

ENERGY TO THE RHYTHM OF A METROPOLIS



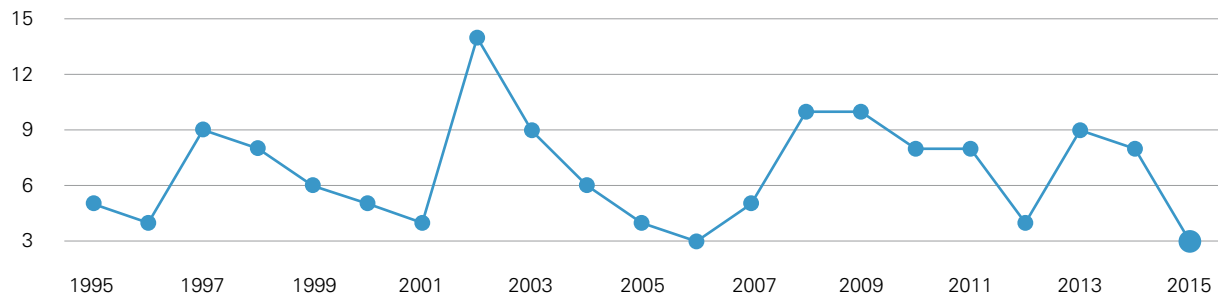
MAIN FINANCIAL INDICATORS (CZK MILLIONS)

	2015	2014	2013
Total assets	27,951	27,911	28,170
Distribution equipment	23,371	23,341	23,185
Other fixed assets	2,335	2,331	2,469
Cash pooling receivables within the Group	0	8	0
Trade receivables	2,205	2,197	2,504
Other assets	41	35	12
Total liabilities	27,951	27,911	28,170
Equity	19,291	19,331	19,409
Deferred tax liability	2,962	2,963	2,949
Cash pooling payables within the Group	130	0	747
Trade payables	459	476	578
Deferred revenue	1,788	1,819	1,800
Reserves	214	208	215
Loans	2,700	2,800	2,200
Other liabilities	407	314	271
Gross profit from the sale of distribution services	4,401	4,409	4,645
Profit from ordinary activities before tax	1,299	1,357	1,526
Profit from ordinary activities after tax	1,052	1,093	1,233
EBIT	1,373	1,400	1,570
EBITDA	2,820	2,804	2,969

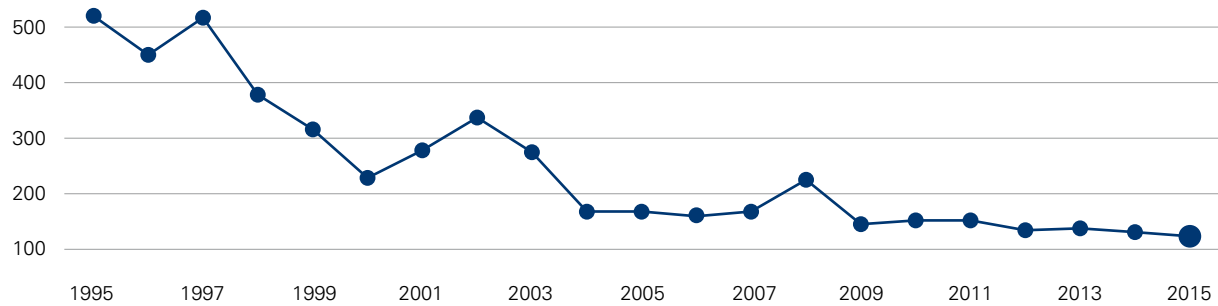
OVERVIEW OF THE DEVELOPMENT OF SELECTED NETWORK INDICATORS

Indicator	Unit	2015	2014	2013	2012	2011	2010
Maximum network load	MW	1,093	1,149	1,156	1,198	1,205	1,209
Total length of electricity networks	km	12,014	12,006	11,912	11,921	11,901	11,781
of which: HV	km	207	207	206	206	202	202
MV	km	3,867	3,854	3,872	3,865	3,863	3,829
LV	km	7,940	7,945	7,834	7,850	7,836	7,750
Number of HV/MV stations (PREdi/total)	pieces	22/23	22/24	22/24	22/24	22/24	22/24
Total number of MV/LV stations	pieces	4,843	4,835	4,834	4,833	4,839	4,778
Number of MV/LV distribution stations	pieces	3,229	3,246	3,261	3,274	3,295	3,254

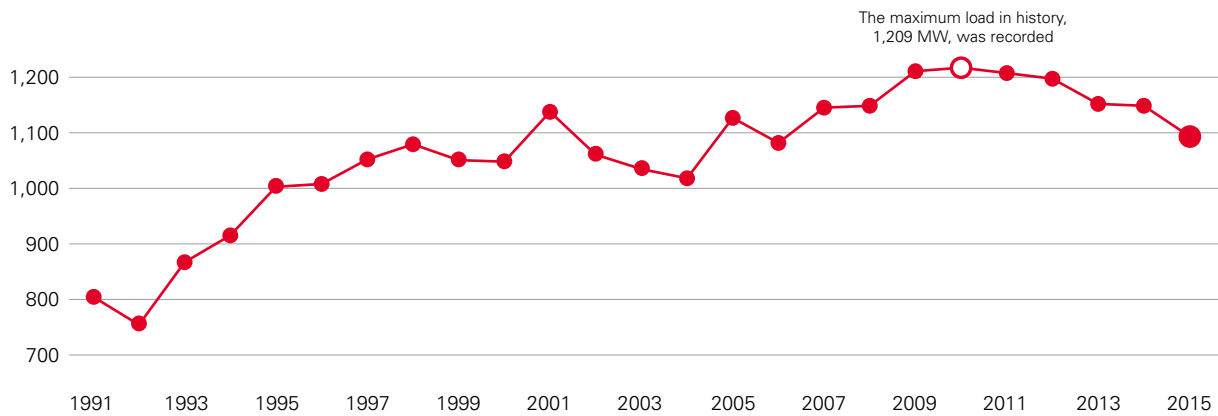
Number of HV failures



Number of MV failures



Maximum achieved load of the year (MW)



Important events of 2015

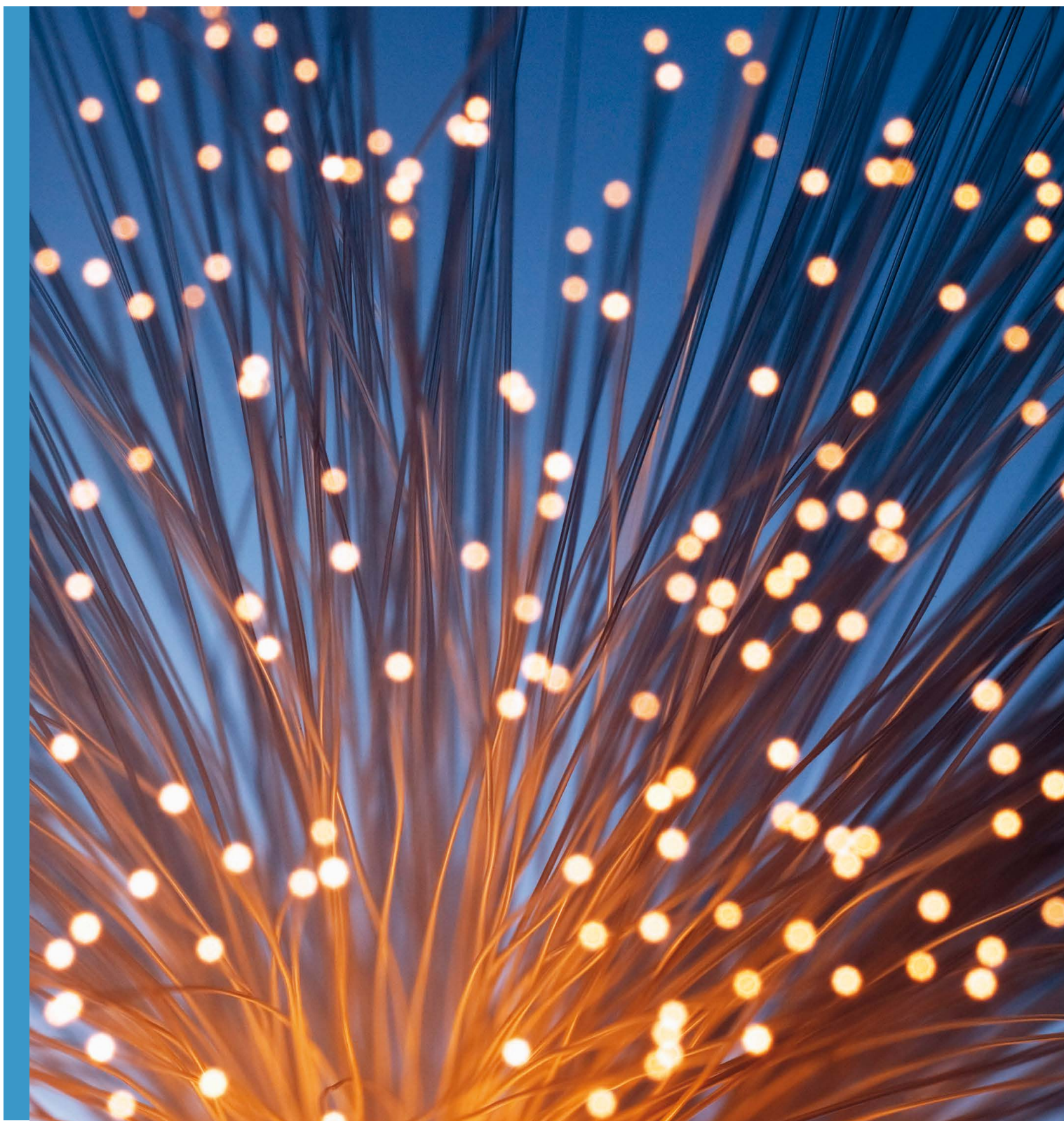
- In the ten-year long history of PREdistribuce, a.s., 2015 has been the most successful year in terms of ensuring operational reliability and a high level of security.
- Operational results of the whole distribution system prove the trend of decreasing internal distribution failure rate in Prague in terms of the number of severe failures and supply quality.
- The biggest portion of funds was invested into the distribution network: the renovation of the TR Třeboradice, the construction of the new TR Uhřetěves, the implementation of new SCADA dispatcher control system, and the construction of a complex of cable tunnels in Karlín.
- An amendment to the Energy Act was passed, which considerably changes some of the market rules.
- A new section, Network Concepts, was founded within the company; it is responsible for the approved concept, the distributor strategy and the network planning.
- According to comparative statistics of the Energy Regulatory Office, PREdistribuce, a.s., was the most reliable distribution network operator and transporter of electricity to end customers in the Czech Republic.
- PREdistribuce, a.s., fares very well when comparing its supply reliability with electricity distributors in comparable cities in the European Union using internationally recognised quality parameters. On average, supply cuts experienced on the 1 kV level by customers in Prague, Roztoky and Žalov lasted only 31 minutes in 2015.
- In 2015, the total volume of electricity distributed by the networks in Prague, Roztoky and Žalov amounted to 6,139 GWh, which satisfied the demand of existing as well as new customers on all voltage levels.
- In 2015, a new website was launched, www.predistribuce.cz, which won the first place in the Industry and Power Engineering category at the 14th annual WebTop100 competition.
- The supply of the Blanka tunnel from the PREdistribuce, a.s., network, amounts to the load of 2.5 MW. The main portion of the consumption covers the lighting of the tunnel, the light-signalling, the equipment for automatic operation, the air-conditioning equipment, and the operation of filling stations.

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PREdistribuce, a.s.
Svornosti 3199/19a
150 00 Prague 5







The driving force of a modern city

We contribute to the happy lives of the inhabitants of the capital as well as to its smooth operation. We distribute energy to households, industrial enterprises, schools, hospitals, research centres and state institutions. To everyone, who needs it. The quality and reliability of the distribution network is an assurance for Prague inhabitants that electricity will always be at their disposal whenever they need it.

BASIC INFORMATION ABOUT THE COMPANY

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

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

ID No.: 27376516, Tax ID No.: CZ27376516

Legal form: joint stock company

Registered in the Commercial Register maintained at the Municipal Court in Prague, File ref. B 10158

Bank information: ČSOB Prague 5, account number: 17494043/0300

Holder of electricity distribution licence No. 120504769 (in force from 1.1.2006 for the period of 25 years)

The establishment of the separate company, PREdistribuce, a.s., relates to the changes brought about by the new amendment to the energy legislation aimed at harmonising the legislation of the EU member states. In 2004, Directive 2003/54/ES of the European Parliament and the Council concerning common rules for the internal market in electricity was transposed to the Czech legislation through an amendment to the Energy Act. In accordance with the amendment, the process of unbundling regulated and unregulated activities was commenced aiming to separate the distribution of electricity from trading in electricity, and to ensure that the licence for electricity distribution is held by a separate company.

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

PREdistribuce, a.s., started operating on the 1st of January 2006 and assumed all the rights and obligations of Pražská energetika, a.s., related to securing and operating the distribution system in the capital, Prague, in Roztoky and in Žalov and became the owner of the technical equipment and a part of the immovable assets used for electricity distribution in this territory.

PREdistribuce, a.s., remains a 100% subsidiary of Pražská energetika, a.s.

The company's scope of business

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

PRE GROUP

The history of the PRE Group dates back to 1897, when the Electricity Works of the Royal Capital City of Prague was founded. In addition to electricity distribution, the company also operated trams and provided street lighting.

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

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

PREměření, a.s. (PREm) – repairs, meter installations and meter readings in the PRE supplied territories, electricity generation, energy services;

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



100% subsidiaries of PREm:

PRE FVE Dačice, s.r.o. (FVE Dačice)* – electricity generation, lease of real estate, flats and non-residential premises;

PRE FVE Mikulov, s.r.o. (FVE Mikulov)* – electricity generation, lease of real estate, flats and non-residential premises;

PRE FVE Pozořice, s.r.o. (FVE Pozořice)* – electricity generation, production, trading and services not listed in Appendices No. 1 to 3 of the Trade Licensing Act.

