



PREdistribuce, a.s.

2017 Annual Report

||||| **365/24** |||||



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Changes which occurred between the end of the accounting period (31.12.2017) and the publishing of the Annual Report (23.4.2018) are marked in italics.

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 effect from 1.1.2006 for an indefinite period of time)

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

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

On the 1st of January 2006, PREdistribuce, a.s., started operating, assuming all rights and obligations of Pražská energetika, a.s., related to securing and operating the distribution system in Prague, in Roztoky and in Žalov; it also became the owner of the technical equipment and a part of the immovable assets used for electricity distribution in this territory. PREdistribuce, a.s., remains a 100% subsidiary of Pražská energetika, a.s.

THE COMPANY'S SCOPE OF BUSINESS:

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

PRE Group

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

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

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

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

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

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

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

PREzákaznická, a.s. (PREzak) – production, trading and services not listed in Appendices No. 1 to 3 of the Trade Licensing Act, lease of real estate, flats and non-residential premises; PRE's subsidiary since the 1st of November 2017.

100% subsidiary of PREdi:

PREnetcom, a.s. (PREnetcom) – production, installation and repair of electrical machinery and devices, and electronic and telecommunication equipment, production, trading and services not listed in Appendices No. 1 to 3 of the Trade Licensing Act; PREdi's subsidiary since the 1st of January 2018.

100% subsidiary of PREm:

PRE FVE Světlík, s.r.o. – electricity generation, production, trading and services not listed in Appendices No. 1 to 3 of the Trade Licensing Act; PREm's subsidiary since the 30th of November 2017.

Foreword of the Chairperson of the Board of Directors

Distinguished readers

For the past thirteen years, the main task of the company has been to provide high quality and uninterrupted supply of electricity to its end customers in the territory of Prague, Roztoky and Žalov covering an area of 505 km², while meeting the highest European standards.

PREdistribuce, a.s., was founded in 2006 as a 100% subsidiary of the sole shareholder, Pražská energetika, a.s. PREdi's activities are subject to the regulation of the Energy Regulatory Office (ERÚ), which determines distributors' allowed reasonable profit and economically justifiable costs of ensuring safe, reliable and efficient execution of the licensed activities. PREdi holds an electricity distribution licence for the licensed territory, effective from the 1st of January 2006 for an indefinite period of time. PREdi distribution system consists of 24 distribution stations with 110/22 kV transformation, 4,863 22/0.4 kV network transformer stations, and a system of 110 kV, 22 kV and 0.4 kV overhead power lines and cable lines with total length exceeding 12 thousand kilometres.

All of the distribution equipment is maintained by 512 employees. Their main tasks include planning the renovation and development of distribution equipment; connecting new customers following the construction of energy infrastructure and connection points; the metering of supplied electricity on high and medium voltage levels; and the transfer of data to the market operator for the purpose of settling distribution services and supplies. PREdi's employees also manage network assets, control operation, solve failures, and carry out planned network renovation and maintenance. In January 2017, PREdi took over the responsibility for operating the street lighting dispatcher control centre and solving failures and breakdowns of street lighting owned by the capital Prague. In addition to keeping street lighting and lighting of historical buildings in working order, it also maintains almost 500 gas lamps in the city centre. I sincerely believe that we have

managed to succeed in this new role and respond to street lighting failures with maximum effectiveness and reliability. We owe this success to our expertise in electricity distribution, Prague's geography and the fact that switching points of the street lighting system are located close to electric networks and the layout of lighting points corresponds to the layout of electric cables. However, admittedly we had to deal with more lighting failures than we expected; during the winter months, it was almost twice the expected amount. Over the course of last year, we also took up activities related to the issuance of plans and opinions to excavation work permits. I firmly believe that the expected negotiations with Prague City Council on further cooperation on the administration and maintenance of street lighting will help us reach our common goal, which is a safe and beautifully illuminated capital.

I am pleased to say that 2017 was a very successful year in terms of ensuring the high operational reliability and security of the networks as well as good economic results, with profit amounting to CZK 1,341 million. We managed to transfer/distribute 6,288 GWh of electricity to more than 795 thousand consumption points. The highest total load of the network amounting to 1,196 MW was recorded in January. Despite austerity measures taken by customers, the implementation of new technologies and devices and state support for reducing energy losses in buildings, the volume of distributed electricity increased by 47 GWh year-on-year. This great result clearly indicates that the economy is growing and Prague continues to develop. Thanks to the recovery of the market with property development projects, the highest total load and electricity consumption can, therefore, be expected to increase further in 2018.

In terms of security, all PREdi's networks and operating equipment are part of the critical infrastructure of Prague and the entire Czech Republic. Reliable energy supply is indispensable for the operation of the capital given its specifics. Short-term disruptions on a larger scale paralyse the city completely, potentially causing transport collapse, posing a threat to the lives of people in elevators and impeding the operation of most state authorities and companies. In 2017, there were only 6 failures in the 110 kV network and 124 failures in the 22 kV network, including those caused by external interference. Throughout the year, quality standards of electricity supply and related services were met with

regard to the absolute majority of customers connected to the company's distribution networks in accordance with Decree of ERÚ No. 540/2005 Coll. Operational results of PREdi's distribution system prove the trend of decreasing internal distribution failure rate in Prague in terms of the number of severe failures and supply quality.

In order to continue this trend, PREdi had to make the planned amount of investment into the distribution equipment – i.e., the simple reproduction and development of networks including control, telemechanisation and metering systems. The investment approved by the Supervisory Board amounted to CZK 1,594 million. The most significant simple reproduction projects in 2017 included the completion of the modernisation of the 110/22 kV transformer station in Třeboradice and the construction of a brand new transformer station in Uhřetěves. The building of the 110/22 kV transformer station in Karlín continued, aiming at considerably increasing the operational reliability of supply in the city centre and meeting new demand for input in undeveloped localities along the Vltava river. Construction work also started on cable tunnels for leading out the output from the Karlín transformer station towards the Hlávka bridge. The first 110 kV cable line between the Malešice and Jih transformer stations was completed; once the other line is laid this year, the 110 kV overhead power lines in the densely populated area of Malešice, which are at the end of their lifetime, will be decommissioned. We also carried out a high number of simple reproduction projects in the 22 kV and 1 kV cable lines and renovated distribution transformer stations, which reached the end of their physical and accounting lifetime.

2017 saw major legislative changes in the Czech energy sector. Since the 1st of August 2017, the Energy Regulatory Office has been governed by a five-member council, which immediately joined in the negotiations with the Czech Association of Regulated Power Supply Companies (ČSRES) on the parameters of the fifth regulatory period. The negotiations resulted in prolonging the fourth regulatory period by two years, while keeping the existing regulatory parameters in effect. The management of PREdi, which held the ČSRES presidency in 2017, played a key role in these negotiations. Our experts also actively participated in fulfilling tasks outlined in the National Smart Grid Action Plan (Národní akční plán pro chytré sítě) approved by the Czech government in 2015.

I am happy to conclude that PREdi again managed to fulfil the key tasks of the distributor in the capital and actively participated in the planned development of Prague. I would like to express my thanks to the company's employees for their excellent performance both in the field of electricity distribution and street lighting. I am positive that PREdi will remain a mainstay of the PRE Group, meet the expectations of its shareholders and remain an entity that acknowledges its responsibility towards the environment and constantly strives to enhance environmental protection.



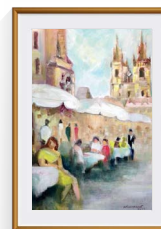
Milan Hampl
Chairperson of the Board of Directors

January... ...February March...



Meeting with contractors

The 12th annual meeting was held between PRE and PREdi employees and selected contractors who carry out construction and design work for PREdi.



Exhibitions in the PRE Gallery

PRE has run a gallery for the past 19 years, striving to enrich the cultural life of Prague 10 residents. In February, the gallery featured delightful pictures of Prague by painter and illustrator Ludmila Šnajderová.

17.1.

1.1.

ČSRES presidency

In 2017, PREdistribuce, a.s., took over the presidency of the Czech Association of Regulated Power Supply Companies (ČSRES), which deals with issues related to legislation and the regulation and operation of transmission and distribution networks.



Distribution Emergency Line

For more than ten years, the Distribution Emergency Line has catered to customers 24/7, receiving reports of electricity supply failures. Now, the phone number 1236 can also be used to report works on unmeasured parts of electricity networks, arrange for short-term electricity supply, and report dangers to people's lives, health, property, etc. Since 2017, the Distribution Emergency Line has also been processing reports of street lighting failures in Prague.

Company strategy

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

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

The otherwise conservative energy sector now faces changes of EU legislation and challenges related to the introduction

of new technologies, which will undoubtedly require modification of its structure and operation management in the near future. These changes and new challenges are common across Europe, with only speed and intensity differing in individual states.

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

28.2.

Modernisation of buildings at Karlov

At the end of February 2017, the modernisation of buildings started in the Karlov complex, which includes a 110/22 kV transformer station. The modernised premises, which should be completed by mid-2018, will cater to about 80 people from the newly relocated sections Metering and Readings (S 25 100) and Network Concepts (S 27 000).

