b>	<b>–</b>	<b>1,401,818</b>	<b>–</b>
Income tax using the applicable income tax rate	233,640	19.00%	266,345	19.00%
Impact of items that are never tax-deductible	3,268	0.27%	3,006	0.21%
Corrections of estimates of prior years' taxes	184	0.01%	(705)	(0.05%)
<b>Total income tax/effective tax rate</b>	<b>237,092</b>	<b>19.28%</b>	<b>268,646</b>	<b>19.16%</b>

Payables to the State	2012	2011
Payables arising from social security and health insurance contributions	9,778	9,579
State - tax payables *)	7,374	79,980

\*) Includes primarily corporate income tax and VAT in 2011 and personal income tax and VAT in 2012.

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

#### (6) Extraordinary Expenses (CZK thousand)

In 2011, the Company recognised a provision for salaries paid in dependence on the fulfilment of the plan set in the prior year and salaries corresponding to outstanding vacation days incurred as of the balance sheet date for the first time. Given that this item was not recognised in the prior period, it was presented as part of the extraordinary profit or loss in 2011. Since 2012, subsequent changes in the balance of payroll provisions have been reported in the line Personnel expenses.

(7) Tangible Fixed Assets (CZK mil.)

	Land	Power structures	Cables and external wiring	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
<b>Cost</b>								
<b>Balance at 31 Dec 2010</b>	<b>364.3</b>	<b>20,396.9</b>	<b>18,195.1</b>	<b>1,574.5</b>	<b>1,941.0</b>	<b>257.1</b>	<b>434.4</b>	<b>43,163.3</b>
Additions	118.1	522.5	669.2	47.8	34.0	4.9	306.8	1,703.3
Disposals	(8.2)	(133.9)	(119.6)	(40.8)	(88.3)	(21.5)	(1.8)	(414.1)
Reclassification	–	468.5	203.1	38.6	30.6	0.3	(326.1)	415.0
<b>Balance at 31 Dec 2011</b>	<b>(474.2)</b>	<b>21,254.0</b>	<b>18,947.8</b>	<b>(1,620.1)</b>	<b>1,917.3</b>	<b>240.8</b>	<b>413.3</b>	<b>44,867.5</b>
<b>Accumulated depreciation</b>								
<b>Balance at 31 Dec 2010</b>	<b>–</b>	<b>(9,363.3)</b>	<b>(6,764.2)</b>	<b>(1,213.2)</b>	<b>(1,143.8)</b>	<b>(153.6)</b>	<b>–</b>	<b>(18,638.1)</b>
Depreciation	–	(571.9)	(457.4)	(77.2)	(143.1)	(14.1)	–	(1,263.7)
Accumulated depreciation on disposals	–	112.9	118.9	39.6	88.2	19.7	–	379.3
Reclassification	–	(331.7)	(83.1)	–	–	(0.2)	–	(415.0)
<b>Balance at 31 Dec 2011</b>	<b>–</b>	<b>(10,154.0)</b>	<b>(7,185.8)</b>	<b>(1,250.8)</b>	<b>(1,198.7)</b>	<b>(148.2)</b>	<b>–</b>	<b>(19,937.5)</b>
Net book value at 31 Dec 2010	364.3	11,033.6	11,430.9	361.3	797.2	103.5	434.4	24,525.2
<b>Net book value at 31 Dec 011</b>	<b>474.2</b>	<b>11,100.0</b>	<b>11,762.0</b>	<b>369.3</b>	<b>718.6</b>	<b>92.6</b>	<b>413.3</b>	<b>24,930.0</b>