** As of the 1st of January 2016, the companies ceased to exist, merging with PREm (merger by acquisition).*

Way towards people

Our main goal is a trouble-free life for the citizens of Prague, which includes the possibility of using electricity. We, therefore, strive to minimize the number of supply failures. From 1995 to 2015, we managed to decrease the number of failures on the MV level from 516 to 117.



FOREWORD OF THE CHAIRPERSON OF THE BOARD OF DIRECTORS

Distinguished readers

Allow me, on behalf of PREdistribuce, a.s., to wish you a healthy and successful 2016. Following the long period of economic crisis and subsequent stagnation in both the Czech Republic and the European Union, 2016 will probably be a year of economic growth. In 2016, we expect the energy sector to see further legislative changes and the continued preparation for the implementation of a new tariff system in the coming years.

I am pleased to say that 2015 was the most successful year in the history of PREdi in terms of ensuring operational reliability and a high level of security. Operational results of the distribution system prove the trend of decreasing internal distribution failure rate in Prague in terms of the number of severe failures and supply quality. The positive development was driven by highly rational planning for development and renovation, which has been implemented for a long time, by coordinating renovation in a centralised way in accordance with the approved company standards, and by using and implementing the modern technologies and equipment used in the EU, which meet high demands for reliability and security.

In 2015, there were no systemic failures or disruptions to the electricity supply. Prague did not experience any natural disasters or calamities. No failures resulting in supply cuts were recorded in the 110 kV network. In the 22 kV feeding network, the average length of supply cuts including external interferences was 18 minutes. No significant failures, which would cause supply cuts across a larger territory and customer dissatisfaction, were recorded in the 22 kV and 1 kV distribution networks. The response to almost 99% of all failures on the 22 kV and 1 kV levels complied with the supply restoration standards mandated by the decree of the Energy Regulatory Office (ERÚ), which has jurisdiction over PREdi as a regulated company in terms of the approval of regulated costs and setting allowed reasonable profit. The reliable and uninterrupted supply of electricity is vital for the operation of the capital. Short-term disruptions on a greater scale paralyse the city, cause the complete collapse of transport and operation, pose a threat to the lives of people in vehicles and elevators and limit the operation of most state authorities and companies. Inhabitants of the capital are highly sensitive especially to frequent or prolonged supply cuts.

According to comparative statistics of ERÚ, PREdi was the most reliable distribution network operator and transporter of electricity to end customers in the Czech Republic. PREdi also fares well when comparing its supply reliability with electricity distributors in comparable cities in the European Union using internationally recognised quality parameters. On average, supply cuts experienced on the 1 kV level by PREdi customers in Prague and Rožtoky lasted only 31 minutes in 2015. I can promise you that we will take additional technical measures to maintain this result or improve it further by appropriate renovation and modernisation of the networks. In terms of security, all the networks and operating equipment of PREdi are a part of the critical infrastructure of Prague and the Czech Republic.

Let me also give you some information about the history, mission and asset management of PREdistribuce, a.s., which was founded in 2006 as a 100% subsidiary of the sole shareholder, Pražská energetika, a.s. PREdi then obtained a licence from the Energy Regulatory Office for the distribution of electricity in the territory of Prague, Rožtoky and Žalov for the area of 505 km² for the period of 25 years. The main mission of PREdi is to provide high quality and uninterrupted supply of electricity to end customers on all voltage levels from 4 transfer points to about 778 thousand consumption points using a well-maintained distribution system. Last year, quality standards of the



electricity supply and the related services were met with regard to the absolute majority of customers connected to the company's distribution networks in accordance with Decree of ERÚ No. 540/2005 Coll. In accordance with the applicable legislation, new customers were connected during the whole period. PREDi distribution equipment consists of a system of 110 kV, 22 kV and 0.4 kV overhead power lines and cable lines measuring 12,014 km, 23 distribution stations with 110/22 kV transformation and 4,843 22/0.4 kV network transformer stations.

The main tasks of employees of PREDistribuce, a.s., include planning the renovation and development of the distribution equipment; connecting new customers after the necessary investment energy infrastructure and connection points have been constructed; metering supplied electricity on the high and medium voltage levels and transferring data to the market operator for the purpose of settlement of distribution services and supplies; managing network assets; controlling operation and services and solving failures; and carrying out planned renovation and maintenance of the networks in accordance with preventative maintenance guidelines. In addition to its main activities, the company continues to exercise supervisory control over the activities of the sister company, PREměření, a.s., where all activities related to electricity readings on the 1 kV level were transferred in 2008. I believe that all these activities were carried out by the company's employees in a timely manner and at a high level of quality and professionalism.

Let me also give you some information about the maximum load and volume of electricity distributed in the licensed territory. The highest total load in the networks amounting to 1,093 MW was recorded on the 7th of January 2015 at 1 p.m. In 2015, the total volume of electricity distributed by the networks in Prague, Roztoky and Žalov amounted to 6,139 GWh, which satisfied the demand of existing as well as new customers on all voltage levels. Unfortunately, the 2015 maximum values were 116 MW lower in terms of output and 311 GWh lower in terms of distributed energy than in the record year of 2010 owing to mild weather conditions in 2015. In addition, the effect of austerity programmes, implementation of new technologies and devices and state support for reducing energy losses in buildings is becoming more marked. This is mainly because of the introduction of “green” state support and austerity measures taken by customers, including opting for environmentally friendly and energy efficient devices. However, the volume of distributed electricity increased by 49 GWh year-on-year, indicating increased consumption, which was mainly driven by the recovery of the market with developer projects and the related growth in construction and end-users’ demand for new business and residential premises.

One of the main simple renovation constructions in 2015 was the continued renovation of the 110 kV overhead power lines between the distribution stations in Chodov, Běchovice and Malešice in the south-east outskirts of the capital. The building of two significant constructions was commenced, the 110 kV distribution stations in Karlín and Uhřetěves, to increase the operational reliability of supply in the capital and to meet the new demand for ensuring input in undeveloped localities. The construction continued on cable tunnels from the two distribution stations to connect them to 110 kV supply and lead out the 22 kV output. The complete renovation of the 110/22 kV outdoor distribution station in Třeboradice, which exceeded its lifetime, continued. The implementation of the new SCADA control system was being finalised; in the next 10 years, the system will make it easier for our dispatchers to manage supply restoration work and to integrate new distribution equipment into the network system configuration. Additionally, large portions of the 22/0.1 kV cable network and of the distribution equipment technology in the 22 kV feeding network (in 11 buildings, including settlement) were renovated. Development of city networks needs to be supported by timely preparation of energy infrastructure. The capital identifies development priorities in the urban plan. In 2015, the investments in distribution equipment, i.e., the simple renovation and development of networks including control, telemechanisation and measuring systems, amounted to CZK 1,494 million, which is below the limit approved by the Supervisory Board for investments in 2015. Additional CZK 186 million was invested in maintaining the high reliability of operated equipment and in renovation from operating funds.

In 2015, the profit of PREdi amounted to CZK 1,052 million according to the Czech accounting standards. The increase in profit of CZK 17 million compared to the planned CZK 1,035 million for 2015 was mainly driven by the larger volume of energy distributed by the PREdi networks, the increase in WACC for 2015 by the ERÚ and the optimisation of all costs.

I appreciate that PREdi employees duly fulfilled all of the key tasks of the distributor in the capital and I would like to thank them for that. There were no serious job-related injuries last year; in the ten-year long history of PREdi, there have been no fatal accidents, which I consider a great achievement given the huge workload including work with live wires. Despite the increase in managed assets, the number of employees decreased from 623 to 513 over the 10 years of PREdi’s operation on the market, which testifies to reducing staff costs. The decrease in the number of employees was mainly because of task optimisation and employees reaching retirement age and retiring.

Our company wants to remain a stable and conservative, but at the same time irreplaceable element in the life of Prague. In 2015, PREdi remained a strong pillar of the PRE Group and contributed to the satisfaction of Prague residents and the smooth operation of their city. I am positive that in doing so it also lived up to the expectations of its shareholders. Our objective for the next period is to continue in this trend and to remain an entity that acknowledges its responsibility towards the environment.



Milan Hampl

Chairperson of the Board of Directors

COMPANY STRATEGY

The energy sector, including distribution system operators, currently faces turbulent times which are full of changes. Always conservative in principle, the sector now faces qualitative and quantitative changes, which will undoubtedly require a change of its structure and operation management as well as the implementation of new technologies. These changes and new challenges are common across Europe; only the speed and intensity of their progress differ in individual states.

It is almost certain that there will be an increase in the implementation rate of decentralised sources of electricity, of which a part will be renewable energy sources, where generation is difficult to predict, as well as a gradual increase in the deployment of new technologies, such as electromobility, AMM and electro-accumulation. On the other hand, it will remain necessary to maintain the high reliability and security of electricity supply of the required quality, and to provide the supply even in crisis situations. There is a greater danger of blackouts, not only because of possible terrorist attacks, but also because of the instability of sources and because of the transmission network components being overloaded by huge transfers of electricity.

The task of distribution network operators in systems including generation – transmission – distribution – consumption is to find and implement measures enabling more intensive involvement of customers on the market and at the same time respecting the necessity to maintain sufficient network robustness which corresponds to the significance of the distribution network as a part of the critical infrastructure. All this while keeping the costs at a reasonable level, justifiable to shareholders. The long-term strategy of PREdi is to increase distribution efficiency regarding operating-technical and investment measures in the network as well as the optimal arrangement of processes within the company and with external entities and state authorities including ERÚ.

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

The energy sector in the Czech Republic is increasingly influenced by the introduction of renewable sources and their state support. 2015 saw legislative changes in the energy sector – the Energy Act and the Act on Promoted Energy Sources were amended – as well as the continued preparation of a new tariff structure.

PREdi is responsible for matters related to the supply of electricity in the capital. That is reflected, among other things, in the maintenance of the distribution system, which is a part of the city's critical infrastructure and as such is subject to stricter standards stemming from the character of the territory and its sensitivity to possible distribution failures. According to the evaluation of the ERÚ quality standards, PREdi is considered to be the most reliable

distribution company in the Czech Republic. Considering that in recent years the maximum network load has not increased, while the demand for ensuring continuous and high quality electricity supply has grown, the management of PREdi adopted a new investment strategy, which was submitted for the shareholders' approval at the beginning of 2015. The strategy aims to ensure that the distribution system is prepared for the introduction and greater penetration of new trends, which can be seen abroad, such as decentralised electricity sources, electromobility, AMM, the development of energy services, etc.

As a result, a major portion of investments in 2016 and in subsequent years will be made in the development of the 22 kV and 1 kV networks, which are expected to see an increase in the connection of decentralised sources and the introduction of new network management and operation technologies. The only way to maintain the high reliability and security of the networks is an appropriate combination of strengthening the system and introducing modern technologies as well as the interconnection of the modernised networks and the communication with dispatcher control. Good communication infrastructure with the lower levels of the distribution network will enable better monitoring, measuring and managing, which will positively influence the utilisation of our assets and reliability indicators. The transfer of the investments to the lower voltage levels will be offset by slowing down some of the renovations of the backbone HV networks and postponing some of the strategic constructions of new distribution stations until it is really necessary to provide supply to or strengthen the particular area. Close cooperation with the transmission system operator, ČEPS, a.s., remains an important part of the strategy to ensure an adequate input for the development of our supplied territory as well as to ensure the high reliability of our electricity supply to end customers. The reliability of the network will be further enhanced when the new feeding nodal point of the 440/110 kV system is built at the existing 110/22 kV TR Sever. The assumed start of operation is in 2025. Closer cooperation between the distribution and the transmission systems is also required by the new European network codes. We can therefore expect greater information flows between the respective operators regarding the condition of the electricity system.



Tens of thousands of cars, thousands of pedestrians and hundreds of trains stream through more than forty Prague tunnels every day. Our electricity lights their way, powers safety devices and supplies fresh air.

The distributor will have to tackle all these issues and keep offering reliable and high quality distribution of electricity in accordance with the parameters set by ERÚ legislation; non-compliance with the parameters will be penalised. PREdi devotes great attention to the new trends and developments in modern solutions. Pilot projects are carried out to test solutions connected to the introduction of smart grids and related technologies, such as AMM, and to electromobility and accumulation, which are relevant for distribution networks in urban agglomerations. These projects primarily test technical possibilities and their effect on the everyday operation of a distribution network operator, including implementing and operating costs.

In 2015, PREdi took operational measures to increase the reliability of networks, mainly in the field of asset management and network management and maintenance quality improvements. Since October 2015, the new section, Network Concepts, has been responsible for the approved concept, the distributor strategy and network planning. The section consists exclusively of technicians and power engineers, all highly creative experts, prepared to enhance their thinking with new trends and take up new challenges, in particular in the field of smart grids.