**Works Council elections**

The elections to the Works Council made up of the PRE Group employees were held on the 28th and 29th of March. Four new members were elected for three-year terms. Through their elected representatives, employees of PRE and its subsidiaries can partake in the management of the company.

PREkolo in 2017

Before the start of the season, the electric bike shop and rental service on Jungmannova street made a substantial annual upgrade of its product portfolio, stocking up on new electric bikes and kick scooters. Now it also carries Author electric bikes.



9.3.

TR Uhřetěves launched in March

The construction of a new 110/22 kV transformer station in Uhřetěves in the south-east of Prague has considerably improved the operation of the 22 kV network and the reliability of the 110 kV backbone network and, as a result, reduced energy losses. The area has recently seen the massive development of new apartment buildings and community facilities.



The task of distribution system operators is to find and implement measures enabling them to connect more customers, while respecting the need to maintain sufficient network robustness demanded by the significance of the distribution network as a part of the critical infrastructure. All this while keeping the costs at a reasonable level, justifiable to shareholders. PREdi's long-term strategy is to increase distribution efficiency by taking operating-technical and investment measures in the network as well as by optimizing processes within the company and with external entities and state authorities including ERÚ.

All these steps aim at compliance with the guaranteed, legally mandated quality standards of electricity supply and related services, which fall under the remit of an electricity distribution licence holder. Given the fact that PREdi operates in the capital, which is the economic centre of the Czech Republic and the seat of many state institutions, these standards are likely to be further tightened in the future. As a distribution network operator, the company needs to guarantee, to the

maximum extent possible, non-discrimination in processes for which it bears responsibility towards all market participants, electricity traders and end-users of the network. The conditions for doing so are defined in the programme of anti-discrimination measures, which is available on the PREdi website.

As for the supply and distribution of electricity, PREdi is responsible for providing the end customers on its licensed territory covering an area of 505 km² with uninterrupted supply of electricity. This also requires it to maintain the distribution system, which is a part of the city's critical infrastructure and as such is subject to stricter standards given the territory's character and its sensitivity to possible distribution failures. According to the evaluation of ERÚ quality standards, PREdi has been the most reliable distribution company in the Czech Republic in recent years. Given the constantly growing demand for continuous and high quality electricity supply, PREdi adopted a new investment strategy in 2014, which was submitted to the shareholders

March



Thursday 9th



A new residential and industrial area has been under development in the southeast of Prague. The construction of the new transformer station in Uhřetěves is aimed at providing the bustling new locality with sufficient electricity supply. The construction of the transformer station also included the construction of the Uhřetěves cable tunnel and the laying of 110 kV cables. The new transformer station has increased the capacity of the 110 kV networks and operational reliability in the southeast of Prague. The construction was officially completed and the transformer station was launched on the 9th of March.

for approval in 2015. In 2016, pilot projects were carried out to test solutions in the field of smart grids and related technologies, such as AMM, electromobility and accumulation, which are relevant for distribution networks in urban agglomerations. These projects test technical possibilities and their effect on everyday activities of the distribution network operator, including implementation and operating costs. The adopted strategy aims to ensure PREdi's distribution system is prepared for the introduction and greater penetration of new trends seen abroad, such as decentralised electricity sources, electromobility, AMM, the development of energy services, etc. PREdi devotes great attention to new trends and developments in the introduction of modern solutions. Together with Prague City Council, it carries out a future mobility project, Mobilita budoucnosti, which is one of the strategic projects of the Smart Prague initiative aimed at implementing the world-known smart city concept in the Czech capital.

In the following years, a major portion of investments will be made into the development of the 22 kV and 1 kV networks, which are expected to see an increase in the number of connected decentralised sources, and the introduction of new network management and operation technologies. The only way to maintain the high reliability and security of the networks is a right combination of strengthening the system with modern technologies, interconnecting the modernised networks and introducing communication with dispatcher control. Good communication with the lower levels of the distribution network will enable better monitoring, metering and managing of the network, which will have a positive effect on asset utilisation and reliability indicators. The transfer of the investments to lower voltage levels will be offset by slowing down renovation of some parts of the backbone HV networks and by postponing the construction of some new strategic distribution stations until it is really necessary to provide or strengthen supply to the particular area. Close cooperation with the transmission system operator, ČEPS, a.s., remains an important part of the strategy, as it is key to ensuring adequate input for the development of PREdi's supplied territory as well as the high reliability of electricity supply to end customers. The network's reliability will be further enhanced when the new nodal point of the 440/110 kV system is built at the existing 110/22 kV Sever transformer station. It is expected to start operating in 2025. Closer cooperation between the

distribution and the transmission systems is also required by new EU network codes. We can therefore expect greater information flows between the respective operators regarding the condition of the electricity system.

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

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

THE MAIN STRATEGIC CONSTRUCTIONS IN 2018:

- ... the completion of the technological part of the Karlín encapsulated transformer station, including looping the 110 kV TR Holešovice – TR Střed cable to the Karlín transformer station and leading out the output using 22 kV cables to supply new areas around Rohanský island and parts of the district of Libeň (Švábky);
- ... the modernisation of buildings at the Karlov transformer station;
- ... the continued modernisation of technological equipment at the Pražanka transformer station; and,
- ... the continued construction of the Hlávka bridge tunnel complex connected to a new utility corridor and the Karlín transformer station, leading out the output to the city centre using 22 kV cables.

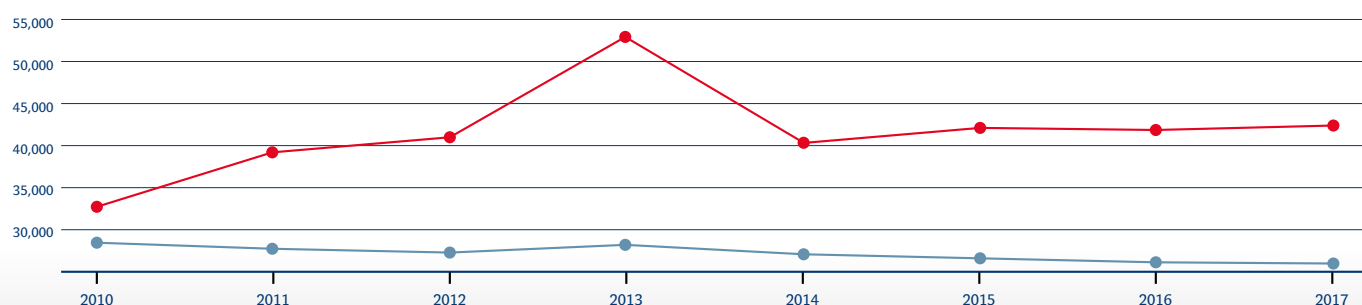
Allocation of investments in 2013–2017 (MCZK including capitalisation)

| | Total investments | HV distribution equipment | MV distribution equipment | LV distribution equipment | Electricity metres |
|-------------|-------------------|---------------------------|---------------------------|---------------------------|--------------------|
| 2013 | 1,781.1 | 454.1 | 909.3 | 322.7 | 95 |
| 2014 | 1,431.3 | 345.7 | 678.0 | 325.4 | 82.2 |
| 2015 | 1,494.1 | 227.1 | 845.2 | 311.9 | 109.9 |
| 2016 | 1,583.8 | 329.8 | 815.8 | 328.2 | 110.0 |
| 2017 | 1,594.2 | 319.9 | 686.3 | 459.5 | 128.5 |

Number of enquiries processed by the Distribution Emergency Line

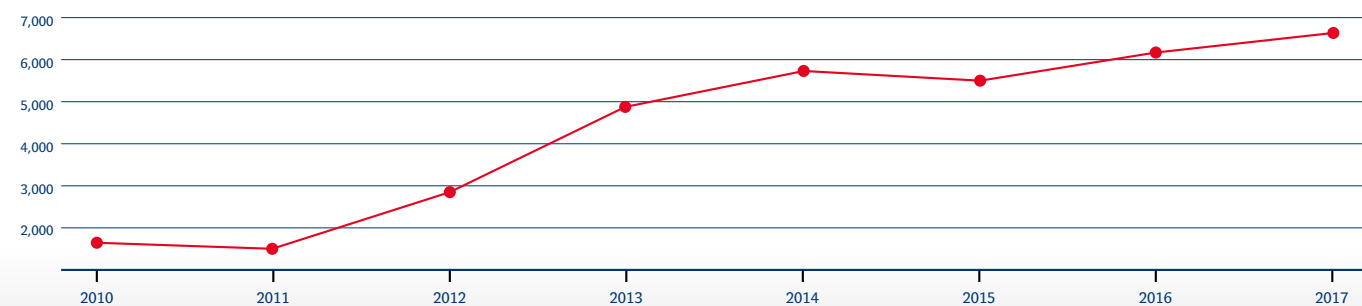
Since the 1st of January 2017, the Distribution Emergency Line has also been used for reporting failures and breakdowns of street lighting equipment. In 2017, it processed 20,458 enquiries relating to street lighting (not included in the chart).