	Land	Power structures	Cables and external wiring	Telecommunication and information technologies	Electricity meters	Other	Assets under construction	Total
<b>Cost</b>								
<b>Balance at 31 Dec 2011</b>	<b>474.2</b>	<b>21,254.0</b>	<b>18,947.8</b>	<b>1,620.1</b>	<b>1,917.3</b>	<b>240.8</b>	<b>413.3</b>	<b>44,867.5</b>
Additions	90.3	558.1	562.6	102.9	67.9	11.9	263.2	1,656.9
Disposals	(0.8)	(89.2)	(107.6)	(57.6)	(87.1)	(2.7)	(1.2)	(346.2)
Reclassification	0.4	120.5	77.8	13.2	22.7	16.2	(247.5)	3.3
<b>Balance at 31 Dec 2012</b>	<b>564.1</b>	<b>21,843.4</b>	<b>19,480.6</b>	<b>1,678.6</b>	<b>1,920.8</b>	<b>266.2</b>	<b>427.8</b>	<b>46,181.5</b>
<b>Accumulated depreciation</b>								
<b>Balance at 31 Dec 2011</b>	<b>–</b>	<b>(10,154.0)</b>	<b>(7,185.8)</b>	<b>(1,250.8)</b>	<b>(1,198.7)</b>	<b>(148.2)</b>	<b>–</b>	<b>(19,937.5)</b>
Depreciation	–	(613.0)	(468.6)	(83.7)	(143.5)	(14.3)	–	(1,323.1)
Accumulated depreciation on disposals	–	78.2	101.8	56.5	87.0	2.6	–	326.1
Reclassification	–	–	–	–	–	–	–	–
<b>Balance at 31 Dec 2012</b>	<b>–</b>	<b>(10,688.8)</b>	<b>(7,552.6)</b>	<b>(1,278.0)</b>	<b>(1,255.2)</b>	<b>(159.9)</b>	<b>–</b>	<b>(20,934.5)</b>
Net book value at 31 Dec 2011	474.2	11,100.0	11,762.0	369.3	718.6	92.6	413.3	24,930.0
<b>Net book value at 31 Dec 2012</b>	<b>564.1</b>	<b>11,154.6</b>	<b>11,928.0</b>	<b>400.6</b>	<b>665.6</b>	<b>106.3</b>	<b>427.8</b>	<b>25,247.0</b>

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

## (8) Intangible Fixed Assets (CZK mil.)

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

	Software	Other	Investments under construction	Total
<b>Cost</b>				
<b>Balance at 31 Dec 2011</b>	<b>0.1</b>	<b>13.3</b>	<b>35.2</b>	<b>48.6</b>
Additions	–	–	–	–
Disposals	–	–	–	–
Reclassification	–	11.3	(14.6)	(3.3)
<b>Balance at 31 Dec 2012</b>	<b>0.1</b>	<b>24.6</b>	<b>20.6</b>	<b>45.3</b>
<b>Accumulated amortisation</b>				
<b>Balance at 31 Dec 2011</b>	<b>(0.1)</b>	<b>(8.4)</b>	<b>–</b>	<b>(8.5)</b>
Amortisation	–	(2.8)	–	(2.8)
Accumulated amortisation on disposals	–	–	–	–
Reclassification	–	–	–	–
<b>Balance at 31 Dec 2012</b>	<b>(0.1)</b>	<b>(11.2)</b>	<b>–</b>	<b>(11.3)</b>
Net book value at 31 Dec 2011	–	4.9	35.2	40.1
<b>Net book value at 31 Dec 2012</b>	<b>–</b>	<b>13.4</b>	<b>20.6</b>	<b>34.0</b>

Pursuant to accounting policies (refer to Accounting Policies), low value fixed assets are expensed upon acquisition. The acquisition cost of these low value tangible assets with the acquisition cost under CZK 40 thousand which are in use as of the balance sheet date is CZK 78,484 thousand (2011: CZK 75,040 thousand). The Company owns no low value intangible fixed assets.

## (9) Deferred Tax Liability (CZK thousand)

Deferred tax assets and liabilities recognised in the balance sheet

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

	2012	2011
Fixed assets	2,988,803	2,988,944
Receivables	(1,682)	(1,521)
Reserves	(18,507)	(21,886)
Liability arising from the collective agreement	(21,687)	(18,718)
<b>Total</b>	<b>2,946,927</b>	<b>2,946,819</b>

## (10) Trade Receivables (CZK thousand)

As of 31 December 2012, past due trade receivables amounted to CZK 45,620 thousand on a gross basis (2011: CZK 33,732 thousand), of which receivables of CZK 23,336 thousand (2011: CZK 13,591 thousand) were up to six months past due, receivables of CZK 7,607 thousand (2011: CZK 4,336 thousand) were 6-12 months past due and receivables of CZK 14,677 thousand (2011: CZK 15,805 thousand) were more than 12 months past due.