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

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

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

STATUTORY BODIES OF THE COMPANY

Board of Directors as of 31.12.2015

Milan Hampel

Chairperson

Petr Dražil

Vice-chairperson

Christian Franz-Josef Schorn

Member

Miloš Langr

Member

Supervisory Board as of 31.12.2015

Pavel Elis

Chairperson

Alexander Manfred Sloboda

Member

Franz Retzer

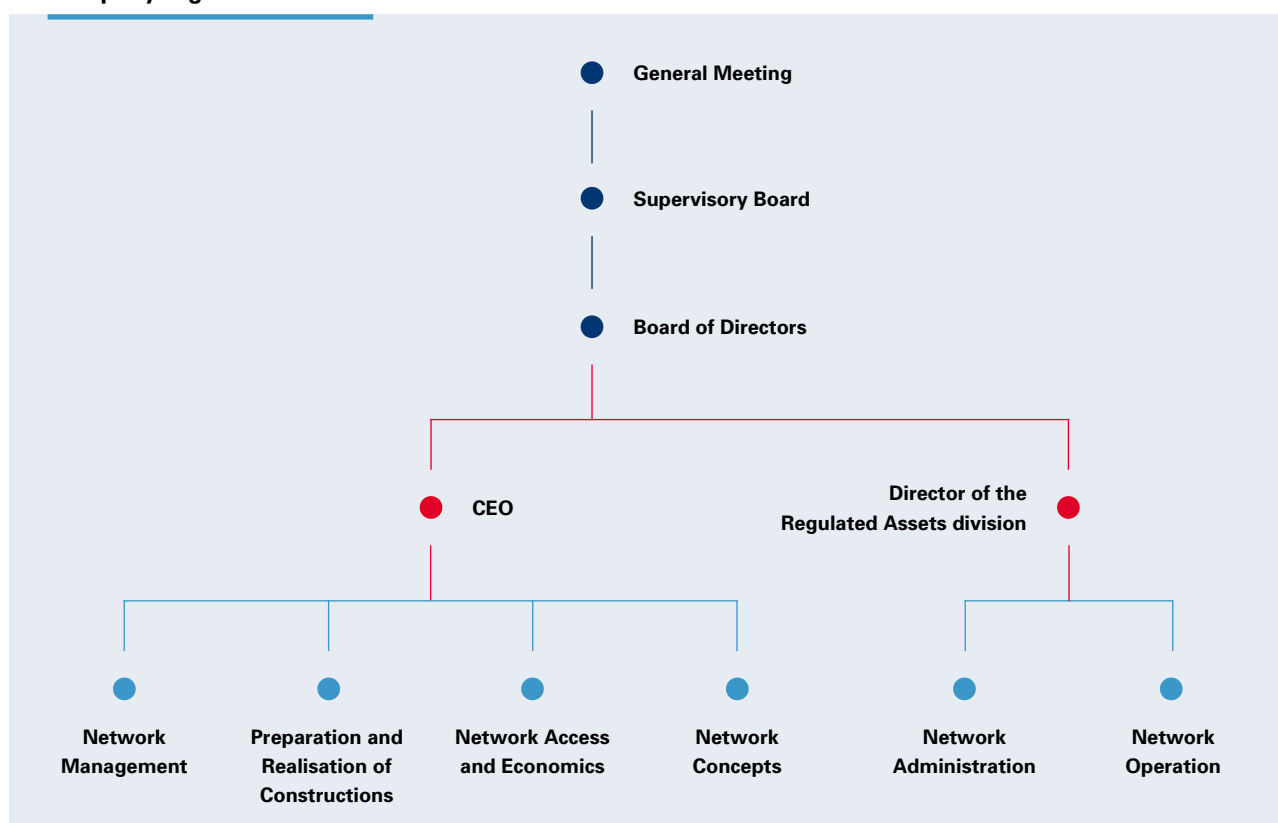
Member

Drahomír Ruta

Member

In 2015, no members of the company bodies were subject to conflict of interest or prohibition of competition.

Company organisation chart







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

TRENDS IN THE POWER ENGINEERING SECTOR

RECAPITULATION OF IMPORTANT EVENTS IN THE POWER ENGINEERING SECTOR IN 2015; OVERVIEW OF RELEVANT LEGISLATION

2015 was the sixth and last year of the third regulatory period (1.1.2010 – 31.12.2015). In 2015, the public consultation process continued regarding the draft regulation methodology for the fourth regulatory period. It was concluded by the Energy Regulatory Office publishing the Report on the Regulation Methodology in the Fourth Regulatory Period for the Power Engineering Sector and the Gas Industry, including related appendixes detailing the manner of regulating prices and pricing procedures in the power engineering sector and the gas industry, and for the provision of the market operator services in the power engineering sector and the gas industry, and a Methodology of Economically Justifiable Costs to Ensure Secure, Reliable and Efficient Execution of a Licensed Activity.

The three-year fourth regulatory period (1.1.2016 – 31.12.2018) follows the same principles established in the previous period and reflects the latest amendments to the energy legislation of the Czech Republic and the European Union. The main aim of the fourth regulatory period is to prepare objective inputs for the fifth regulatory period, which, the Energy Regulatory Office plans, will last 7–10 years.

In 2015, the Energy Act and the Act on Energy Management were amended

On the 4th of May 2015, Act No. 104/2015, Coll., was published, which amended the Energy Act with effect from the 1st of January 2016. On the 5th of June 2015 Act No. 131/2015, Coll., which amends Act No. 458/2000, Coll., on Business Conditions and Public Administration in the Energy Sectors and on Amendment to Other Laws (the Energy Act), as amended, was published in the Official Journal together with other related acts. The Act came into effect on the 1st of January 2016, except for certain provisions, which will come into effect on the 1st of August 2017, the 1st of January 2019 and the 1st of January 2020, respectively. On the 4th of May 2015, Act No. 103/2015 Coll., was published, which amends Act No. 406/2000 Coll., on Energy Management; it came into effect on the 1st of July 2015.

In 2015, the following decrees were published

On the 10th of August 2015, Decree No. 194/2015 Coll., from the 3rd of August 2015, on Price Regulation and Procedures of Regulating Prices in the Power Engineering Sector and the Heating Industry, was published; it came into effect on the 1st of January 2016.

On the 1st of December 2015, Decree No. 230/2015 Coll., from the 26th of August 2015, which amends Decree No. 78/2013 Coll., on Energy Performance of Buildings, came into effect.

On the 14th of September 2015, Decree No. 234/2015 Coll., from the 31st of August 2015, which amends Decree No. 118/2013 Coll., on Energy Specialists, was published and came into effect fifteen days later.

On the 14th of October 2015, Decree No. 262/2015 Coll., from the 1st of October 2015, on Regulation Reporting, was published; it came into effect on the 1st of January 2016.

On the 9th of November 2015, Decree No. 296/2015 Coll., from the 26th of October 2015, on Technical-economic Parameters of Setting Purchase Prices of Electricity Generation and Green Bonuses for Heat and on Determination of Service Life of Electricity Generation Plants and Heat Generation Plants Using Renewable Sources (the Decree on Technical-economic Parameters), was published; it came into effect on the 1st of January 2016.

On the 28th of December 2015, Decree No. 403/2015 Coll., from the 23rd of December 2015, on Guarantees of Origin of Electricity from Renewable Sources and Electricity from High-efficiency Cogeneration of Electricity and Heat, was published; it came into effect on the 1st of January 2016.

On the 28th of December 2015, Decree No. 404/2015 Coll., from the 23rd of December 2015, on Compensation for Price of Electricity Generated from Renewable Sources in Another EU Member State (the Decree on Compensation), was published; it came into effect on the 1st of January 2016.

On the 31st of December 2015, Decree No. 408/2015 Coll., from the 23rd of December 2015, on Electricity Market Rules, was published; it came into effect on the 1st of January 2016.

ERÚ price decisions published in 2015

On the 1st of January 2015, ERÚ Price Decision No. 1/2014, from the 12th of November 2014, which determines support for the promoted energy sources, came into effect. Regarding these prices in 2016, Price Decision No. 5/2015 was published on the 19th of November 2015 and Price Decision No. 9/2015 was published on the 29th of December 2015.

On the 1st of January 2015, ERÚ Price Decision No. 2/2014, from the 25th of November 2014, which sets regulated prices related to electricity supply, came into effect; and on the 7th of October 2015 its amendment No. 1/2015 came into effect. Regarding these prices in 2016, Price Decision No. 7/2015 was published on the 26th of November 2015, which sets prices for related services in the power engineering sector and other regulated prices.

On the 1st of January 2015, ERÚ Price Decision No. 3/2014, from the 25th of November 2014, which sets regulated prices related to electricity supply to consumers from low voltage networks, came into effect. Regarding these prices in 2016, Price Decision No. 8/2015 was published on the 26th of November 2015, which sets prices for related services in the power engineering sector to consumers from low voltage networks.

In 2015, the following government regulations were published

On the 14th September 2015, Government Regulation No. 232/2015 Coll., from the 20th of August 2015, on State Energy Concept and Regional Energy Concept, was published and came into effect fifteen days later.

On the 29th October 2015, Government Regulation No. 283/2015 Coll., from the 26th of October 2015, on Allocation of State Budget Funds Pursuant to Section 28 (3) of the Act on Promoted Energy Sources in 2016, was published.

On the 28th December 2015, Government Regulation No. 402/2015 Coll., from the 21st of December 2015, on Support of Electricity and Heat Generated from Promoted Energy Sources, came into effect.



High-quality services

Everything we do aims to ensure the distribution of electricity in the capital, which is also the economic centre and the seat of state institutions. We help distribute electricity to more than 1,210,000 people.

REPORT OF THE BOARD OF DIRECTORS ON BUSINESS ACTIVITIES AND ASSETS

FINANCIAL REPORT

The profit of PREdistribuce, a.s., for 2015 amounted to CZK 1,052 million, thus exceeding the planned value by CZK 17 million. EBITDA exceeded the plan by CZK 28 million and also exceeded the value from 2014 by CZK 16 million. Even though the volume of distributed electricity increased by 49 GWh compared to 2014, the sales margin fell by CZK 8 million.

Operating costs were reduced by CZK 61 million year-on-year, in accordance with the company's plan adopted as a part of austerity measures. The considerable year-on-year reduction was caused by reducing the costs of services provided within the Group and the gradual termination of leasing contracts. Staff costs decreased by CZK 4 million year-on-year. Compared to 2014, depreciation increased by CZK 43 million, which was caused by the increased capitalisation of assets with shorter useful life (the Třeboradice dispatcher control unit, depreciation 4 years).

The company's operating income amounted to CZK 263 million in 2015. The largest items of the operating income included the accrued income from connection contributions amounting to CZK 198 million, the compensation for unauthorised consumption and the income from the relocations of fixed assets. Other operating profits or losses increased by CZK 4 million year-on-year. Borrowing costs grew considerably, by CZK 31 million compared to 2014.

The total assets of the company amounted to CZK 27,951 million. The largest portion of the total assets was fixed tangible assets amounting to CZK 25,701 million; compared to 2014, the amount grew by almost CZK 39 million. The year-on-year growth was particularly driven by the investment in distribution and power supply equipment. In 2015, PREdistribuce, a.s., made investments amounting to CZK 1,494.1 million including capitalisation, which is CZK 62.8 million more than in 2014. Floating assets amounted to CZK 2,243.6 million, having increased by CZK 6.2 million year-on-year. This difference was the most marked in the field of trade receivables. Accruals amounted to CZK 2 million.

As for liabilities, the total value of equity decreased by CZK 39.8 million compared to 2014, amounting to CZK 19,290.9 million in 2015. The decrease was caused by lower profit or loss compared to 2014. The biggest year-on-year change in liabilities occurred in the liabilities within the PRE Group. The liabilities of PREdi to other companies of the PRE Group increased by CZK 157.9 million year-on-year. The total liabilities amounted to CZK 6,836.3 million. Therefore, like in 2014, 69% of the company sources was formed by equity, 24% by liabilities and 7% by other liabilities. Other liabilities included the accrued income from contributions from applicants for connection to the distribution system.

PREdi achieved the operating cash flow of CZK 2,374.1 million, which was used, together with the income from investment contributions, to finance the investment programme and to pay out dividends and directors' fees amounting to CZK 1,091.8 million.

INVESTMENTS

The main task of PREdi is to constantly maintain the high operational reliability and security of networks and at the same time increase the value of the company for its shareholders. Every year, it, therefore, develops and implements a long-term and medium-term investment plan. The plan is based on the analyses of the technical condition, the transmission ability and the reliability of network operation, the real physical lifetime of individual network components and the possibilities of their efficient maintenance. The plan also takes into account the expected development in customer demand for new connections as well as the increase in consumed output at the already existing connection points, both in built-up and developing areas of the city.

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

The part of the strategic investment programme which deserves special attention is strategic investments, which primarily include construction of new 110/22 kV transformer points and their systemic connection on the 110 kV level. They also include acquiring additional infrastructure and increasing the capacity of these stations required by the load development in the supplied areas, and building new connecting lines to ensure optimum leading of the output to lower levels of the network.

Overview of the allocation of investments in 2010–2015 (CZK millions, including capitalisation)

	Total investments	HV distribution equipment	MV distribution equipment	LV distribution equipment	Electricity meters
2010	1,679.9	475.4	841.4	276.4	86.7
2011	1,727.6	502.3	780.2	381.6	63.5
2012	1,656.8	443.1	790.4	324.2	99.1
2013	1,781.1	454.1	909.3	322.7	95
2014	1,431.3	345.7	678	325.4	82.2
2015	1,494.1	227.1	845.2	311.9	109.9

Strategic investments

In accordance with the investment plan approved by the shareholders, PREdi continued in 2015 with the necessary and careful renovations to the existing 110 kV and 22 kV networks and the equipment which also forms a part of the city's critical infrastructure. Additionally, systematic renovation of the low voltage networks was being carried out, including renovation of almost one hundred distribution transformer stations. Maintaining the 110 kV backbone network, ensuring its adequate technical performance and keeping it in a working and secure condition is an essential means of preventing large failures, which could cause supply disruptions across a large territory. Such failures could result in the collapse of supply to whole city districts, the discontinuation of public transport, panic, threat to the lives of indisposed persons and the dissatisfaction of end customers. All constructions in Prague have been in the long term coordinated with the political representation and the planning departments of the Prague City Council and respect the urban plan.