● Total ● Concerning failures



Number of e-mails processed by the Distribution Emergency Line

Since the 1st of January 2017, the Distribution Emergency Line has also been used for reporting failures and breakdowns of street lighting equipment. In 2017, it processed 10,076 e-mails relating to street lighting (not included in the chart).



Corporate bodies of the company



In the photo from the left: Jindřich Broukal, Petr Dražil, Milan Hampl, Tobias Mirbach

BOARD OF DIRECTORS AS OF 31.12.2017

Milan Hampl
Chairperson

Petr Dražil
Vice-chairperson

Miloš Langr
Member (until 31.3.2017)

Jindřich Broukal
Member (since 1.4.2017)

Christian Franz-Josef Schorn
Member (until 31.5.2017)

Tobias Mirbach
Member (since 1.6.2017)

SUPERVISORY BOARD AS OF 31.12.2017

Pavel Elis
Chairperson

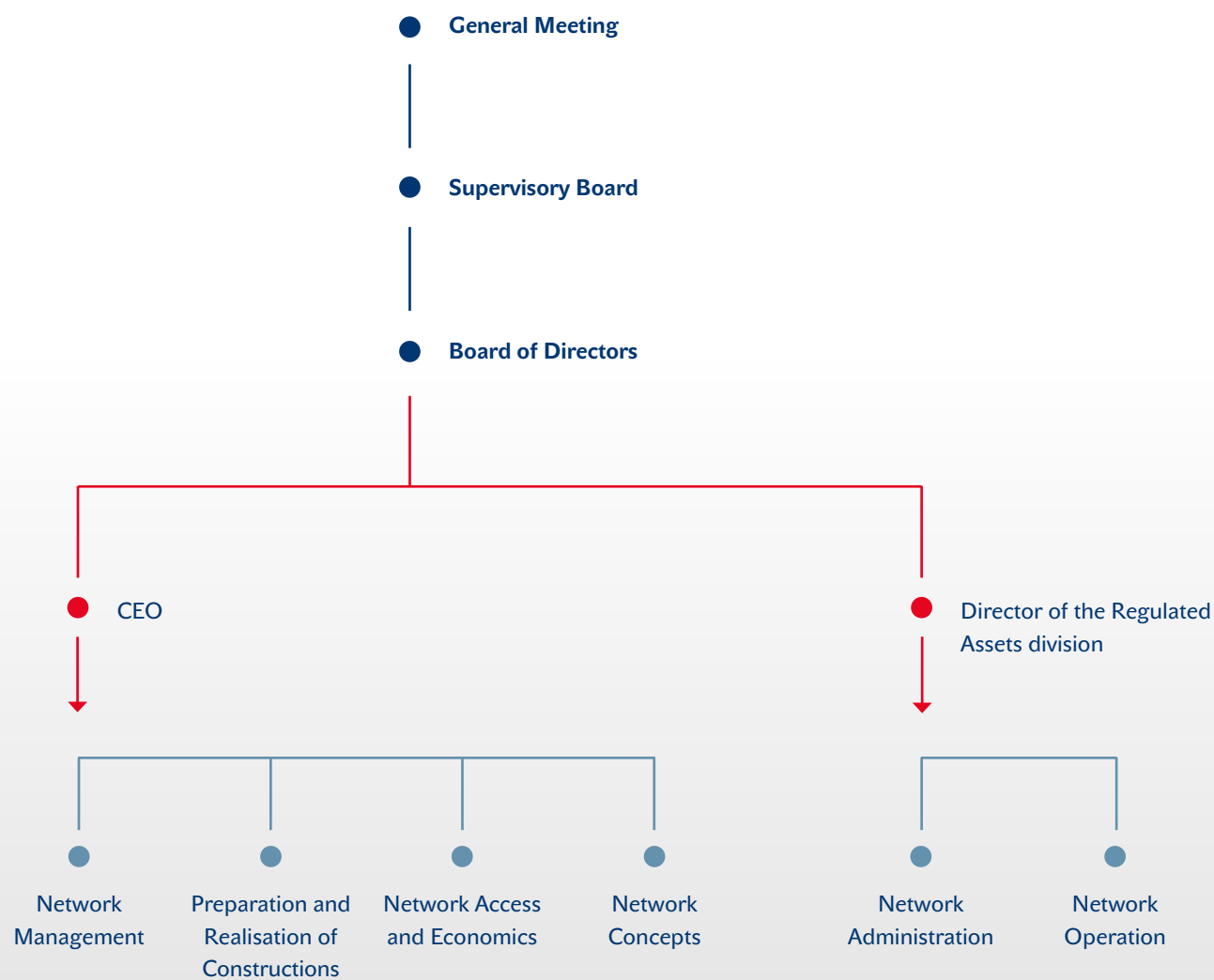
Alexander Manfred Sloboda
Member

Franz Retzer
Member

Drahomír Ruta
Member

In 2017, no members of the company bodies were subject to a conflict of interest or infringed prohibition of competition.

COMPANY
ORGANISATION CHART



April...
...May
June...



Environmental contribution certificate

It has been 10 years since the PRE Group joined forces with ECOBAT, which runs a take-back system for used batteries. Last year, the PRE Group employees collected 260 kilograms of used batteries, which the parent company handed over to ECOBAT for recycling, earning an environmental contribution certificate. The recycling process yielded 162 kilograms of secondary metallic raw materials that can be used in manufacturing new products.



A big increase in the number of PRE charging stations

At the beginning of April, 54 charging stations were available to customers at 33 locations throughout the Czech Republic. 28 of the locations were in Prague. The map of the PREpoints is available at www.premobilita.cz.



Smart lamps in the city

Modern technologies, including smart lamps, are becoming part of the life and operation of the capital. Together they create smart infrastructure that will cover entire cities in the future. Smart lamps are multifunctional devices, which not only provide street lighting, but can also measure the amount of volatile particles in the air, serve as charging stations for electric bikes and cars and Wi-Fi hotspots and call for help at the touch of an emergency button.

Trends in the electricity sector

2017 was the second year of the fourth regulatory period.

The three-year long fourth regulatory period (1.1.2016 – 31.12.2018) will continue until the 31st of December 2020. The fourth regulatory period follows the main principles established in the previous period and reflects the latest changes in the energy legislation of the Czech Republic and the European Union. The main aim of the fourth regulatory period is to prepare objective inputs for the fifth regulatory period. According to the Energy Regulatory Office's plans, the fifth regulatory period will last at least 5 years starting in 2021.

In 2017, the Energy Regulatory Office (ERÚ) proposed main principles of price regulation for the energy sector and the gas

industry and the market operator activities in 2019–2020 and in the fifth regulatory period.

On the 31st of July 2017, Act No. 225/2017 Coll., which amended Act No. 183/2006 Coll., on town planning and the building code (the Building Act), as amended, and other related laws, was published. Section 22 amended Act No. 458/2000, Coll., on business conditions and public administration in the energy sectors and on the amendment of other laws (the Energy Act), as amended. The act came into effect on the 1st of January 2018.

OVERVIEW OF RELEVANT LEGISLATION

Decrees published in 2017

Decree No. 50/2017 Coll., from the 21st of February 2017, which amended Decree No. 262/2015 Coll., on regulation



Safe Enterprise certificate for PREdi
For the fourth time in a row, the State Labour Inspection Office awarded PREdistribuce, a.s., with the Safe Enterprise (Bezpečný podnik) certificate.

16.5.



Museum Night
For the ninth year in a row, PRE Technical and Documentary Museum participated in the annual Prague Museum Night. Traditional household appliances again proved a hit with visitors from many different countries.

10.6.

PRE Call Centre launches a freephone line
Since June, customers have been able to contact the PRE Call Centre free of charge at 800 550 055. Every year, the line is able to process about 250 thousand customer calls.



31.5.

Starting the construction of a cable tunnel between new TR Karlín and the Hlávka bridge
The construction of a new 110/22 kV transformer station in Karlín also includes the construction of the Karlín complex of cable tunnels. The construction of a cable tunnel between Karlín and the Hlávka bridge began at the end of May.

21.6.

Annual General Meeting
On the 21st of June 2017, the shareholders approved the business activities of Pražská energetika, a.s., in 2016 and outlined main tasks for the next period. They were also given an opportunity to take a look at the e-Up! electric car and a PREpoint charging station.



reporting, was published on the 27th of February 2017 and came into effect on the 1st of March 2017.

Decree No. 127/2017 Coll., from the 12th of April 2017, which amended Decree No. 408/2015 Coll., on the Electricity Market Rules, was published on the 24th of April 2017 and came into effect on the 1st of June 2017.

Decree No. 330/2017 Coll., from the 27th of September 2017, which amended Decree No. 401/2010 Coll., on the required content of the Transmission System Operation Rules, Distribution System Operation Rules, Transmission System Operator Code, Distribution System Operator Code, Underground Gas Storage Facility Operator Code and the terms of trade of a market operator was published on the 11th of October 2017 and came into effect on the 1st of January 2018.