## (11) Equity (CZK thousand)

Registered Share Capital and Types of Shares as of 31 December 2012

The Company's share capital consists of 21,549 registered shares (2011: 21,549 registered shares) with a nominal value of CZK 821,752 (2011: CZK 821,752).

Distribution of Profit

The General Meeting will decide on the distribution of profit of CZK 992,594 thousand (2011: CZK 1,133,172 thousand).

Statement of Changes in Equity

	Share capital	Reserve fund	Profit or loss	Retained earnings	Total equity
<b>Balance at 31 Dec 2010</b>	<b>17,707,934</b>	<b>315,000</b>	<b>910,240</b>	<b>63</b>	<b>18,933,237</b>
Creation of the reserve fund	-	46,000	(46,000)	-	-
Dividends paid	-	-	(851,000)	-	(851,000)
Directors' fees paid	-	-	(13,200)	-	(13,200)
Retained earnings	-	-	(40)	40	-
Net profit for 2011	-	-	1,133,172	-	1,133,172
<b>Balance at 31 Dec 2011</b>	<b>17,707,934</b>	<b>361,000</b>	<b>1,133,172</b>	<b>103</b>	<b>19,202,209</b>
Creation of the reserve fund	-	57,000	(57,000)	-	-
Dividends paid	-	-	(1,063,000)	-	(1,063,000)
Directors' fees paid	-	-	(13,200)	-	(13,200)
Retained earnings	-	-	28	(28)	-
Net profit for 2012	-	-	992,594	-	992,594
<b>Balance at 31 Dec 2012</b>	<b>17,707,934</b>	<b>418,000</b>	<b>992,594</b>	<b>75</b>	<b>19,118,603</b>

## (12) Reserves (CZK thousand)

	Business risks	Salaries	Employee benefits	Total
<b>Balance at 31 Dec 2010</b>	<b>76,879</b>	<b>-</b>	<b>101,885</b>	<b>178,764</b>
Creation of reserves in the current period	-	42,377	11,273	53,650
Use of reserves in the current period	(4,068)	-	(9,761)	(13,829)
<b>Balance at 31 Dec 2011</b>	<b>72,811</b>	<b>42,377</b>	<b>103,397</b>	<b>218,585</b>
Creation of reserves in the current period	-	-	20,903	20,903
Use of reserves in the current period	(6,173)	(11,611)	(5,176)	(22,960)
<b>Balance at 31 Dec 2012</b>	<b>66,638</b>	<b>30,766</b>	<b>119,124</b>	<b>216,528</b>
Long-term reserves	66,638	-	108,130	174,768
Short-term reserves	-	30,766	10,994	41,760
<b>Total</b>	<b>66,638</b>	<b>30,766</b>	<b>119,124</b>	<b>216,528</b>

Reserves are recognised in respect of the following:

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

## (13) Trade Payables (CZK thousand)

The Company records no trade payables past their due dates.

## (14) Temporary Liabilities (CZK thousand)

Deferred income

<b>Balance at 31 Dec 2010</b>	<b>1,862,521</b>
Investment contributions received	173,492
Investment contributions recognised in income *)	(169,807)
Correction factor of allowed income **)	(5,669)
<b>Balance at 31 Dec 2011</b>	<b>1,860,537</b>
Investment contributions received	183,962
Investment contributions recognised in income *)	(179,102)
Correction factor of allowed income **)	(65,006)
<b>Balance at 31 Dec 2012</b>	<b>1,800,391</b>

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

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

## (15) Leased Assets (CZK thousand)

### Operating Leases

As disclosed in the accounting policies, assets held by the Company under operating leases predominantly include cable conduits for ultra-high voltage and high voltage lines, non-residential premises for high- and low-voltage transformers and administrative buildings. The lease contracts have been concluded for an indefinite period of time.