The biggest strategic constructions in 2015 include:

- the continued modernisation of the standard 110/22 kV distribution station in Třeboradice, which PREdi bought from Pražská teplárenská, a.s., in 2010;
- the continued construction of cable tunnels from the future Karlín distribution station towards Rohanský island in the district of Libeň for leading out the 22 kV output and also for looping the 110 kV cable TR Holešovice – TR Střed;
- the continued renovation of the 110 kV overhead power line from the TR Malešice in the direction of the TR Běchovice and the new TR in Uhříněves;
- the continued construction of the Uhříněves cable tunnel for connecting the TR Uhříněves with 110 kV cables and leading the 22 kV output out of it;
- the finalisation of the works on the implementation of the new SCADA dispatcher control system;
- the commencement of the construction work on the 110/22 kV distribution stations Karlín and Uhříněves;
- the renovation of the 110 kV overhead power line between the Červený vrch and the Sever distribution stations.

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

The main strategic constructions in 2016, which will continue in the coming years because of both the necessity to assess their admissibility and their complexity, include:

- the continued construction of the 110/22 kV encapsulated distribution station in Karlín and leading out the output using 22 kV cables to supply new areas around Rohanský island, parts of the district of Libeň (Švábky) and also to strengthen the supplied part of the district of Karlín;
- the completion of the construction of the outdoor TR Uhříněves to meet the output needs of the south-east of the city, where the most failures to the overhead 22 kV power lines in the ČEZ Distribuce, a.s., power supply area are recorded, and where new development projects on greenfield sites need to be connected;
- the completion of the modernisation of the 110/22 kV outdoor distribution station in Třeboradice;
- the completion of the expansion of the TR Chodov by four 110 kV fields including a control system and renovation of the mass remote control transmitter;
- the commencement of the replacement of the 110 kV overhead power lines between the TR Malešice and the TR Jih, which are nearing the end of their lifetime, by 110 kV cable lines;
- full implementation of the SCADA dispatcher control system.

In terms of the already completed automation of the operation of 110/22 kV transformation stations and 22/0.4 kV switching stations, the primary focus is on the continuity of supply with the possibility to use automatic standbys, mainly in case of important wholesale customers, thanks to modern control and telemetric (telemechanisation) systems in the distribution network stations.

In line with the adopted strategy, PREdi has been intensively involved in preparing the networks and the equipment for the gradual implementation of smart grids including intelligent AMM metering, in case it is adequately provided for in the Czech legislation. These future trends present a significant challenge for the company's employees, mainly in terms of economic efforts, maximum contribution to energy savings and customer servicing extending to asset management. Foreign studies show that an appropriate combination of strengthening the distribution system and implementing new technologies significantly decreases demands on the distribution network, which ensue from integration of decentralised generation, charging stations for electric cars, and other elements. New technologies continue to be tested through pilot projects in representatively chosen localities in the PREdi supplied area; the findings are taken into account when developing network concepts.

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

In Prague, 13th of April 2016



Milan Hampl

Chairperson of the Board of Directors



Petr Dražil

Vice-chairperson of the Board of Directors

FINANCIAL ANALYSIS

Level of productivity

	Unit	2015	2014	2013	2012	Index 2014/2015	Calculation formula
Total income	CZK (Mill.)	9,658.3	9,822.8	10,970.4	9,570.1	0.98	Total income
Sales margin from distribution sale	CZK (Mill.)	4,401.0	4,409.2	4,645.2	4,406.0	1	Sales margin from distribution
Profit after tax	CZK (Mill.)	1,052.0	1,092.6	1,232.9	992.6	0.96	Profit after tax
Profit after tax without VOD*	CZK (Mill.)	1,050.5	1,107.3	1,234.6	992.7	0.95	Profit after tax – deferred tax

Level of profit from revenue

	Unit	2015	2014	2013	2012	Index 2014/2015	Calculation formula
Sales margin from distribution sale per CZK 1 of revenue	%	46.9	46.3	43.4	47.3	1.01	Sales margin from sales of electricity / of electricity x 100
Added value per CZK 1 of revenue	%	31.5	30.7	29.1	29.7	1.03	Added value / total revenue x 100
Profit before tax per CZK 1 of revenue	%	13.5	13.8	13.9	12.8	0.97	Profit/loss from ordinary activity before tax / total revenue x 100
Profit after tax without VOD* per CZK 1 of revenue	%	10.9	11.3	11.3	10.4	0.96	Profit after tax / total revenue x 100

Level of liquidity

	Unit	2015	2014	2013	2012	Index 2014/2015	Calculation formula
Current liquidity	%	235	294.4	159.5	190.6	0.8	Short-term assets / short-term payables x 100
Turnover of short-term receivables	Number of turnovers	4.3	4.4	4.4	4.4	0.98	Total revenue / short term receivables at the end of the year
Turnover of short-term payables	Number of turnovers	10.1	12.9	7	8.5	0.78	Total revenue / short term payables at the end of the year
Equity proportion to total invested capital	%	69	69.3	68.9	69.7	1	Equity / total invested capital x 100
Equity proportion to liabilities	%	222.8	225.3	221.6	229.8	0.99	Equity / total liabilities x 100

* Without the impact of deferred tax.

Level of return

	Unit	2015	2014	2013	2012	Index 2014/2015	Calculation formula
Sales margin from distribution per CZK 1	%	16.4	16.4	17.6	16.9	1.00	Sales margin from distribution / (equity + long-term payables) x 100
Return on sales – ROS without VOD*	%	10.9	11.3	11.3	10.4	0.96	Profit after tax / total revenue x 100
Return on total assets – ROA without VOD*	%	3.8	4	4.4	3.6	0.95	Profit after tax / total assets x 100
Return on equity – ROE without VOD*	%	5.4	5.7	6.4	5.2	0.95	Profit after tax / equity x 100
Return on total invested capital	%	4.9	5	5.6	4.7	0.98	(Profit before tax + expense interest) / total invested capital x 100
Turnover of total invested capital	Number of turnovers	0.3	0.4	0.4	0.3	0.98	Total revenue / total invested capital
Added value labour productivity	CZK (Thous.) /employee	5,937.4	5,865.6	6,189.0	5,568.3	1.01	Added value / average adjusted number of employees
Total revenue labour productivity	CZK (Thous.) /employee	18,827.1	19,110.5	21,301.8	18,728.3	0.99	Total revenue / average adjusted number of employees
Average adjusted number of employees	persons	513	514	515	511	1	Number of persons

* Without the impact of deferred tax.

The magic of the night

Electric energy contributes to the overall architectural feel of Prague. Every night, hundreds of historical monuments as well as new buildings are illuminated with lights, which create the unmistakable ambiance of one of the most beautiful cities in the world.



electricity in Prague since 1882 / **Electricity Works of the Royal Capital City of Prague founded in 1897** / three-phase current for Prague since 1900

HUMAN RESOURCES

Personnel administration and wage calculations for the company are carried out by the parent company. The SAP HR module is used for personnel administration.

To facilitate the systematic development of employees, trainings were provided focusing on the employees' key fields of expertise and required competences. Employee development focused mainly on trainings in the field of power engineering, which is legally required and is essential for performing highly specialised jobs. The aim of the further development of individual employees was the continuous improvement of their expert knowledge and interpersonal skills, and acquiring knowledge of new regulations in economics, law and human resources. In order to keep highly qualified personnel, the company enabled one employee to increase the qualification through part-time studies at a vocational college and two employees through part-time studies at the Faculty of Electrical Engineering of the Czech Technical University in Prague.

Clear rules for remuneration are set in the company; basic remuneration principles result from collective bargaining between representatives of the union organisation and the management of all the entities of the PRE Group. The collective agreement includes, among others, a provision on wages; specific applications of the remuneration system are provided for by the relevant company standards. Both tariff and non-tariff wages are used in the company. The variable wage component consists of an individual or a team performance reward or rewards from the fund of a section manager or a section director.

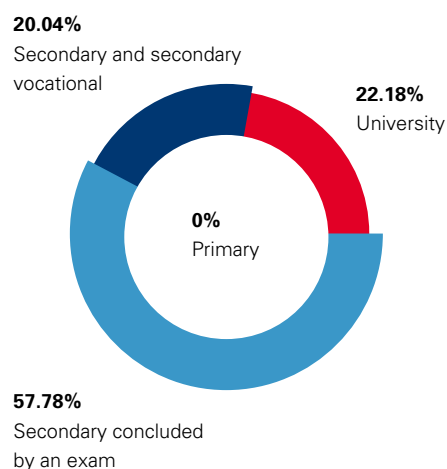
A unified collective agreement was in force in the company during the period of 2013–2015 including two amendments thereto.

A high level of occupational medical care is provided to employees by a contracted healthcare provider in the company medical office located in the seat of the parent company Pražská energetika, a.s. The scope and quality of

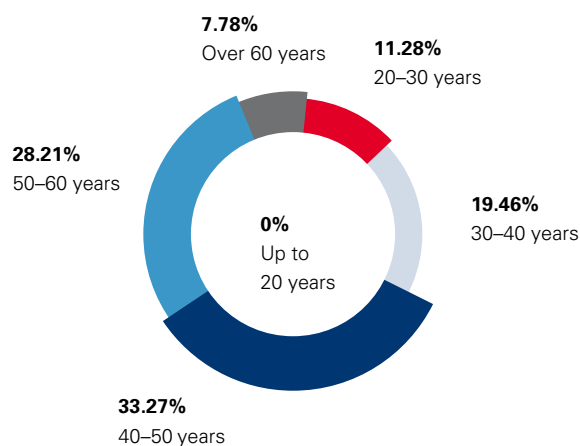


Prague inhabitants as well as visitors to the capital can admire more than 135 churches of great historical and artistic value and hundreds of other monuments. They owe their magical appearance to lights powered by electricity from PRE.

Qualification structure



Age structure



the services reflect a long-standing endeavour to improve occupational medical care of employees and meet the requirements of the National Health Promotion Programme. The company also offers its employees regular vaccinations against seasonal illnesses, hepatitis A, and tick-borne encephalitis. As for health promotion, employees participated in preventive healthcare programmes focusing on the prevention and treatment of urological diseases, dental care, thyroid diseases and breast cancer prevention and treatment. These programmes are fully covered by the employer and offered to employees in addition to legal requirements.

The employer's social policy draws on the long-standing endeavour to take high quality care of its employees; it is enshrined in the collective agreement for the period of 2013–2015 in the form of a strong social programme. The programme focuses on employee benefits, bonuses, financial contributions and other forms of employee appreciation and as such clearly contributes to the employees' motivation and integrity. The social programme accents support for employees being made redundant, particularly those of pre-retirement age, single parents and the socially deprived.

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

ENVIRONMENTAL PROTECTION AND OHS

PREdi ranks among modern companies that consider responsibility for the environment their priority and strive to constantly improve the possibilities of its protection.

Following the environmental protection policy, considerable funds are invested in the modernisation of distribution network technical equipment, which for example contributes to protection of wild birds. In order to reduce the risk of contamination of surface and ground water, older oil transformers are being replaced by hermetically sealed transformers or dry transformers (without oil tanks). Modernisation and renovation of many 110/22 kV distribution stations not only reduce noise pollution of the environment, but also improve safety in case of an accident.

A working system of sorting waste, collecting dangerous and other waste and returning products has been set up at the company workplaces. Employees are being educated about environmental protection; selected employees are further trained in the management of dangerous chemical substances and agents. More detailed information about environment protection is available in an educational presentation on the intranet.

Since 2006, ISO 14 001 – EMS system has been in place in the company. The system undergoes a recertification process every three years, which determines whether the licence will be renewed or revoked. In March 2015, the company succeeded in receiving the certificate again.

ENVIRONMENTAL PROTECTION POLICY

The PRE Group has established particularly the following principles of environmental protection:

- to comply with legal provisions in all areas of environmental protection; and to devote maximum attention to new legislation and implement it in the entire PRE Group;
- to sort communal waste including dangerous materials; to sort all other kinds of waste and packaging; and to sort selected kinds of discarded products which can be returned for free;
- to comply strictly with the system of managing dangerous substances and dangerous waste; to hand over such waste to companies authorised for its disposal;
- to systematically train employees in management of dangerous chemical substances and mixtures with regard to protection of health and the environment;
- to use a system of information and knowledge sharing to increase employee awareness of the need to protect the environment and their effort to constantly improve it.

OCCUPATIONAL HEALTH AND SAFETY POLICY

The company has been awarded the Safe Enterprise certificate. The objectives of the Safe Enterprise programme have become an inseparable part of the occupational health and safety policy in the entire PRE Group. In 2016, the system will be submitted for recertification again. The programme and its objectives targeted all employees and improved the approach to health protection. Employee healthcare is not only a legal requirement but also a significant part of the corporate culture.

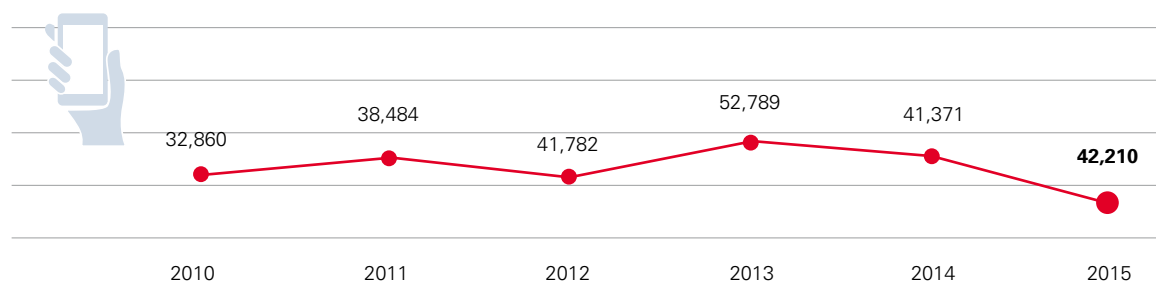
The Safe Enterprise certificate and the title Third Level Health Supporting Enterprise guarantee a professional approach. A high level of safety at work is ensured in particular by mutual communication between the PRE Group management and the employees and by solving all, even small, issues together. In addition to occupational medical services, other above-standard health and medical services, sports activities, recreational stays, etc. are provided as employee benefits.