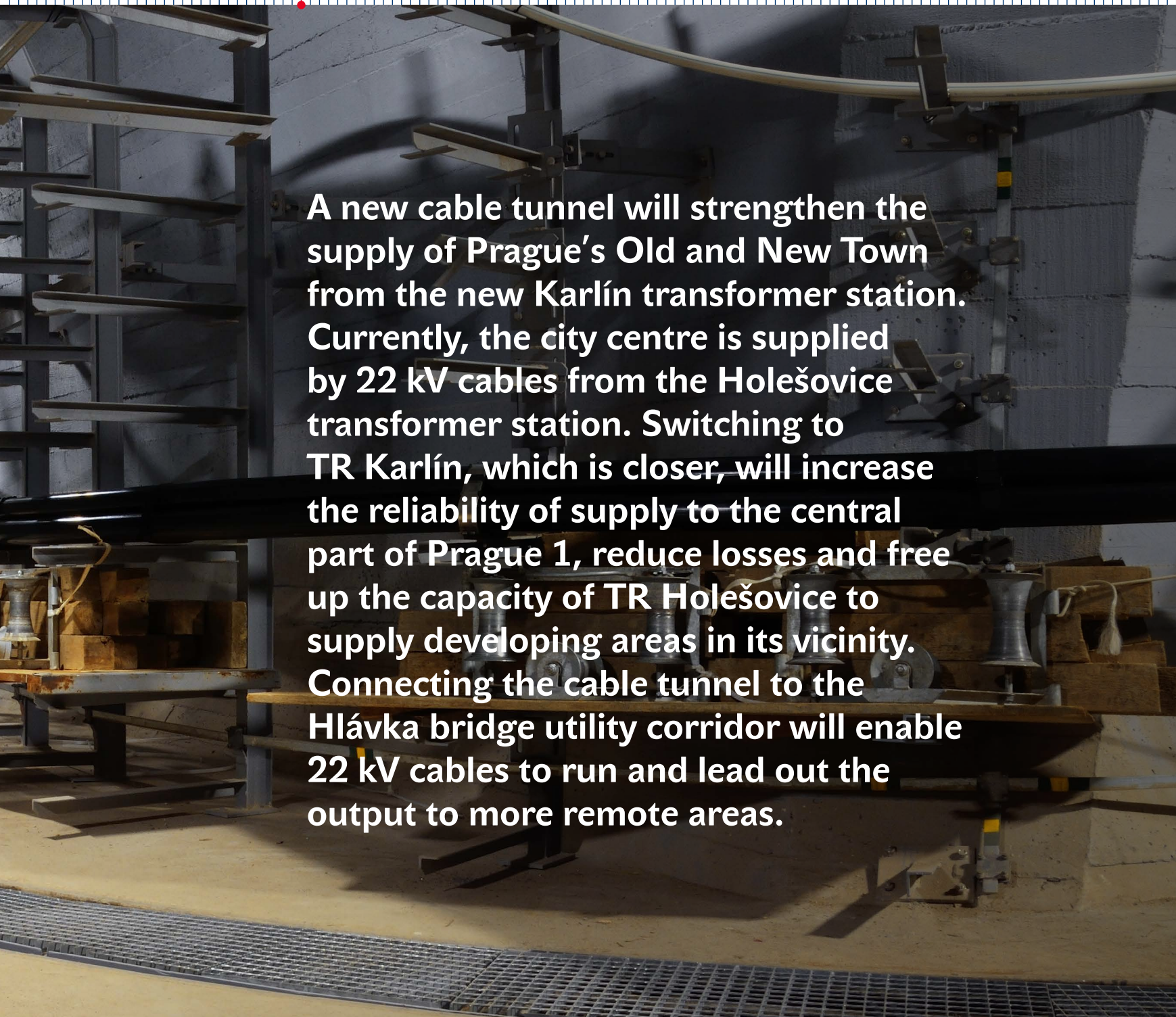
ERÚ price decisions published in 2017

ERÚ Price Decision No. 5/2016 from the 26th of September 2016, detailing the support for promoted energy sources, as amended by Price Decision No. 9/2016 from the 14th of December 2016, and No. 11/2016 from the 22nd of December 2016, came into effect on the 1st of January 2017. ERÚ Price Decision No. 2/2017 from the 29th of March 2017, amending Price Decision No. 5/2016, which determined support for the promoted energy sources, as amended by Price Decisions No. 9/2016 and No. 11/2016, came into effect on the 1st of April 2017. ERÚ Price Decision No. 8/2017 from the 20th of December 2017, amending Price Decision No. 5/2016, which determined support for the promoted energy sources, as amended by Price Decisions No. 9/2016, No. 11/2016 and No. 2/2017, came into effect on the 21st of December 2017. To regulate prices in this field during 2018, Price Decision No. 3/2017, which determined support for the promoted energy sources, was published

May



Wednesday 31st



A new cable tunnel will strengthen the supply of Prague's Old and New Town from the new Karlín transformer station. Currently, the city centre is supplied by 22 kV cables from the Holešovice transformer station. Switching to TR Karlín, which is closer, will increase the reliability of supply to the central part of Prague 1, reduce losses and free up the capacity of TR Holešovice to supply developing areas in its vicinity. Connecting the cable tunnel to the Hlávka bridge utility corridor will enable 22 kV cables to run and lead out the output to more remote areas.

on the 26th of September 2017; ERÚ Price Decision No. 9/2017 from the 20th of December 2017, which amended Price Decision No. 3/2017, was published on the 21st of December 2017.

ERÚ Price Decision No. 3/2016 from the 23rd of September 2016, which set some regulated prices pursuant to Act No. 165/2012, Coll., on promoted energy sources and amendments to other laws, came into effect on the 1st of January 2017. To regulate prices in this field during 2018, ERÚ Price Decision No. 4/2017 from the 26th of September 2017, which set some regulated prices pursuant to Act No. 165/2012, Coll., on promoted energy sources and amendments to other laws, as amended, was published on the 26th of September 2017.

ERÚ Price Decision No. 7/2016 from the 25th of November 2016, which set prices for related energy services and other regulated prices, and ERÚ Price Decision No. 10/2016, amending Price Decision No. 7/2016, came into effect on the 1st of January 2017. To regulate prices in this field during 2018, ERÚ Price Decision No. 6/2017 from the 21st of November 2017, which set prices for related energy services and other regulated prices, was published on the 24th of November 2017.

ERÚ Price Decision No. 8/2016 from the 25th of November 2016, which set prices for related energy services for consumers from low voltage networks, came into effect on the 1st of January 2017. To regulate prices in this field during 2018, ERÚ Price Decision No. 7/2017 from the 21st of November 2017, which set prices for related energy services for consumers from low voltage networks, was published on the 24th of November 2017.

Government regulations published in 2017

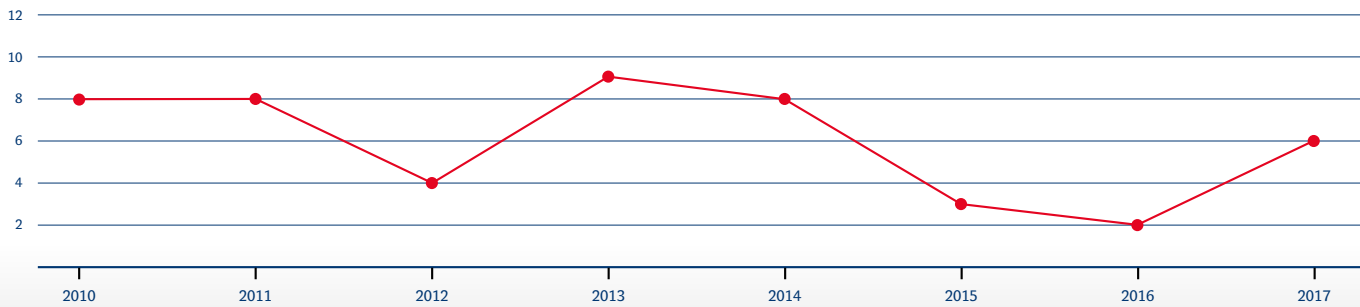
Government Regulation No. 266/2017 Coll., from the 24th of July 2017, on the support of electricity and heat generated from promoted sources, was published on the 18th of August 2017 and came into effect on the 2nd of September 2017.

Government Regulation No. 311/2017 Coll., from the 11th of September 2017, on the allocation of state budget funds in 2018 pursuant to Section 28 (3) of the Act on Promoted Energy Sources, was published on the 25th of September 2017 and came into effect on the 1st of January 2018.