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

	2012	2011
Cable conduits	93,470	91,366
Non-residential premises	37,559	38,281
Administrative buildings	71,830	71,323
Vehicles	21,133	21,846
<b>Total</b>	<b>223,992</b>	<b>222,816</b>

### Finance Leases

Finance leases include technologies and technological units. In the years ended 31 December 2012 and 2011, the Company paid CZK 35,692 thousand and CZK 39,282 thousand, respectively, in lease instalments.

## (16) Related Parties (CZK thousand)

The Company's CEO and members of the Board of Directors are considered the executive management. Members of the senior management can use company cars for private purposes.

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

	2012		2011	
	Executive management	Supervisory Board	Executive management	Supervisory Board
Number	4	5	4	6
Amounts received due to the existence of an employment *)	7,250	–	6,229	–
Amounts received due to the existence of the membership in statutory/ supervisory bodies **)	8,037	8,404	7,985	8,561

\*) Salaries and contribution to life insurance.

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

### Transactions with the Members of Statutory Bodies and Executive Management

As of 31 December 2011, the Company recorded a receivable from the members of its Board of Directors and Supervisory Board totalling CZK 34 thousand (2011: CZK 69 thousand). These receivables were settled during January 2013.

## (17) Group Relationships (CZK thousand)

	PREdi receivables as of 31 Dec		PREdi payables as of 31 Dec	
	2012	2011	2012	2011
<b>Pražská energetika, a.s.</b>	<b>1,697,761</b>	<b>1,864,446</b>	<b>2,960,381</b>	<b>2,577,156</b>
of which: Trade receivables/payables	21,686	49,541	-	-
Trade receivables/payables (cash pooling)	-	-	735,130	751,774
Accrued income/expenses (cash pooling)	-	-	484	789
Long-term loan*)	-	-	2,200,000	700,000
Short-term loan*)	-	-	-	1,100,000
Accrued expenses (interest on loan)	-	-	24,767	24,593
Estimated amounts - unbilled distribution services	1,676,075	1,814,905		
<b>eYello CZ, a.s.</b>	<b>141</b>	<b>1,869</b>	<b>-</b>	<b>-</b>
<b>PREměření, a.s.</b>	<b>-</b>	<b>-</b>	<b>30,099</b>	<b>46,718</b>
<b>Total</b>	<b>1,697,902</b>	<b>1,866,315</b>	<b>2,990,480</b>	<b>2,623,874</b>

\*) The long-term loan consists of two parts: a loan of CZK 700 million is repayable on 30 November 2014 and bears interest at PRIBOR+1.05% p.a., a loan of CZK 1,500 million is repayable on 29 June 2015 and bears interest at PRIBOR+1.3% p.a. The short-term loan was mature on 30 June 2012, the interest rate was PRIBOR+2.3% p.a. Loans are intended for funding the operating and investment needs of the debtor.

	PREdi income		PREdi expenses/costs	
	2012	2011	2012	2011
<b>Pražská energetika, a.s.</b>	<b>6,891,083</b>	<b>7,131,714</b>	<b>(2,693,570)</b>	<b>(2,429,115)</b>
of which: Distribution services	6,872,679	7,118,282	-	-
Other services, material consumed	18,233	12,865	(790,787)	(751,013)
Consumed electricity and losses	-	-	(601,323)	(568,813)
Material	-	-	(165,624)	(180,392)
Fixed assets	-	-	(35)	(97)
Other income	171	96	-	-
Dividends	-	-	(1,063,000)	(851,000)
Interest on cash pooling	-	471	(7,665)	(1,643)
Interest on loans	-	-	(65,136)	(76,157)
<b>eYello CZ, a.s.</b>	<b>-</b>	<b>-</b>	<b>(35,693)</b>	<b>(39,283)</b>
of which: Services - leases	-	-	(35,692)	(39,282)
Fixed assets	-	-	(1)	(1)
<b>PREměření, a.s.</b>	<b>1,146</b>	<b>1,249</b>	<b>(320,662)</b>	<b>(293,650)</b>
of which: Services and electricity meters	1,146	1,131	(313,294)	(286,182)
Other assets	-	104	-	-
Contractual fines	-	14	-	-
SPP - obligatory purchase, decentralised production	-	-	(7,368)	(7,468)
<b>Total</b>	<b>6,892,229</b>	<b>7,132,963</b>	<b>(3,049,925)</b>	<b>(2,762,048)</b>