The policy of occupational health and safety includes the following priorities:

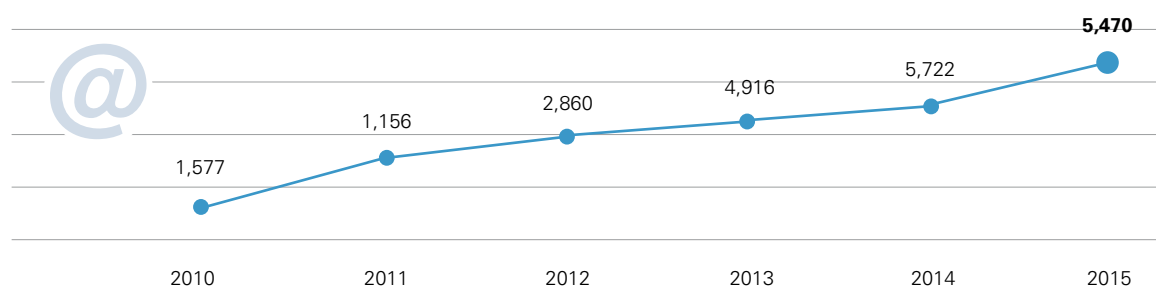
- the safety and protection of health at work as an integral part of the management of company activities;
- the common goal of both the management and the employees of the PRE Group companies being the prevention of risk situations and threats by fully complying with occupational safety guidelines;
- a system of corporate norms related to health protection, preventive checks, personal protective devices and risk analysis of individual work activities, which ensures compliance with legislation as well as obligations of both the employer and the employees.

Distribution Emergency Line

Number of enquiries answered by the Distribution Emergency Line



Number of e-mails answered by the Distribution Emergency Line



Everyday movement

For more than 110 years, our electricity has been fuelling Prague trams. Currently, the Prague tram network is the largest in the Czech Republic. Dozens of lines are used by 350 million passengers every year.



RISK MANAGEMENT SYSTEM

Risk management in PREdi is a unified process drawing on a common methodical framework shared by all the companies of the PRE Group.

The key body of the risk management system is the Risk Management Committee, which thoroughly examines the summary report on risk management and formulates the management strategy for the most important risks in view of the company's risk exposures. The committee continuously evaluates the total possible impact of risks on the company management.

The main objective is to increase the value of the company while undertaking only acceptable risks. It also serves to ensure an early warning, and to evaluate the effectiveness of the risk management tools and measures. The main focus are the key risks, which, according to the evaluation of the potential impacts, are deemed to present the potentially biggest threat. A continuous process of identification of current risks takes place; the risks are recorded in a list of risks.

The monitored risks are evaluated in terms of their expected impact and probability in three scenarios to ensure their comparability.

The main components of the process of risk management also include the identification, evaluation and reporting of individual risks.

The risks are systematically monitored in the following individual categories specified in a map of risks: strategic risks, operational risks, financial risks and compliance risks.

The company's activities are most profoundly affected by legislative-regulatory risks. In the medium term, these risks are particularly closely linked to changes in the fourth regulatory period, and in the short term and in the medium term with regulatory parameters. Operational risks are, depending on their nature, managed mainly in a decentralised way in special organisational units. Only the most significant ones are evaluated during internal audits.

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

REPORT ON GENERAL MEETINGS

In 2015, five General Meetings were held (in the form of resolutions issued by the parent company as the sole shareholder).

GENERAL MEETING ON THE 5TH OF MARCH

The agenda of the General Meeting was as follows:

- the assessment of the fulfilment of the objectives of the executive members of the Board of Directors for 2014;
- the payment of the variable yearly bonus to the executive members of the Board of Directors.

GENERAL MEETING ON THE 28TH OF MAY

The agenda of the General Meeting was as follows:

- the Report of the Board of Directors on Business Activities and Assets of the company for 2014 and the Report on Relations for 2014;
- the ordinary financial statements for 2014; the proposal for the distribution of profit for 2014, including determination of the amount of dividends and directors' fees and the method of paying them out;
- the auditor's report;
- the Supervisory Board Report;
- the business concept of the company for 2015;
- the remuneration of the members of the company bodies;
- the removal and election of members of the company bodies; approval of contracts on the performance of duties of members of company bodies – if new members are elected;
- the Annual Report for 2014.

GENERAL MEETING ON THE 8TH OF JULY

The agenda of the General Meeting was as follows:

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

GENERAL MEETING ON THE 27TH OF AUGUST

The agenda of the General Meeting was as follows:

- the approval of an organisation change;
- the approval of amendments to the contracts on performance of duties of an executive member of the Board of Directors.

GENERAL MEETING ON THE 17TH OF DECEMBER

The agenda of the General Meeting was as follows:

- the approval of the objectives of the executive members of the Board of Directors for 2016;
- the approval of amendments to the contracts on performance of duties of an executive member of the Board of Directors.

INFORMATION REQUIRED BY LAW

Information about facts which occurred after the balance sheet day

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

Information about the projected activity development of the accounting unit

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

Information about activities in research and development

The company does not systematically conduct activities in these fields.

Information about whether the accounting unit has an organisational unit abroad

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

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

The information is presented in the chapter "Environmental protection and OHS" and "Human resources".

Information about objectives and risk management methods in the company

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

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

The information is presented in the financial statements.

Information about interruption of business

The company did not interrupt its business during the year.

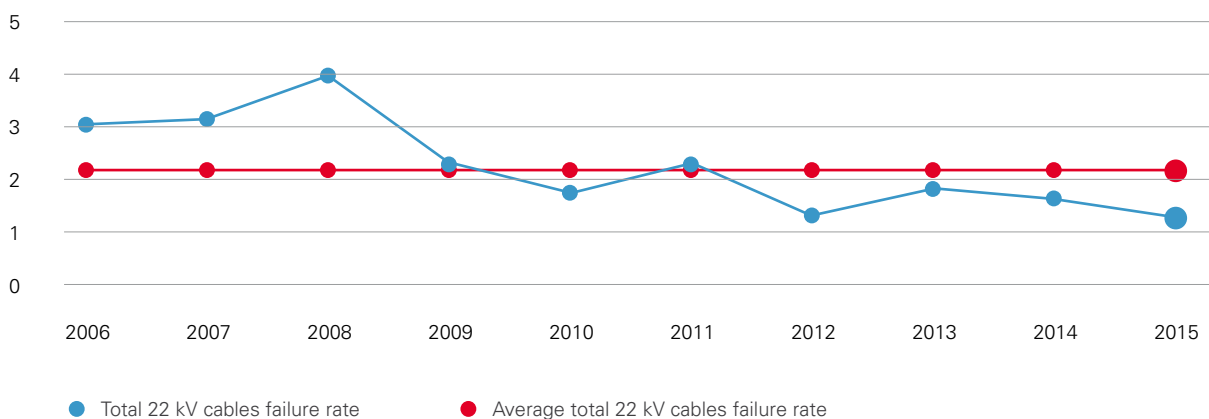


The Nusle Bridge arching high above the Botič stream valley is a unique transport construction in the Czech Republic. It is our electricity that powers its lighting and technical facilities including the metro station at Vyšehrad.

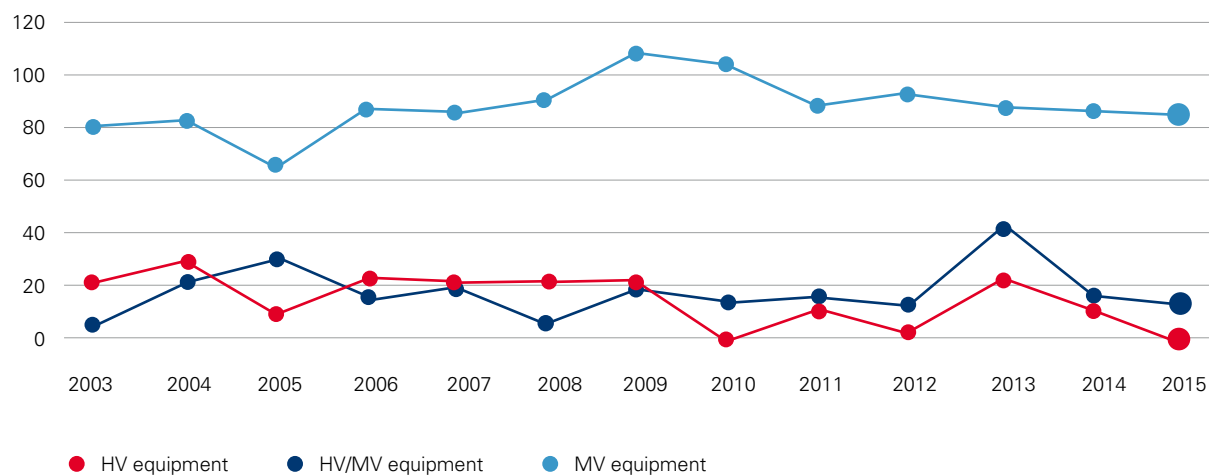
Distributed electricity

		2015	2014	2013	2012	2011	2010
Total distribution (procured)	GWh	6,139.5	6,090.2	6,301.0	6,278.4	6,310.7	6,450.5
Total number of consumption points	Number	778,138	768,562	765,008	759,768	754,593	749,513
of which: VO	Number	2,007	2,002	1,992	1,990	1,970	1,947
MOP	Number	128,436	126,648	131,520	133,457	134,679	136,275
MOO	Number	647,695	639,912	631,496	624,321	617,944	611,291


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



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







Energy on the surface as well as underground

We distribute energy not only to the world on the surface but also to the Prague underground. Its best known and most easily accessible part is the Prague metro with lines measuring 65.2 km in total. Every day, the metro is used by more than 1,300,000 Prague inhabitants and visitors to the capital.

electricity in Prague since 1882 / **Electricity Works of the Royal Capital City of Prague founded in 1897** / three-phase current for Prague since 1900

REPORT ON RELATIONS

The Report on Relations drawn up in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter referred to as ZOK) for the accounting period of 1.1.2015 – 31.12.2015. The relations are described in a manner which takes account of the need to respect the provisions of Section 504 of Act No. 89/2012 Coll., the Civil Code, concerning trade secrets, and by analogy with the provisions of Section 359 of ZOK concerning restrictions of information provision.

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

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

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

The companies PREdistribuce, a.s., PREměření, a.s., eYello CZ, k.s., PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o., and PRE FVE Pozořice, s.r.o., (all 100% subsidiaries of PREm) as managed entities, and Pražská energetika, a.s., as the managing entity, jointly constitute a corporate group, also referred to as the PRE Group.

PREdistribuce, a.s., is a 100% subsidiary of PRE. PRE elects and removes members of the Board of Directors and the Supervisory Board of PREdi; the PREdi Supervisory Board consists of representatives of the shareholder (PRE).

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

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

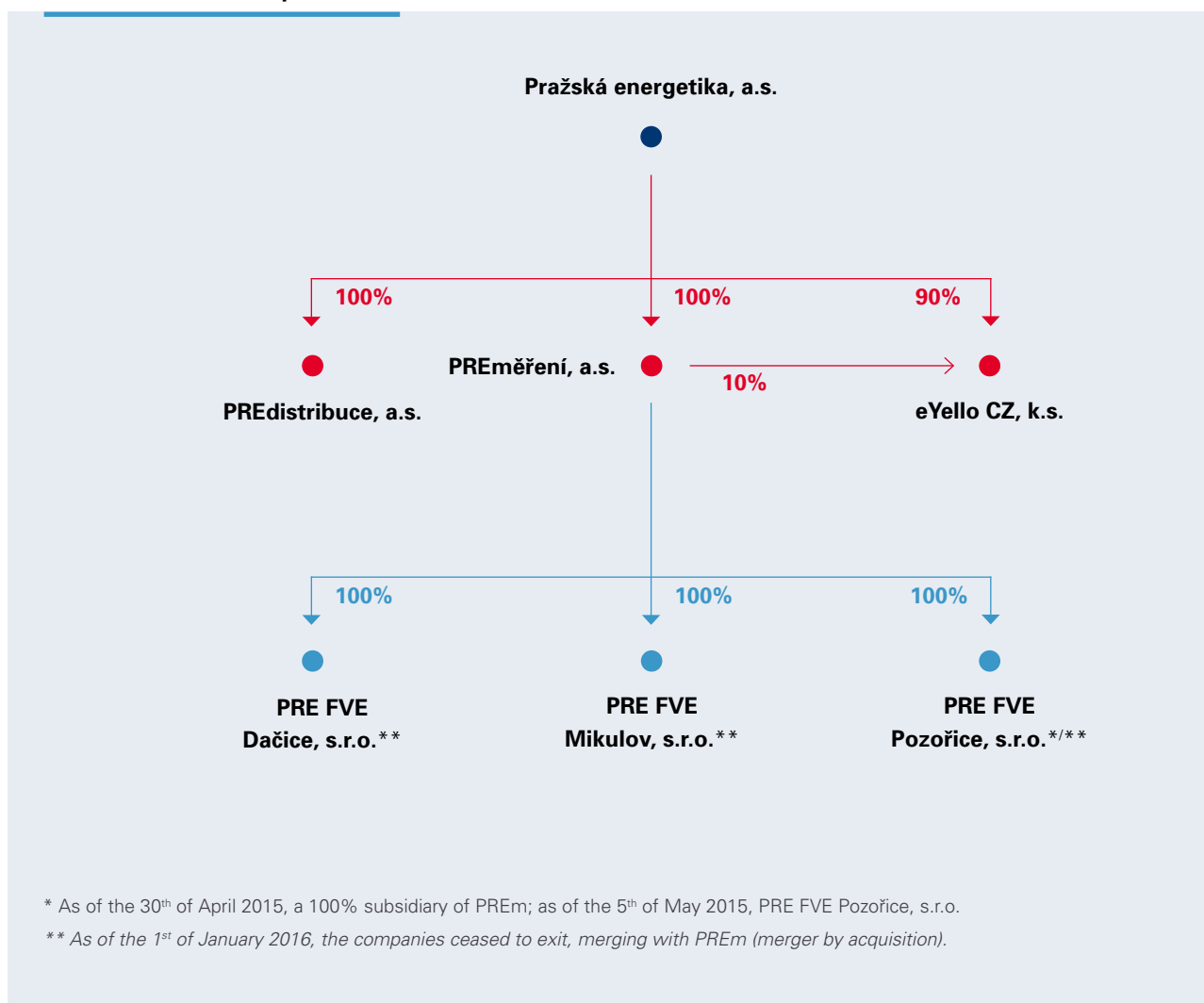
The above described management of PREdi by PRE is carried out within the scope permitted by applicable law, especially Section 25a of Act No. 458/2000 Coll., the Energy Act.