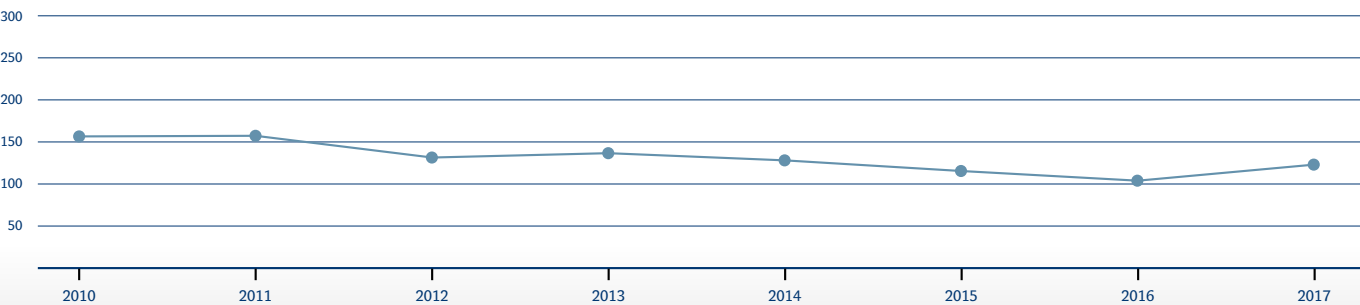
Development of selected network indicators

| Indicator | Unit | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|--------|--------|--------|--------|--------|--------|
| Maximum network load | MW | 1,196 | 1,172 | 1,093 | 1,149 | 1,156 |
| Total length of electricity networks | km | 12,104 | 12,054 | 12,014 | 12,006 | 11,912 |
| of which: HV | km | 214 | 207 | 207 | 207 | 206 |
| MV | km | 3,864 | 3,872 | 3,867 | 3,854 | 3,872 |
| LV | km | 8,026 | 7,975 | 7,940 | 7,945 | 7,834 |
| Number of HV/MV stations (PREdi/total) | pieces | 23/24 | 22/23 | 22/23 | 22/24 | 22/24 |
| Total number of MV/LV stations | pieces | 4,863 | 4,858 | 4,843 | 4,835 | 4,834 |
| Number of MV/LV distribution stations | pieces | 3,218 | 3,229 | 3,229 | 3,246 | 3,261 |

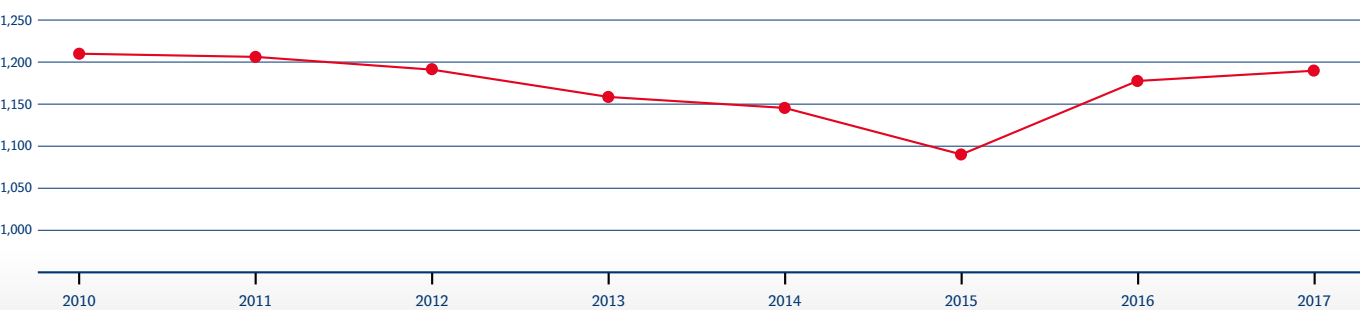
Number of HV failures



Number of MV failures



Maximum achieved load of the year (MW)



Report of the Board of Directors on Business Activities and Assets

FINANCIAL REPORT

2017 was a successful year for PREdistribuce, a.s. Its profit amounted to CZK 1,341 million, having increased by CZK 200 million year-on-year. EBITDA increased by CZK 190 million year-on-year, reaching CZK 3,043 million. The increase in profit was achieved thanks to higher allowed profits for distributors and the volume of distributed electricity (6,288 GWh), which was the highest since 2013. The higher volume of distributed electricity also positively influenced the profit from the sale of distribution services, which amounted to CZK 4,717 million, increasing by CZK 81 million year-on-year.

The company's operating profit increased by CZK 230 million year-on-year. The most important operating profit items include the revenue from distribution services, the cost of transit and system services and losses, purchased services and depreciation. The increase in operating expenses (as well as revenues) was due to PREdi's new contract on the provision of emergency and routine maintenance of street lighting in Prague, which had an overall positive effect on profit.

In 2017, the company purchased services for a total of CZK 1,510 million, which was CZK 79 million more than in 2016, due to the increase in repair and maintenance costs, including the costs of planned cable tunnel maintenance and costs related to the above-mentioned emergency and routine maintenance of street lighting.

Total personnel expenses decreased year-on-year by CZK 6 million. It was primarily caused by the change in valuation of provisions for future liabilities to employees arising from the collective agreement, which draws to a large extent on the developments in long-term bank loan interest rates. Net of this influence, personnel expenses have increased slightly, also due to the growth of average earnings in accordance with the collective agreement.

As for depreciation (the adjustment of operating assets value), there was a CZK 47 million decrease compared to the previous year due to the adjustment of depreciation rates.

Other operating revenues increased year-on-year due to two major LV and MV cable relocation projects (in Prague 5 – Smíchov and in Prague 3 – Žižkov, Kostnické náměstí). The decrease in other operating expenses was caused by recording provisions for the adjustment of the correction factor in 2016.

As for the financial results, there was a slight increase in interest expense amounting to CZK 3 million.

The company's total assets amounted to CZK 28,649 million. Its largest portion was tangible fixed assets amounting to CZK 26,228 million, which increased by CZK 288 million year-on-year. The increase was particularly driven by the investment into distribution and supply equipment aimed at maintaining the high operational reliability and security of networks. In 2017, PREdi invested CZK 1,594 million including capitalization in the development and renovation of distribution equipment, which was CZK 10 million more than in 2016.

As for liabilities and equity, equity increased thanks to achieving better economic results than in 2016. The total value of equity (CZK 19,579 million) was CZK 200 million higher than in the previous year. As for company's liabilities, the biggest changes occurred in short-term liabilities due to the increase in trade payables to PRE. The company's total liabilities increased by CZK 85 million. The company's sources of funding remained practically unchanged compared to 2016: 68.3% was equity, 25.3% liabilities and 6.4% other liabilities, including the accrued revenue from fees paid by applicants for connection to the distribution system.

The company achieved the operating cash flow of CZK 2,420 million, which was used, together with proceeds from investment contributions, to finance the investment programme and to pay out dividends and directors' fees amounting to CZK 1,141 million.

INVESTMENTS

Every year, PRedistribuce, a.s., develops and implements a long-term and a medium-term investment plan. They are both submitted to the shareholders for approval and are subject to control by ERÚ, which is responsible for monitoring if distributors carry out network renovation as reasonably planned in view of write-offs and if the network is developed in a way that meets end customers' legitimate demands for new connections and increasing input. The investment plans draw on the analyses of the network's technical condition, transmission ability and actual operation reliability, the real physical lifetime of individual network components and the possibilities of their efficient maintenance. The plan for simple and extended reproduction actually aims at adequate modernisation and development of equipment, which, together with planned repairs, ensures the required operational reliability and quality of distribution services expected by customers in Prague. The level of quality of supply and related services is provided for by ERÚ secondary legislation. Unlike in previous periods, as of the 1st of July 2006 non-compliance with the guaranteed standards is financially penalised in accordance with ERÚ Decree No. 540/2005 Coll., as amended.

One of the key elements of PREdi's investment programme is strategic investment, primarily into the construction and modernisation of 110/22 kV transformer points and their systemic connection on the 110 kV level. That entails acquiring additional infrastructure and increasing the capacity of these stations to respond to the load development in the supplied areas, and the renovation and building of connecting lines to ensure the optimum leading of the output to lower levels of the network.

Strategic investments

Following the one-year investment plan approved by the shareholders, PREdi continued in 2017 with the necessary and carefully planned renovations of the existing 110 kV and 22 kV networks and equipment which is part of the city's critical infrastructure and its failure could, therefore, lead to supply disruptions across a large territory, causing a collapse of transport and the city's operation. All construction in Prague has been coordinated with the planning departments of Prague City Council and respects the urban plan.

The most significant strategic constructions in 2017 included:

- ... the completion of the modernisation of the Třeboradice transformer station, which PREdi bought from Pražská teplárenská, a.s., in 2010;
- ... the completion of the construction and technological part of the Uhřetěves transformer station and its launch;
- ... the completion of the construction part of the Karlín transformer station and the continued installation of technical equipment;
- ... starting the modernisation of the technological equipment at the Pražská transformer station;
- ... starting the construction of a cable tunnel between the Karlín transformer station and the Hlávka bridge; and,
- ... the completion of the laying of the first 110 kV cable line replacing the 110 kV overhead power lines between the Malešice and Jih transformer stations, which are at the end of their operational lifetime.