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

**(18) Significant Post Balance Sheet Events**

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

# Affidavit

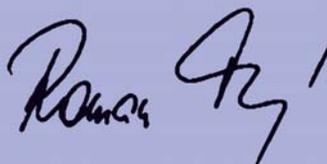
We hereby declare that data stated in the Annual Report for the year 2012 comply with the real facts and that no known circumstances which could affected the accurate and correct assessment of the Company PREdistribuce, a.s. were omitted.



**Jan Doležálek**

Date of birth: 23.2.1952

Responsible for the Annual Report page 1-50, 72-75



**Roman Tupý**

Date for birth 2.2.1963

Responsible for the Annual Report page 54-71

# List of Abbreviations

AMM	automatic metering system
DLHM	tangible fixed assets
DŘS	dispatch control system
DS	distribution system
EMS	environmental management system
ERÚ	Energetický regulační úřad/Energy Regulatory Office
EU	European Union
eYello CZ, a.s.	100% subsidiary of Pražská energetika, a.s.
FVE	photovoltaic power station
GCSE	General Certificate of Secondary Education
GWh	gigawatt-hour
HDO	mass remote control
HV	high voltage
ICT	information and communication technology
KT	cable tunnel
kV	kilovolt
LV	low voltage
MHMP	Magistrát hlavního města Prahy/Prague City Council
MVA	megavoltampere
MW	megawatt
OOPP	personal protective equipment
OTE	Electricity Market Operator
OZE	energy renewable sources
PDS	provozovatel distribuční soustavy/Distribution System Operator
PRE	Pražská energetika, a.s.
PREdi	PREdistribuce, a.s., 100% subsidiary of Pražská energetika, a.s.
PRE Group	PRE + PREdi + PREm + PREleas, a.s. (or eYello CZ, a.s.)
PREleas, a.s.	100% subsidiary of Pražská energetika, a.s.
PREm	PREměření, a.s., 100% subsidiary of Pražská energetika, a.s.
R	distribution station
RP	Board of Directors decision
RS	switching station
ŘS	control system
T	transformer

TPA	third party access
TR	transformer station
VHV	very high voltage
W	overhead lines
WFM	Work Force Management System

# Address of the Company and its Workplaces

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

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

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

The Company hasn't any organizational unit abroad.

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

Address	PCN	Telephone	
<b>Director</b>	<b>Prague 10, Na Hroudě 1492/4</b>	<b>100 05</b>	<b>267 052 000</b>
	<b>Prague 5, Svornosti 3199/19a</b>	<b>150 00</b>	<b>267 052 601</b>
Network Administration	Prague 5, Svornosti 3199/19a	150 00	267 052 100
Network Management	Prague 10, Nitranská 2226/1	101 00	267 052 200
Network Operation	Prague 9, Novovysočanská 696/3	190 00	267 052 300
Network Assets Management	Prague 5, Svornosti 3199/19a	150 00	267 052 400
Network Access and Economy	Prague 2, Sokolská 1264/7	120 00	267 052 500
<b>PRE Customer Centre</b>	<b>Prague 4, Vladimírova 18</b>	<b>140 00</b>	<b>840 550 055</b>
	<b>Prague 1, Jungmannova 31</b>	<b>101 00</b>	<b>840 550 055</b>
<b>Emergency Services</b>	<b>Prague 2, Kateřinská 9</b>	<b>120 00</b>	<b>1236 (from 1 January 2012)</b> e-mail: poruchy@pre.cz
<b>Call Centre</b>	<b>Prague 10, Na Hroudě 19</b>	<b>100 05</b>	<b>840 550 055, 267 051 111</b>
<b>Energy Advisory Centre</b>	<b>Prague 1, Jungmannova 28</b>	<b>101 00</b>	<b>840 550 055</b>
<b>Information for Press</b>	<b>Prague 10, Na Hroudě 1492/4</b>	<b>100 05</b>	<b>267 051 102</b>

# Notes