The role of PREdi within the PRE corporate group is to be a stable and reliable operator of the distribution system in the capital, Prague, in the town of Roztoky and in Žalov. PREdi meets the requirements and expectations of the users of the distribution network by using the latest technologies and procedures.

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

- **PREměření, a.s.**, registered office Na Hroudě 2149/19, Prague 10, 100 05, ID No.: 25677063, registered with the Municipal Court in Prague, File ref. B 5433 (**PREm**);
- **eYello CZ, k.s.**, registered office Kubánské náměstí 1391/11, Prague 10, 100 00, ID No.: 25054040, registered with the Municipal Court in Prague, File ref. A 76596 (**eYello**);
- **PRE FVE Dačice, s.r.o.**, registered office Na Hroudě 2149/19, Prague 10, 100 00, ID No.: 28880757, registered with the Municipal Court in Prague, File ref. C 150784 (**FVE Dačice**);
- **PRE FVE Mikulov, s.r.o.**, registered office Na Hroudě 2149/19, Prague 10, 100 00, ID No.: 28537319, registered with the Municipal Court in Prague, File ref. C 148788 (**FVE Mikulov**);
- **PRE FVE Pozořice, s.r.o.**, registered office Na Hroudě 2149/19, Prague 10, 100 00, ID No.: 29202311, registered with the Municipal Court in Prague, File ref. C 242686 (**FVE Pozořice**).

Chart of the PRE Group structure



2. OVERVIEW OF THE ACTIONS CARRIED OUT IN THE LAST ACCOUNTING PERIOD AT THE INSTIGATION OR IN THE INTEREST OF THE CONTROLLING ENTITY OR ITS CONTROLLED ENTITIES IF SUCH ACTIONS CONCERNED ASSETS EXCEEDING 10% OF EQUITY OF THE CONTROLLED ENTITY AS IDENTIFIED IN THE LAST FINANCIAL STATEMENTS

In 2015 no actions concerning assets exceeding 10% of the equity of PREdi were carried out at the instigation or in the interest of the managing entity or its controlled entities.

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

a) Contracts between PREdi and PRE

Contract on Provision of Services No. P200006/01 – in effect from 1.1.2006 for an indefinite period of time, as amended
Lease Contract No. PS20000007/003 – in effect from 1.1.2007 for an indefinite period of time, as amended
Lease Contract No. PS20000007/004 – in effect from 1.1.2007 for an indefinite period of time, as amended
Lease Contract No. P200006/05 – in effect from 1.1.2006 for an indefinite period of time, as amended
Lease Contract No. P200006/06 – in effect from 1.1.2006 for an indefinite period of time, as amended
Contract on Lease of Non-residential Premises No. P200006/09 – in effect from 1.1.2006 for an indefinite period of time, as amended
Contract on Lease of Garage Parking Lot No. P200006/10 – in effect from 1.1.2006 for an indefinite period of time, as amended
Contract on Lease of Non-residential Premises No. P200006/11 – in effect from 1.1.2006 for an indefinite period of time, as amended
Contract on Electricity Supply to Cover Losses in the Distribution System and for the Internal Needs of the Distribution System Operator No. P200006/14 – in effect from 1.1.2006 for an indefinite period of time
General Contract on Electricity Distribution to Customer Consumption Points of the Electricity Trader No. PS20000011/011 – in effect from 1.1.2011 for an indefinite period of time
Contract on Provision of Short-term Loans No. P200006/22 – in effect from 30.11.2005 for an indefinite period of time, as amended
Contract No. ZBA/2005/36 on Provision of Factual Unidirectional cash pooling (C00188/05) – in effect from 1.12.2005 for an indefinite period of time, as amended
General Mandate Contract on Construction of Telecommunication Facilities No. P200006/27 – in effect from 2.5.2006 for an indefinite period of time
Licence Contract No. PS20000011/029 – in effect from 3.1.2011 for an indefinite period of time
Lease Contract No. NO21106/015 – in effect from 2.1.2006 for an indefinite period of time, as amended
Lease Contract – Plastic Advertisement Billboards No. NO21106/001 – in effect from 30.12.2005 for an indefinite period of time, as amended
Contract for Work – Administration, Operation and Maintenance of Optical Networks No. PS21000111/079 – in effect from 1.7.2011 for an indefinite period of time
Lease Contract No. PG3530/07/2008/22 – in effect from 1.8.2008 for an indefinite period of time, as amended
Lease Contract No. NO21109/001 – in effect from 1.3.2009 to 31.12.2020, as amended
Lease Contract No. NO21109/006 – in effect from 1.4.2009 for indefinite period of time
Contract on Establishment of Easement No. VV/G33/03236/07/3065 – in effect from 22.1.2007 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/03502/07/4849 – in effect from 22.1.2007 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/03665/07/4394 – in effect from 16.11.2007 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/03938/08/5562 – in effect from 31.3.2008 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/04067/07/6065 – in effect from 9.11.2007 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/04295/08 – in effect from 4.2.2008 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/04449/08/5877 – in effect from 10.10.2008 for an indefinite period of time

Contract on Establishment of Easement No. VV/G33/04457/08 – in effect from 31.3.2008 to 2.4.2048
Contract on Establishment of Easement No. 33200/4793/08/5678 – in effect from 19.1.2009 for an indefinite period of time
Contract on Establishment of Easement No. 33200/5001/08 – in effect from 12.12.2008 for an indefinite period of time
Agreement on a Future Contract on Establishment of Easement No. VB/S24/1320548 – in effect from 8.3.2013 to 16.9.2015
Contract on Establishment of Easement No. VV/G33/06487/1006936 – in effect from 21.5.2010 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/07210/1110903 – in effect from 12.5.2011 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/08100/1215718 – in effect from 6.6.2012 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/08212/1216021 – in effect from 20.4.2012 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/09086/1321312 – in effect from 13.5.2011 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/10271/1427740 – in effect from 25.2.2015 for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/10492/1528758 – in effect from 16.9.2015 for an indefinite period of time
Lease Contract No. NO21111/011 – in effect from 1.4.2011 for an indefinite period of time
General Contract on Provision of GPRS Module Installation Services No. PS20000013/033 – in effect from 25.10.2013 for an indefinite period of time
Contract on Sub-lease of the Distribution System No. N21112/012 – in effect from 1.2.2012 to 31.12.2016, as amended
Contract on Loan No. 1/2012 No. PS20000012/032 – in effect from 28.6.2012 to 29.6.2015, as amended
Contract on Long-term Loan No. 1/2014, PS20000014/021 – in effect from 18.6.2014 to 18.6.2026
Contract on Long-term Loan No. 2/2014, PS20000014/030 – in effect from 26.11.2014 to 28.11.2026
Contract on Long-term Loan No. 1/2015, PS20000015/021 – in effect from 29.6.2015 to 29.6.2027
Contract on Combined Services of Gas Supply No. PS21001015/015 – in effect from 1.11.2014 to 31.5.2016
Contract on Purchase of a Movable Asset No. KV/S21/1530524 – in effect from 24.6.2015

b) Contracts between PREdi and PREm

Contract on Provision of Services No. S252007/002, C00270/07 – in effect from 1.1.2007 for an indefinite period of time, as amended
Contract on Supply of Defunct Metering Equipment No. S252007/003, C00261/06 – in effect from 30.12.2006 for an indefinite period of time
Contract on Supply of Used Metering Equipment No. S252007/004, C00260/06 – in effect from 30.12.2006 for an indefinite period of time
Contract for Work No. P20006/19, C00203/06 – in effect from 1.3.2006 for an indefinite period of time, as amended
Contract on Lease of Land No. N21110/016, C00418/10 – in effect from 1.4.2010 to 31.12.2030
Contract on Lease of Land No. NO21110/004, C00438/10 – in effect from 1.9.2010 to 31.12.2030
Contract on Lease of Land No. N21110/039, C00436/10 – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on Lease of a Part of Real Estate No. NO21110/005, C00439/10 – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on Supply of Metering Equipment No. KV/S21/1528699, M5100/RS/2014/0052 – in effect from 1.1.2015 to 31.12.2015
Contract on Connection to Distribution System on LV Level No. 6149169/2010 (C00422/10) – in effect from 26.5.2010 for an indefinite period of time
Contract on Connection to Distribution System on LV Level No. 6168552/2010 (C00442/10) – in effect from 4.8.2010 for an indefinite period of time
Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200013/002, C00632/13 – in effect from 1.3.2013 to 3.12.2015
Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200013/004, C00623/13 – in effect from 18.2.2013 to 28.2.2016
Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200013/005, C00629/13 – in effect from 1.3.2013 to 28.2.2016
Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200013/006, C00630/13 – in effect from 1.3.2013 to 28.2.2016

Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200013/007, C00631/13 – in effect from 1.3.2013 to 28.2.2016

Contract on Personal Data Processing No. PS20000013/038, C00627/13 – in effect from 1.3.2013 for the time of the effect of the contracts of cooperation

Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200014/001, C00785/14 – in effect from 14.1.2014 to 28.2.2016

Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200014/002, M5100/O/2014/0005 – in effect from 2.5.2014 to 28.2.2016

Contract on Cooperation to Perform Work on Unmeasured Parts of Electricity Consumption Equipment No. PS20200014/003, M5100/O/2014/0006 – in effect from 2.5.2014 to 28.2.2015

Contract on Personal Data Processing No. PS20000014/031, C00783/14 – in effect from 14.1.2014 to 28.2.2016

Contract for Work on Adaptation of Consumption Points No. PS21005015/082, eMR-111326 – in effect from 3.12.2015 to 31.12.2015

Contract on Purchase of a Movable Asset No. IS/S24/1532017, 59070648 – in effect from 6.11.2015

Contract for Work No. PS25002215/002, M6100/DOD/OBJ/2015/0074 – in effect from 6.10.2015

c) Contracts between PREdi and eYello

Lease Contracts No. 0500001 to 0500003 – in effect from 1.2.2005 to 1.2.2015

General Contract on Electricity Distribution to Customer Consumption Points of the Electricity Trader No. SOD/10390 – in effect from 16.11.2012 for an indefinite period of time

4. REVIEW OF WHETHER DAMAGE HAS BEEN INCURRED BY THE CONTROLLED ENTITY AND A REVIEW OF ITS SETTLEMENT

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

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

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

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

The Board of Directors, as the statutory body of PREdi, declares that the data contained in this Report on Relations are correct and complete and that the procedure of drawing up the Report on Relations according to Section 82 et seq. of ZOK made full use of all the information and data which the statutory body has at its disposal and which it has ascertained acting with due managerial care.

In Prague, 19th of February 2016



Milan Hampl

Chairperson of the Board of Directors



Petr Dražil

Vice-chairperson of the Board of Directors

SUPERVISORY BOARD REPORT

In 2015, the Supervisory Board of PREdistribuce, a.s., performed the tasks mandated by law and the company's Articles of Association. In accordance with Sections 446 and 447 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Act on Business Corporations), as amended, the Supervisory Board oversaw the performance of the activities of the Board of Directors, the performance of business activities, the compliance with instructions by the company's General Meeting, and the assessment of business plans. In 2015, the Supervisory Board held four meetings.

During the meetings, the Supervisory Board regularly received information about the economic results of the company as well as organisational and personnel matters. It was also being informed about the implementation of the investment plan and took account of the text of the Annual Report for 2014.

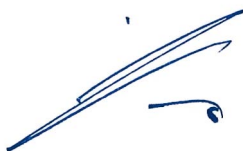
The Supervisory Board debated and reviewed the separate financial statements for 2014 and acquainted itself with the auditor's report on the separate financial statements.

The Supervisory Board also debated and reviewed the Report on Relations of PREdistribuce, a.s., for 2014, drawn up in accordance with Section 82 of the Act on Business Corporations, as amended.

In addition, the Supervisory Board approved the assessment of the objectives of the company's top management for 2014, debated the objectives of the company's top management for 2016 and approved the company's business plan for 2016.

The Supervisory Board declares that the company's economic results in 2015 were very good and expresses its thanks for them to the members of the Board of Directors as well as the company employees.

In Prague, 7th of April 2016



Pavel Elis

Chairperson of the Supervisory Board

AUDITOR'S REPORTS



Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 - Karlín
Czech Republic

Tel: +420 246 042 500
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DeloitteCZ@deloitteCE.com
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Registered at the Municipal Court in
Prague, Section C, File 24349
Id. No.: 49620592
Tax Id. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PREdistribuce, a.s.

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

We have audited the accompanying financial statements of PREdistribuce, a.s., prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2015, 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 assess-

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ments, 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 2015, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Other Information

The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of opinion thereon. However, in connection with our audit of the financial statements, our responsibility is to read the other information and consider whether the other information in the annual report is not materially inconsistent with the financial statements or our knowledge obtained in the audit, the annual report has been prepared in accordance with the applicable legal requirements, or the other information does not otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that the above is not true, we are required to report such facts.

Based on the work we have performed, we have nothing to report in this regard.