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

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

In 2018, several dozens 22/0.4 kV transformer stations will be smartened. The implementation of smart technologies will enable PREdi to control, monitor and meter the network and transfer data remotely, ensuring the high reliability of the network. These future trends are a great challenge for the company's employees, mainly in terms of economy, achieving

maximum energy savings and optimum customer services as well as asset management. Consequently, PREdi founded a 100% subsidiary, PREnetcom, a.s., on the 27th of November 2017 (with effect from the 1st of January 2018) to effectively manage the development of smart grids and benefit the most from potential synergies. Foreign studies show that the right combination of strengthening the distribution system and implementing new technologies can satisfy a significant portion of demands on the distribution network ensuing from the integration of decentralised generation, charging stations for electric vehicles, and other elements.

In the forthcoming period, PREdi's main objective is to continue fulfilling the tasks of a distributor in terms of renovation and adequate development in order to timely modernise the distribution system equipment in the capital which is nearing the end of its physical and accounting lifetime, thus ensuring a high level of reliability and security of the networks. While pursuing our tasks and objectives, we also maintain a responsible attitude to the environment.

In Prague, 9th of April 2018



Milan Hampl
Chairperson of the Board of Directors



Petr Dražil
Vice-chairperson of the Board of Directors

Financial analysis

Level of productivity

| | Unit | 2017 | 2016 | 2015 | Calculation formula |
|--|------|--------------|-------|-------|--|
| Total revenue | MCZK | 9,681 | 9,573 | 9,658 | Total revenue from the income statement |
| Sales margin from the sale of distribution | MCZK | 4,717 | 4,636 | 4,401 | Revenue from distribution services – cost of transit and system services from the income statement |
| Profit after tax | MCZK | 1,341 | 1,141 | 1,052 | Profit after tax from the income statement |

Level of profit from revenue

| | Unit | 2017 | 2016 | 2015 | Calculation formula |
|---|------|-------------|------|------|---|
| Sales margin from the sale of distribution per CZK 1 of revenue | % | 50.6 | 49.8 | 46.9 | Sales margin from the sale of distribution / revenue from distribution services x 100 |
| Profit before tax per CZK 1 of revenue | % | 17.1 | 15.0 | 13.5 | Profit/loss from ordinary activity before tax / total income x 100 |

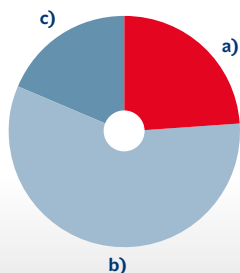
Other indicators

| | Unit | 2017 | 2016 | 2015 | Calculation formula |
|---|---------------|---------------|--------|--------|---|
| Current liquidity | % | 195.5 | 204.8 | 235.0 | Short-term assets / short-term liabilities x 100 |
| Equity proportion to total invested capital | % | 68.3 | 68.4 | 69.0 | Equity / total invested capital x 100 |
| Return on capital employed – ROCE | % | 6.9 | 6.0 | 5.5 | ROCE = EBIT / (equity + long-term loans + deferred tax liability) x 100 |
| Total revenue labour productivity | TCZK/employee | 18,908 | 18,660 | 18,827 | Total revenue / average adjusted number of employees |
| EBIT – operating profit/loss before interest and tax | MCZK | 1,745 | 1,515 | 1,373 | Operating profit/loss before interest and tax |
| EBITDA – profit before tax, interest and depreciation | MCZK | 3,043 | 2,853 | 2,820 | EBITDA = EBIT + depreciation |

Main financial indicators (MCZK)

| | 2017 | 2016 | 2015 |
|--|---------------|---------------|---------------|
| Total assets | 28,649 | 28,336 | 27,951 |
| Distribution equipment | 23,700 | 23,624 | 23,371 |
| Other fixed assets | 2,542 | 2,325 | 2,335 |
| Cash pooling receivables within the Group | 0 | 106 | 0 |
| Trade receivables | 152 | 127 | 139 |
| Other assets | 2,255 | 2,153 | 2,106 |
| Total liabilities and equity | 28,649 | 28,336 | 27,951 |
| Equity | 19,579 | 19,379 | 19,291 |
| Deferred tax liability | 3,009 | 2,984 | 2,962 |
| Cash pooling payables within the Group | 13 | 0 | 130 |
| Trade payables | 607 | 550 | 459 |
| Deferred revenues | 1,790 | 1,763 | 1,788 |
| Provisions | 298 | 306 | 214 |
| Liabilities | 2,700 | 2,700 | 2,700 |
| Other liabilities | 652 | 654 | 407 |
| Gross profit from the sale of distribution services | 4,717 | 4,636 | 4,401 |
| Profit from ordinary activity before tax | 1,659 | 1,431 | 1,299 |
| Profit from ordinary activity after tax | 1,341 | 1,141 | 1,052 |
| EBIT | 1,745 | 1,515 | 1,373 |
| EBITDA | 3,043 | 2,853 | 2,820 |

Qualification structure



| | | |
|----|---|--------|
| a) | University | 23.97% |
| b) | Secondary concluded by an exam (maturita) | 57.56% |
| c) | Secondary and secondary vocational | 18.47% |
| d) | Primary | 0% |

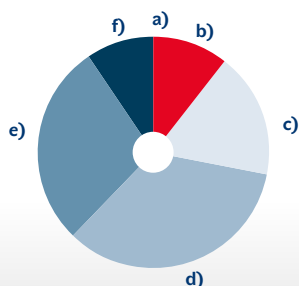
Human resources

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

Employee development is considered to be one of the key components of PREdi's HR management strategies. Employees are provided with development opportunities in the form of open courses, tailor-made trainings and manager development programmes by the HR department of the parent company. It implements the approved Employee Development and Training Plan of the PRE Group by coordinating all development initiatives, proposing new measures to foster employee development and cooperating with external consultancies and training companies to guarantee the high quality of content of all seminars, trainings and development programmes. PREdi actively promotes the development and further education of its employees, which helps them attain the required level of basic and managerial skills, knowledge and competences and consistently deliver very good work performance in their different positions.

In 2017, the development of all PREdi employees focused on two key areas – legally mandated and additional professional training, and optimization of communication and information sharing within the company. The aim of professional training is to ensure that all employees can carry out their tasks and have sufficient qualification for specific future positions. This mainly entails gaining and maintaining the qualification mandated by Decree No. 50/1978 Coll., on further electrical engineering qualification. In 2017, 714 employees received professional training. Communication, information sharing and cooperating within PREdi as well as within the PRE Group is a vital prerequisite for keeping all employees informed about common activities and helping them fulfil all their demanding tasks flawlessly. Throughout the year, groups of employees took part in 22 custom-made trainings, off-site work meetings and professional seminars. Two hundred and twelve PREdi employees participated in short-term open courses designed to further advance their knowledge and skills in economics, human resource management, and applicable legislation related to distribution activities and the energy sector. Two heads of PREdi departments enrolled in the manager development programme and 5 heads of teams enrolled in an analogical development programme.

Age structure



| | | |
|----|----------------|--------|
| a) | Under 20 years | 0.20% |
| b) | 20–30 years | 10.41% |
| c) | 30–40 years | 17.49% |
| d) | 40–50 years | 34.38% |
| e) | 50–60 years | 28.09% |
| f) | Over 60 years | 9.43% |

July... ...August September...



18.7.

Painted transformer stations liven up places all over Prague

The idea to ginger up damaged transformer stations dates back to 2011, when the Redo It Your Own Way (PREdělej to po svém) project was launched and tenders were invited. More than 50 transformer stations have since been refurbished.

1.-16.7.



Energetik children's summer camp

At the beginning of July, children of the PRE Group employees set out for the Želivka camping site for an annual two-week summer camp organized in the midst of the quiet woodland of the Bohemian-Moravian Highlands.



Network Concepts section has a vision until 2040

PREdi's youngest section, Network Concepts, is in charge of planning which parts of PREdi distribution network need development and modernisation considering the changes in the energy sector related to the expansion of decentralized sources, electric charging and accumulation. It focuses primarily on the next three years, but it also has a vision of PREdi distribution network until 2040.

The company's HR strategies also include supporting selected employees in acquiring further qualification by studying at secondary schools and universities, particularly in the field of electrical engineering. Thanks to promoting further education, PREdi maintains a high standard of employee expertise and at the same time boosts their motivation and identification with the company. In 2017, 3 PREdi employees pursued further studies. One was studying electrical engineering, power engineering and management at the Faculty of Electrical Engineering of the Czech Technical University in Prague and one was studying applied electrical engineering at the University of West Bohemia in Pilsen. Both were studying part-time and concluded qualification agreements with the company. One PREdi employee pursued an individual study plan at the Technical Business Vocational Training Centre in Prague gaining qualification as a mechanic.

Labour relations, social policies and remuneration in the company are governed by the collective agreement for 2016–2018, which is also effective in the parent company and PREm. The collective agreement provides for the rights and responsibilities of the employer and the employees; and in addition to labour relations, also governs social and remuneration policies.