In Prague on 20 April 2016

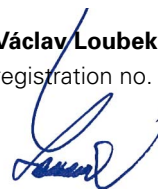
Audit firm:

Deloitte Audit s.r.o.
registration no. 079



Statutory auditor:

Václav Loubek
registration no. 2037



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PREdistribuce, a.s.

Having its registered office at: Svornosti 3199/19a, 15000 Praha 5
Identification number: 273 76 516

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of PREdistribuce, a.s., for the year ended 31 December 2015 which is included in this annual report in the section 'Report on Relations'. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of PREdistribuce, a.s., for the year ended 31 December 2015 contains material factual misstatements.

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

In Prague on 20 April 2016

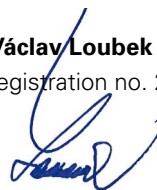
Audit firm:

Deloitte Audit s.r.o.
registration no. 079



Statutory auditor:

Václav Loubek
registration no. 2037



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SEPARATE FINANCIAL STATEMENTS

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 Thousands)

Line	Text	Note	2015	2014
I. 1.	Sales of distribution services in the Group		5,923,187	6,493,197
I. 2.	Sales of distribution services outside the Group		3,461,051	3,021,465
A.	Costs of distribution and system services		(4,983,231)	(5,105,502)
+	Gross margin	(1)	4,401,007	4,409,160
II.	Income from other services	(1)	31,842	53,761
B.	Purchased consumables and services	(3)	(1,386,963)	(1,447,986)
B. 1.	Consumed material and energy		(42,458)	(41,706)
B. 2.	Purchased services		(1,344,505)	(1,406,280)
+	Added value		3,045,886	3,014,935
C.	Staff costs	(2)	(439,664)	(444,076)
C. 1.	Payroll costs		(283,767)	(281,357)
C. 2.	Remuneration to members of statutory bodies		(12,864)	(10,955)
C. 3.	Social security and health instance costs		(104,989)	(103,529)
C. 4.	Social costs		(38,044)	(48,235)
D.	Taxes and fees		(2,343)	(1,709)
E.	Depreciation of tangible and intangible fixed assets	(6, 7)	(1,447,300)	(1,404,125)
III.	Sales of fixed assets and material		11,355	8,854
III. 1.	Sales of fixed assets		9,682	6,736
III. 2.	Sales of material		1,673	2,118
F.	Net book value of sold fixed assets		(12,547)	(10,529)
G.	Change in reserves and provisions		959	23,589
IV.	Other operating income	(1)	230,856	245,525
H.	Other operating expenses		(14,410)	(32,731)
*	Operating profit or loss		1,372,792	1,399,733
X.	Interest income	(4)	7	–
N.	Interest expenses	(4)	(73,316)	(42,513)
XI.	Other financial income		8	9
O.	Other financial expenses		(288)	(320)
*	Financial profit or loss		(73,589)	(42,824)
Q.	Income tax on ordinary activities	(5)	(247,177)	(264,345)
Q. 1.	- payable		(248,745)	(249,620)
Q. 2.	- deferred		1,568	(14,725)
**	Profit or loss on ordinary activities		1,052,026	1,092,564
***	Profit or loss for the current period		1,052,026	1,092,564

Balance sheet (CZK Thousands)

Line	Text	Note	2015	2015	2015	2014
			Gross	Adjustment	Net	Net
	TOTAL ASSETS		51,992,006	(24,040,836)	27,951,170	27,910,646
B.	Fixed assets		49,716,911	(24,011,393)	25,705,518	25,671,084
B. I.	Intangible fixed assets	(7)	26,919	(22,960)	3,959	8,364
B. I. 2.	Research and development		26,706	(22,960)	3,746	5,765
7.	Intangible fixed assets under construction		213	–	213	2,599
B. II.	Tangible fixed assets	(6)	49,689,892	(23,988,433)	25,701,459	25,662,620
B. II. 1.	Land		619,416	–	619,416	616,667
2a.	Cable and external wiring		21,017,470	(8,644,703)	12,372,767	12,191,717
2b.	Power structures		14,363,164	(7,519,195)	6,843,969	6,864,540
3a.	Transformer station and switching station technologies		8,979,033	(4,825,198)	4,153,835	4,284,302
3b.	Logistics and management equipment/technology		1,999,768	(1,414,838)	584,930	533,454
3c.	Other fixtures and equipment		282,478	(202,387)	80,091	96,208
6.	Other tangible fixed assets					
–	electricity meters in the network		1,962,336	(1,382,112)	580,224	597,252
7b.	Other tangible fixed assets under construction		416,448	–	416,448	464,883
8.	Prepayments made for tangible fixed assets		49,779	–	49,779	13,597
B. III.	Non-current financial assets		100	–	100	100
C.	Current assets		2,273,073	(29,443)	2,243,630	2,237,428
C. II.	Long-term receivables		45	–	45	43
C. II. 1.	Trade receivables		31	–	31	29
5.	Long-term pre-payments made		14	–	14	14
C. III.	Short-term receivables		2,271,071	(29,443)	2,241,628	2,236,140
C. III. 1.	Trade receivables	(8)	166,365	(29,443)	136,922	85,262
2.	Receivables – controlling entity	(16)	2,456	–	2,456	7,570
6.	State – tax receivables		22,386	–	22,386	14,891
7.	Short-term prepayments made		13,863	–	13,863	16,470
8.	Estimated receivables	(16)	2,065,682	–	2,065,682	2,111,242
9.	Other receivables		319	–	319	705
C. IV.	Cash on hand		1,957	–	1,957	1,245
D. I.	Deferred expenses and accrued income		2,022	–	2,022	2,134
D. I. 1.	Deferred expenses		2,022	–	2,022	2,134

Line	Text	Note	2015	2014
	TOTAL LIABILITIES		27,951,170	27,910,646
A.	Equity	(9)	19,290,879	19,330,653
A. I.	Share capital		17,707,934	17,707,934
A. III.	Statutory reserve fund		530,000	530,000
A. IV.	Accumulated profits/losses brought forward		919	155
A. V.	Profit or loss for the current period		1,052,026	1,092,564
B.	Liabilities		6,836,282	6,732,809
B. I.	Other reserves	(10)	213,835	207,523
B. II.	Long-term payables		5,667,831	5,765,399
B. II. 2.	Payables – controlling entity	(16)	2,700,000	2,800,000
9.	Other payables		6,000	2,000
10.	Deferred tax liability	(11)	2,961,831	2,963,399
B. III.	Short-term payables		954,616	759,887
B. III. 1.	Trade payables	(12)	346,388	391,115
2.	Payables – controlling entity	(16)	243,254	85,330
5.	Payables to employees		15,019	15,681
6.	Social security and health instance payables	(5)	9,524	10,145
7.	State – tax payables and subsidies	(5)	102,702	90,775
8.	Short-term prepayments received		237,729	166,841
C. I.	Accrued expenses and deferred income		1,824,009	1,847,184
C. I. 1.	Accrued expenses		36,462	28,608
2.	Deferred income	(13)	1,787,547	1,818,576

Cash flow statement (CZK Thousands)

	Note	2015	2014
Opening balance of cash and cash equivalents		1,245	347
Operating activity			
Sales of distribution services		9,463,267	9,907,450
Electricity consumption for network loss		(414,066)	(445,478)
Expenses for purchases of transit and system services		(4,614,916)	(4,837,386)
Net sales of distribution services	(1)	4,434,285	4,624,586
Expenses in the Group	(16)	(953,602)	(991,328)
Other operating income	(1)	41,282	65,098
Operating expenses	(3)	(412,991)	(392,377)
Changes in short-term working capital		9,129	11,042
Staff costs	(2)	(424,886)	(413,937)
Direct taxes	(5)	(258,087)	(298,937)
Financial income and expenses	(4)	(60,995)	(33,464)
Net cash flow from operating activity		2,374,135	2,570,683
Investment activity			
Income from the sale of fixed assets		10,181	5,676
Expenses related to the acquisition of fixed assets	(6,7)	(1,494,686)	(1,466,556)
Income from investment contributions	(13)	165,077	217,018
Net cash flow from investment activity		(1,319,428)	(1,243,862)
Financial activity			
Dividends and director's fees paid		(1,091,800)	(1,171,200)
Cash pooling in the Group		137,805	(754,723)
Loans in the Group	(16)	(100,000)	600,000
Net cash flow from financial activity		(1,053,995)	(1,325,923)
Change in cash and cash equivalents		712	898
Closing balance of cash and cash equivalents		1,957	1,245

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

GENERAL INFORMATION

Incorporation and description of the business

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

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

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

Statutory and supervisory bodies as of the 31st of December 2015

Board of Directors

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

Supervisory Board

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

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

Organisational structure of the Company

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

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 Thousands) or millions of Czech crowns (CZK Millions). 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.

Technical improvements

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

Depreciation

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

Asset category	Depreciation period in years
Buildings, halls and other structures	20, 50, 70
Cable tunnels, cables and external wiring	40
Fibre-optics	30
Power structures	15, 25, 30
Working machines and equipment	10, 12, 20
Telecommunication equipment	4, 15
Machinery and special technology equipment, communication cables	3, 6, 8, 10
Electricity meters	12
Vehicles	4
Furniture and fixtures	6, 8
Hardware and software	4
Other intangible assets	4

Short-term receivables

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

Investment contributions

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

Cash and cash equivalents

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

Impairment losses on assets

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

Share capital

Issued shares

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

Dividends

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

Cash pooling

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

Reserves

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

Short-term payables

Short-term payables are stated at their nominal value

Revenue recognition

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

Expense recognition

Operating leases

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

Finance leases

Instalments for leased assets are accrued and expensed. Assets acquired after the termination of the lease are carried at acquisition or replacement cost.

Income tax

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

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

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

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

Cash flow statement

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

Significant accounting estimates

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

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

1. Revenues
2. Staff costs
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(1) Revenues (CZK Thousands)

Revenues and expenses relating to the supply of distribution services	2015	2014
Sale of distribution and system services B2B	3,721,932	3,770,132
Sale of distribution and system services B2C (including low-voltage B2B)	5,618,393	5,694,830
Other income	43,913	49,700
Total income	9,384,238	9,514,662
Costs of the purchase of distribution and system services	(4,983,231)	(5,105,502)
Gross profit from the sale of distribution services	4,401,007	4,409,160

Other income	2015	2014
Income from services rendered in the Group	20,347	20,966
Income from services rendered outside the Group	11,495	32,795
of which: Servicing and assembly*	4,112	24,788
Leases	3,779	3,867
Total	31,842	53,761

* The increase in the year ended December 31, 2014 was attributable to the re-billing of costs in the amount of CZK 20 million, refer to Note (3) – “Costs of purchase of material, services and utilities – sundries”. A similar one-time transaction was not realised in the year ended December 31, 2015 and revenues decreased to the standard level.

Other operating income	2015	2014
Clearance of connection fees	198,160	199,180
Compensation for unauthorised consumption	22,403	24,280
Sundry	10,293	22,065
Total	230,856	245,525

(2) Staff costs (CZK Thousands)

	2015	2014
	Staff including management	Staff including management
Average headcount	513	514
Payroll costs	261,148	256,728
Salaries paid depending on the Company's goal performance	22,619	24,629
Insurance	104,989	103,529
Remuneration of the members of the Company's bodies	12,864	10,955
Other social costs (according to the collective agreement)*	38,044	48,235
Total	439,664	444,076

* This primarily includes the costs of severance payments and employee benefits defined in the collective agreement. Specifically, the benefits include catering contributions, bonuses paid to employees in relation to work and life anniversaries and retirement leaves and contributions to pension insurance.

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

	2015	2014
Services of the parent company	621,265	645,263
Lease of technologies and technology units	1,381	17,143
Lease of non-residential premises	69,271	70,572
Lease of cars	22,035	21,953
Assembly work and reading of meters	214,920	222,845
Sundry	10,645	11,361
Costs of purchase of material, services and utilities in the Group	939,517	989,137
Material and consumed utilities	38,561	36,933
Repairs of fixed assets	193,525	192,562
Lease of cable tunnels	100,812	98,449
Lease of non-residential premises	34,266	35,790
Sundries	80,282	95,115
Costs of purchase of material, services and utilities outside the Group	447,446	458,849
Total	1,386,963	1,447,986

(4) Interest expenses (CZK Thousands)

	2015	2014
Interest income: from cash pooling	7	–
Interest expenses: from cash pooling	(2,332)	(3,888)
from loans in the Group*	(70,220)	(37,589)
from employee benefits	(757)	(1,036)
other	(7)	–
Total (net)	(73,309)	(42,513)

* Interest expenses from loans also included capitalised interest in the amount of CZK 11,965 thousand for 2015 (2014: CZK 16,887 thousand) which is included in the cost of assets.

(5) Income tax (CZK Thousands)

Effective tax rate	2015	2015	2014	2014
Profit or loss for the period	1,052,026		1,092,564	
Income tax from ordinary activity	247,177		264,345	
Income tax from extraordinary activity	–		–	
Profit before tax	1,299,203		1,356,909	
Income tax using the applicable income tax rate	246,849	19.00%	257,813	19.00%
Impact of items that are never tax-deductible	(724)	(0.05%)	6,112	0.45%
Corrections of estimates of prior years' taxes	1,052	0.08%	420	0.03%
Total income tax/effective tax rate	247,177	19.03%	264,345	19.48%

Payables to the State	2015	2014
Payables arising from social security and health insurance contributions	9,524	10,145
State – tax payables*	102,702	90,775

* This item primarily includes corporate income tax and VAT.

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

(6) Tangible fixed assets (CZK Millions)

	Land	Power structures	Cables and overhead power lines	Tele- commu- nication- and IT	Electricity meters	Other	Assets under construc- tion	Total
Cost								
Balance on 31.12.2013	566.9	22,319.3	19,976.0	1,704.2	1,946.3	280.8	704.7	47,498.2
Additions	23.6	449.7	576.3	126.8	77.0	3.5	173.3	1,430.2
Disposals	(4.0)	(67.1)	(121.9)	(19.0)	(128.1)	(1.6)	(0.1)	(341.8)
Reclassification	30.2	237.9	53.2	47.2	25.2	5.7	(399.4)	–
Balance on 31.12.2014	616.7	22,939.8	20,483.6	1,859.2	1,920.4	288.4	478.5	48,586.6
Accumulated depreciation								
Balance on 31.12.2013	–	(11,204.8)	(7,905.8)	(1,250.8)	(1,320.3)	(173.7)	–	(21,855.4)
Depreciation	–	(647.8)	(507.9)	(94.1)	(130.9)	(20.1)	–	(1,400.8)
Provisions	–	3.5	–	–	–	–	–	3.5
Accumulated depreciation on disposals	–	58.2	121.8	19.0	128.1	1.6	–	328.7
Reclassification	–	–	–	–	–	–	–	–
Balance on 31.12.2014	–	(11,790.9)	(8,291.9)	(1,325.9)	(1,323.1)	(192.2)	–	(22,924.0)
Net book value on 31.12.2013	566.9	11,114.5	12,070.2	453.4	626.0	107.1	704.7	25,642.8
Net book value on 31.12.2014	616.7	11,148.9	12,191.7	533.3	597.3	96.2	478.5	25,662.6

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

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

(7) Intangible fixed assets (CZK Millions)

	Software	Other	Intangible fixed assets under construction	Total
Cost				
Balance on 31.12.2013	0.1	24.8	2.1	27.0
Additions	–	0.3	0.8	1.1
Disposals	(0.1)	–	–	(0.1)
Reclassification	–	0.3	(0.3)	–
Balance on 31.12.2014	–	25.4	2.6	28.0
Accumulated amortisation				
Balance on 31.12.2013	(0.1)	(16.3)	–	(16.4)
Amortisation	–	(3.3)	–	(3.3)
Accumulated amortisation on disposals	0.1	–	–	0.1
Reclassification	–	–	–	–
Balance on 31.12.2014	–	(19.6)	–	(19.6)
Net book value on 31.12.2013	–	8.5	2.1	10.6
Net book value on 31.12.2014	–	5.8	2.6	8.4

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

Low-value fixed assets

In line with the accounting policies (refer to “Accounting policies”), low-value fixed assets are expensed upon acquisition. The acquisition cost of low-value tangible assets with the acquisition cost of up to CZK 40 thousand that were in use as of the balance sheet date amounts to CZK 83,222 thousand (2014: CZK 80,643 thousand). The Company holds no low-value intangible fixed assets.

(8) Trade receivables (CZK Thousands)

Trade receivables	2015	2014
up to 6 months past due	15,485	11,346
6 to 12 months past due	4,459	6,934
more than 12 months past due	25,908	23,659
Gross past-due trade receivables	45,852	41,939
before due	120,513	72,176
Total gross trade receivables	166,365	114,115

(9) Equity (CZK Thousands)

Registered share capital and types of shares as of the 31st of December 2015

The Company's share capital comprises 21,549 registered shares in the certificate form (2014: 21,549 shares) with the nominal value of CZK 821,752 (2014: CZK 821,752).

Distribution of profit

The General Meeting will decide on the distribution of profit in the amount of CZK 1,052,026 thousand (2014: CZK 1,092,564 thousand).

Statement of changes in equity

	Share capital	Reserve fund	Profit or loss	Retained earnings	Total equity
Balance on 31.12.2013	17,707,934	468,000	1,232,886	469	19,409,289
Creation of the reserve fund	–	62,000	(62,000)	–	–
Dividends paid	–	–	(1,158,000)	–	(1,158,000)
Directors' fees paid	–	–	(13,200)	–	(13,200)
Retained earnings	–	–	314	(314)	–
Net profit for 2014	–	–	1,092,564	–	1,092,564
Balance on 31.12.2014	17,707,934	530,000	1,092,564	155	19,330,653
Creation of the reserve fund	–	–	–	–	–
Dividends paid	–	–	(1,080,000)	–	(1,080,000)
Directors' fees paid	–	–	(11,800)	–	(11,800)
Retained earnings	–	–	(764)	764	–
Net profit for 2015	–	–	1,052,026	–	1,052,026
Balance on 31.12.2015	17,707,934	530,000	1,052,026	919	19,290,879

(10) Reserves (CZK Thousands)

	Business risks	Salaries	Employee benefits	Total
Balance on 31.12.2013	62,589	35,002	117,582	215,173
Creation of reserves in the current period	–	–	27,428	27,428
Use of reserves in the current period	(26,134)	(22)	(8,922)	(35,078)
Balance on 31.12.2014	36,455	34,980	136,088	207,523
Creation of reserves in the current period	–	756	15,345	16,101
Use/release of reserves in the current period	(931)	–	(8,858)	(9,789)
Balance on 31.12.2015	35,524	35,736	142,575	213,835
Long-term reserves	35,524	–	134,054	169,578
Short-term reserves	–	35,736	8,521	44,257
Total	35,524	35,736	142,575	213,835

Reserves are recognised in respect of the following:

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

11) Deferred tax liability (CZK Thousands)

Deferred tax assets and liabilities reported in the balance sheet

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

	2015	2014
Fixed assets	3,003,240	3,000,521
Receivables	(1,511)	(1,635)
Reserves	(13,539)	(13,573)
Liabilities arising from the collective agreement	(26,359)	(21,914)
Total	2,961,831	2,963,399

(12) Trade payables (CZK Thousands)

The Company carries no trade payables past their due dates.

(13) Temporary liabilities (CZK Thousands)

Deferred income	
Balance on 31.12.2013	1,800,076
Investment contributions received	217,680
Investment contributions recognised in income*	(199,180)
Balance on 31.12.2014	1,818,576
Investment contributions received	167,131
Investment contributions recognised in income*	(198,160)
Balance on 31.12.2015	1,787,547

* Investment contributions recognised in income are included in "Other operating income" in the income statement

(14) Assets held under leases (CZK Thousands)

Operating leases

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

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

	2015	2014
Cable conduits	100,812	98,449
Non-residential premises	34,266	35,790
Administrative buildings	69,271	70,572
Vehicles	22,035	21,953
Total	226,384	226,764

Finance leases

Finance leases include technologies and technological units. In the year ended December 31, 2015, the lease payments amounted to CZK 1,381 thousand (2014: CZK 17,143 thousand). The finance lease was terminated in 2015.

(15) Related parties (CZK Thousands)

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

Selected members having managing authority use company cars for both business and private purposes.

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

	2015	2014
Number	8	10
Bonuses in CZK (Thousands)	25,101	25,845

Transactions with members of statutory bodies and executive management

As of the 31st of December 2015, the Company recorded receivables from the members of the Board of Directors and the Supervisory Board in the aggregate amount of CZK 8 thousand (2014: CZK 27 thousand). These receivables were settled during January 2016.

(16) Group relationships (CZK Thousands)

	PREdi receivables as of 31.12		PREdi payables as of 31.12.	
	2015	2014	2015	2014
Pražská energetika, a.s.	1,630,349	1,693,238	2,949,362	2,892,004
of which: Trade receivables/payables	2,426	–	82,665	63,395
Trade receivables/payables from cash pooling	–	7,570	130,235	–
Accrued income/expenses from cash pooling	–	–	254	170
Long-term loan*	–	–	2,700,000	2,800,000
Accrued expenses (loan interest)	–	–	36,208	28,439
Estimated amounts – unbilled distribution services**	1,627,923	1,685,668	–	–
PREměření, a.s.	30	–	30,354	21,935
Total	1,630,379	1,693,238	2,979,716	2,913,939

* The long-term loan consists of three parts: a loan of CZK 600 million maturing on the 18th of June 2026 that bears interest at 3Y CZK IRS + mark-up of 3.1% p.a., a loan of CZK 700 million maturing on the 28th of November 2026 that bears interest at 3Y CZK IRS + mark-up of 3.0% p.a., and a loan of CZK 1,500 million maturing on the 29th of June 2015 that was refinanced and replaced with a loan of CZK 1,400 million maturing on the 29th of June 2027 that bears interest at 3Y CZK IRS + 2.5% p.a. The loans serve for financing the operating and investment needs of the debtor.

** Estimated receivables reported in the balance sheet amount to CZK 2,065,682 thousand (as of the 31st of December 2014: CZK 2,111,242 thousand), of which the amount of CZK 1,627,923 thousand (as of the 31st of December 2014: CZK 1,685,668 thousand) represents unbilled distribution services provided to Pražská energetika, a.s., and the amount of CZK 437,759 thousand (as of the 31st of December 2014: CZK 425,574 thousand) represents unbilled distribution services and unbilled credit notes, if any, related to these services provided outside the PRE Group.

	PREdi income		PREdi costs/expenses	
	2015	2014	2015	2014
Pražská energetika, a.s.	5,935,860	6,511,314	(2,489,987)	(2,584,881)
of which: Distribution services	5,916,547	6,491,462	–	–
Services, consumed material	19,151	19,776	(723,216)	(749,149)
Consumed electricity for the Company's own purposes and losses	–	–	(421,159)	(444,529)
Material	–	–	(180,999)	(174,662)
Fixed assets	–	–	(96)	(177)
Other income	154	76	–	–
Dividends	–	–	(1,080,000)	(1,158,000)
Interest on cash pooling	8	–	(2,332)	(3,888)
Interest on loans	–	–	(82,185)	(54,476)
eYello CZ, k.s.	6,643	1,735	(1,380)	(17,143)
of which: Distribution services	6,640	1,735	–	–
Services – leases	–	–	(1,380)	(17,143)
Other income	3	–	–	–
PREměření, a.s.	1,207	1,205	(324,919)	(305,043)
of which: Assembly and electricity meters	1,207	1,205	(324,919)	(305,043)
Total	5,943,710	6,514,254	(2,816,286)	(2,907,067)

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

(17) Significant post balance sheet events

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

AFFIDAVIT

To the best of our knowledge, the Annual Report, in exercising all reasonable due diligence, presents a true and honest picture of the financial situation, business activities and economic results of PREdistribuce, a.s., in 2015, and of the prospects for the future development of the company. No facts have been deliberately omitted from or distorted in the Annual Report which could have altered its meaning.

In Prague, 20th of April 2016



Milan Hampl
Chairperson of the Board of Directors



Petr Dražil
Vice-chairperson of the Board of Directors

LIST OF ABBREVIATIONS

AMM	Automatic metering management
B2B	Big customers
B2C	Small customers
EMS	Environmental management system
EnBw	EnBW Energie Baden-Württemberg AG
ERÚ	Energy Regulatory Office (Energetický regulační úřad)
EU	European Union
FVE Dačice	PRE FVE Dačice, s.r.o., 100% subsidiary of PRE
FVE Mikulov	PRE FVE Mikulov, s.r.o., 100% subsidiary of PRE
FVE Pozořice	PRE FVE Pozořice, s.r.o., 100% subsidiary of PRE
eYello	eYello CZ, k.s., 90% subsidiary of Pražská energetika, a.s.
GWh	Gigawatt-hour
kV	Kilovolt
MOO	Retail – households
MOP	Retail – small businesses
MV	Medium voltage
MW	Megawatt
LV	Low voltage
OHS	Occupational health and safety
PRE	Pražská energetika, a.s.
PREdi	PREdistribuce, a.s., 100% subsidiary of Pražská energetika, a.s.
PREm	PREměření, a.s., 100% subsidiary of Pražská energetika, a.s.
PRE Group	PRE + PREdi + PREm (+ FVE Dačice, FVE Mikulov, FVE Pozořice) + eYello
TR	Transformer station
HV	High voltage
VO	Wholesale

ADDRESSES AND CONTACT INFORMATION

	Address	Postal code	Telephone
PREdistribuce, a.s.	Prague 5, Svornosti 3199/19a	150 00	267 055 555, 840 550 055
Web:	www.pre.cz, www.predistribuce.cz		
E-mail:	pre@pre.cz, distribuce@pre.cz		
ID No.:	27376516		

	Address	Postal code	Telephone
Pražská energetika, a.s.	Prague 10, Na Hroudě 1492/4	100 05	267 055 555, 840 550 055
Web:	www.pre.cz		
E-mail:	pre@pre.cz		
ID No.:	60193913		

	Address	Postal code	Telephone
PREměření, a.s.	Prague 10, Na Hroudě 2149/19	100 05	267 055 555, 840 550 055
Web:	www.pre.cz, www.premereni.cz		
E-mail:	pre@pre.cz, mereni@pre.cz		
ID No.:	25677063		

	Address	Postal code	ID No.:
PRE FVE Dačice, s.r.o.	Prague 10, Na Hroudě 2149/19	100 00	28880757

	Address	Postal code	ID No.:
PRE FVE Mikulov, s.r.o.	Prague 10, Na Hroudě 2149/19	100 00	28537319

	Address	Postal code	ID No.:
PRE FVE Pozoříce, s.r.o.	Prague 10, Na Hroudě 2149/19	100 00	29202311

	Address	Postal code	Telephone
eYello CZ, k.s.	Prague 10, Kubánské náměstí 1391/11	100 00	267 056 704, 840 555 777
Web:	www.yello.cz		
E-mail:	yello@yello.cz		
ID No.:	25054040		

	Address	Postal code	Telephone
PRE Customer Centre	Prague 1, Jungmannova 36/31	110 00	267 055 555, 840 550 055
	Prague 4, Vladimírova 64/18	140 00	267 055 555, 840 550 055
Emergency Service	Prague 2, Kateřinská 1528/9	120 00	1236, e-mail: poruchy@pre.cz
Call Centre	Prague 10, Kubánské náměstí 1391/11	100 00	267 055 555, 840 550 055
PRE Service Centre	Prague 1, Jungmannova 747/28	110 00	840 550 055, 733 143 143
Press Relations	Prague 10, Na Hroudě 1492/4	100 05	267 051 102



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