PREdi's social policies draw on the robust and long-term social programme included in the collective agreement and aim primarily at transparency and justice in the provision of social services to all employees. The main priority of the social programme is to improve employees' living standards, social and working conditions and healthcare.



Certified information security management system

At the beginning of September, the Czech Society for Quality (Česká společnost pro jakost, z.s.) awarded the parent company as well as PRedi with an information security management system certificate according to ISO/IEC 27001:2014. The certificate is a proof of the company's commitment to continue improving and adapting to new technologies and growing security demands.



120th anniversary

On Wednesday, the 1st of September 1897, the Electricity Works of the Royal Capital City of Prague started operating, not only distributing electricity, but also operating trams and providing street lighting. In 2017, we, therefore, celebrated the 120th anniversary of the founding of our legal predecessor.

1.9.

8.9.

31.8.

The launch and final approval of TR Třeboradice

The recently renovated Třeboradice transformer station came into daily operation at the beginning of June, running smoothly ever since. On the 31st of August, it received the final official approval. Its launch has further increased the reliability of the distribution network in Prague.



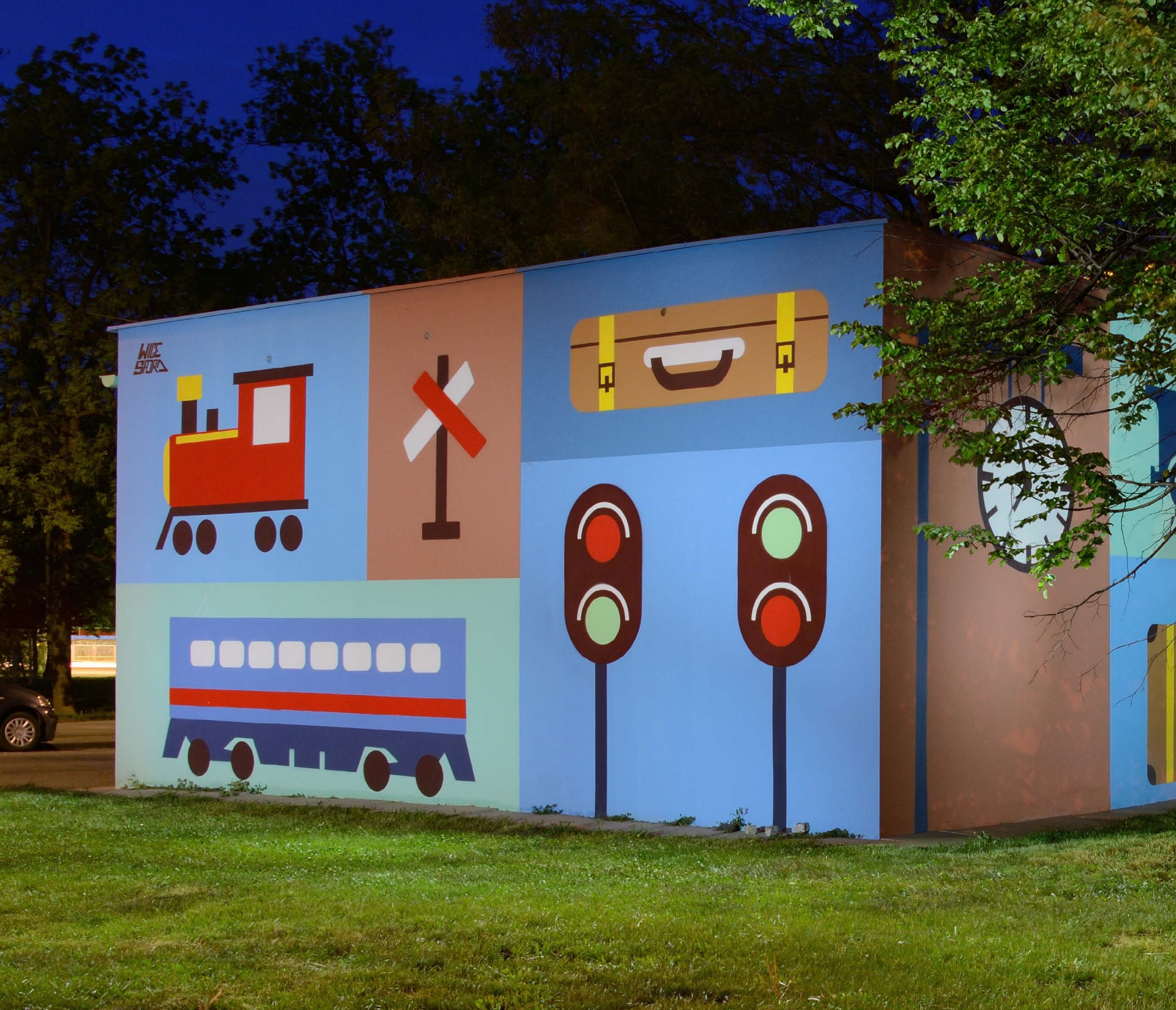
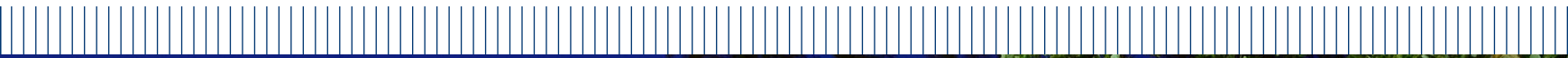
PREdi distribution network gets smarter

PREdi opens a new chapter in modernising the distribution network in Prague. Thanks to smart distribution stations, it will be able to respond to the expansion of electromobility, renewable sources and other modern technologies, while further increasing the reliability and quality of electricity supply. In the pilot project, 18 distribution stations in different localities are being equipped with smart technologies.


Basic occupational healthcare is provided by a contractual partner, Dopravní zdravotnictví, a.s., POLIKLINIKA AGEL Praha Italská, in a medical office at the seat of the parent company at Na Hroudě 1492/4, Prague 10. In addition to legally mandated occupational healthcare, the company also provides its employees with access to extra preventive healthcare programmes focusing on conditions and lifestyle diseases that pose the greatest threat to their health and wellbeing. The preventive programmes include dental care and urological, thyroid and breast cancer screenings. In order to promote employee health, the company provides field workers with vaccinations against seasonal illnesses and vulnerable employees with vaccination against hepatitis A and tick-borne encephalitis. All the additional preventive healthcare programmes are fully covered by the company. Managers also have access to an extended preventive healthcare programme at the Na Homolce Hospital and Pavel Kolář's Centre for Musculoskeletal Medicine.

In cooperation with the HR department of the parent company, PRedi continues to recruit new people for the positions of independent development and operation management technicians mostly among graduates of the Czech Technical University in Prague and vocational secondary schools specialising in energy fields. Graduates of these schools are also given work placements at PRedi as part of the recruitment programme. The aim of these measures is to ensure the smooth transfer of experience and knowledge about distribution networks from employees who are about to retire to new employees who will succeed them.

July



Tuesday 18th



People encounter electricity distribution equipment wherever they go without really noticing it. But add a little colour and even a simple transformer station is suddenly worth people's attention. Damaged transformer stations have been refurbished in a creative way since 2011. Now more than fifty sport a fresh new look. We are especially pleased that more than 97% of citizens want the renovations to continue.

Environmental protection and OHS

As a modern company, PREdistribuce, a.s., considers responsibility for the environment and occupational health and safety its priority and has always striven to keep improving its performance in these fields. The company understands how its activities might impact the environment, for example by causing soil and water contamination by oil products and the emissions of air pollutants and substances damaging the ozone layer. It also realizes that the operation of electric devices and running the distribution network might adversely affect the health of employees and other persons and also the general public.

In order to prevent any negative impacts, the company has in place an effective system of collecting and sorting waste and returning products and a mechanism to educate employees and communicate with contractors. The company also has internal mechanisms for dealing with accidents.

The company consistently meets the standards of environmental management according to ISO 14001 and holds the Safe Enterprise (Bezpečný podnik) occupational safety certificate as well as the Health Supporting Enterprise (Podnik podporující zdraví) certificate. The effectiveness of the systems was confirmed again by audits in 2017. Responsible attitudes to the protection of the environment and occupational health are cornerstones of the company's environmental policy and occupational health and safety policy. Both are available online to all relevant stakeholders.

These policies include the following key requirements:

- ... to comply with legal provisions;
- ... to comply with the guidelines on managing dangerous substances;
- ... to prevent accidents and if necessary minimize their potential consequences; and,
- ... to raise awareness of occupational health and safety and environmental protection and educate employees accordingly.

In order to comply with these policies and meet the environmental protection and occupational health and safety goals in 2017, the company prioritized investments into equipment preventing the leakage of harmful substances, limiting noise pollution and increasing occupational safety. Investments were also made into measures protecting wild birds.

Selected 110/22 kV transformer foundations were renovated and several 110/22 kV transformers were exchanged over the course of the year. Older 22/0.4 kV oil transformers were being replaced by hermetically sealed transformers and dry transformers. In order to replace overhead HV lines, 110 kV cables are being laid and put into operation.

The measures limiting the company's potential environmental impacts also include the promotion and active use of alternative fuel vehicles as part of the PREmobilita initiative.

Risk management system

Risk management in PRedistribuce, a.s., is a unified process drawing on a common methodical framework shared by all of the companies of the PRE Group. The key body of the risk management system is the Risk Management Committee, which examines the summary report on risk management and formulates management strategies for the most important risks in view of the company's risk exposures. The committee continuously evaluates the total possible impact of risks on the company management.

The main objective is to increase the value of the company while undertaking only acceptable risks. The risk management system also ensures timely warning and serves to evaluate the effectiveness of corrective measures. The main focus are the key risks, which are deemed to present the biggest threat, according to the evaluation of the potential impacts. New risks are constantly being identified and 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 process of risk management includes the identification and evaluation of risks, the design of the scope and parameters of monitoring and other measures aiming to mitigate risks and report specific risks. Risks are systematically monitored in the following categories specified in a map of risks: strategic risks, financial risks, operational risks and compliance risks.

Legislative-regulatory risks have the most profound effect on the company's activities. These risks are especially closely linked to key regulatory parameters and other regulations applicable in the ongoing fourth regulatory period (2016–2018) as well as to the deliberations on extending the current fourth regulatory period by two years (2019–2020). Depending on their nature, operational risks are managed in a decentralised way by individual organisational units; the most significant ones are assessed 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 using a unified structure and at regular intervals stipulated by the risk management standards of the EnBW corporate group.

Report on General Meetings

In 2017, six General Meetings were held in the form of resolutions issued by the parent company as the sole shareholder.

GENERAL MEETING HELD ON 30.3.

Agenda:

- ... the assessment of the fulfilment of the objectives set by the Board of Directors' executive members for 2016;
- ... the payment of the variable yearly bonus to the Board of Directors' executive members; and,
- ... staffing of the Board of Directors – the removal of Miloš Langr from the Board of Directors and the election of Jindřich Broukal to the Board of Directors.

GENERAL MEETING HELD ON 24.5.

Agenda:

- ... the Report of the Board of Directors on Business Activities and Assets for 2016;
- ... the Supervisory Board Report;
- ... the separate financial statements for 2016, the proposal for the distribution of 2016 profit, including the determination of the amount of dividends and director's fees and the method of payment;
- ... the company's business concept for 2017;
- ... the Report on Relations for 2016;
- ... the Annual Report for 2016; and,
- ... staffing of the Board of Directors and the Supervisory Board – the removal of Christian Franz-Josef Schorn from the Board of Directors and the election of Tobias Mirbach to the Board of Directors; the election of Drahomír Ruta to renew his mandate on the Supervisory Board.

GENERAL MEETING HELD ON 27.7.

Agenda:

- ... the amendment to the Articles of Association;
- ... the appointment of an auditor; and,
- ... the approval of an advance payment of the variable yearly bonus to the Board of Directors' executive members.

GENERAL MEETING HELD ON 26.10.

Agenda:

- ... staffing of the Supervisory Board – the election of Pavel Elis to the Supervisory Board.

GENERAL MEETING HELD ON 24.11.

Agenda:

- ... the approval of the business concept of founding PREnetcom, a.s.

GENERAL MEETING HELD ON 14.12.

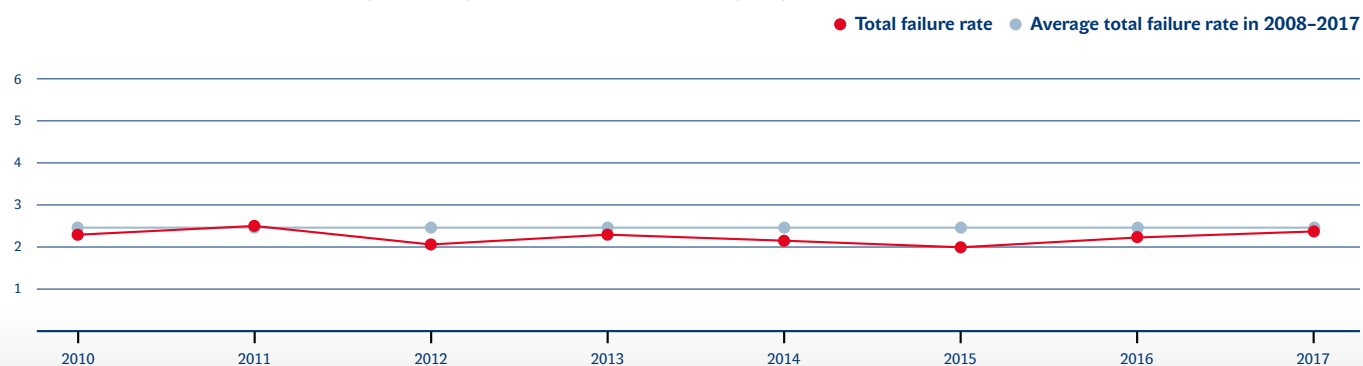
Agenda:

- ... the approval of the management's objectives for 2018; and,
- ... the approval of amendments to the contracts on the performance of duties of the Board of Directors' executive members.

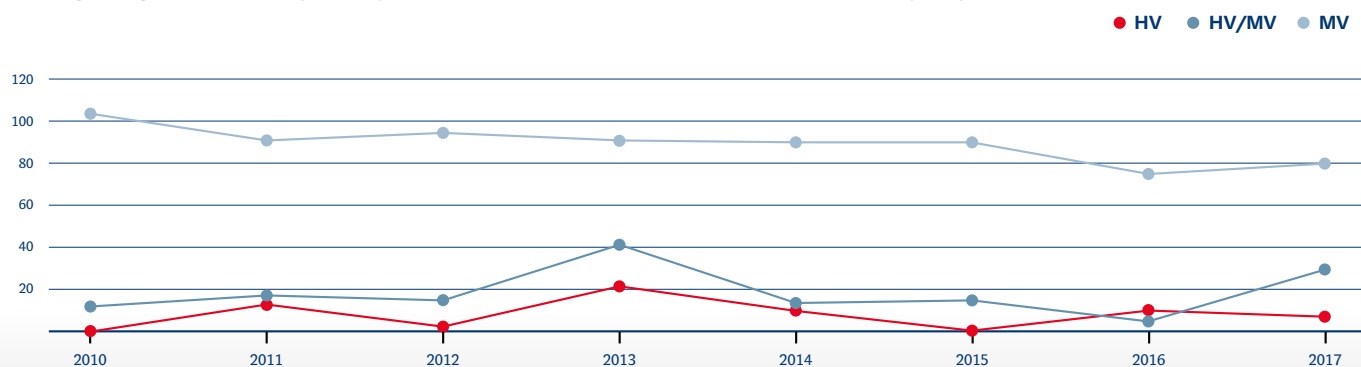
Distributed electricity

| | | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------------------------|--------|---------|---------|---------|---------|---------|
| Total distribution (procured) | GWh | 6,287.6 | 6,241.0 | 6,139.5 | 6,090.2 | 6,301.0 |
| Total number of consumption points | number | 795,025 | 786,267 | 778,138 | 768,562 | 765,008 |
| of which: VO | number | 2,025 | 2,019 | 2,007 | 2,002 | 1,992 |
| MOP | number | 127,279 | 127,367 | 128,436 | 126,648 | 131,520 |
| MOO | number | 665,721 | 656,881 | 647,695 | 639,912 | 631,496 |

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.)



October... ...November December...

1.11.

The founding of PREzákaznická, a.s.

Since the 1st of November, the PRE Group has included a new company, PREzákaznická, a.s., which is a 100% subsidiary of Pražská energetika, a.s. As of this date, PREzak took over some of PREdi's customer services, namely the Front Office group, which belonged to the Network Access section. PREzak's main task is to ensure a unified approach to customer support.

30.10.



Health Supporting Enterprise ceremony

For the fifth time in a row, PREdi succeeded in the Health Supporting Enterprise competition organized annually by the chief public health officer under the auspices of the Health Ministry and the National Institute of Public Health. PREdi managed to reclaim the certificate by proving, among other things, that it implements programmes promoting employee health.



21st conference of the Czech Committee of CIRED

On the 7th and 8th of November, Tábor hosted the annual conference of the Czech Committee of CIRED on distribution networks, which is the largest specialised conference of its kind in the Czech Republic. It presented the latest trends and findings in this electrical engineering field.



Information required by law

Information about facts which occurred after the balance sheet day

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

Information about the projected developments in the accounting unit's activities

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

Information about activities in research and development

The company does not systematically conduct activities in these fields.

Information about whether the accounting unit has an organisational unit abroad

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

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

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

**27.11.****The founding of PREnetcom, a.s.**

At the end of November, another subsidiary was founded and joined the PRE Group. PREnetcom, a.s., is a subsidiary of PREdistribuce, a.s., devoted to the development of optical fibre networks within the distribution network enabling monitoring, management and control of smart grids.

**Street lighting in Prague**

For almost a year, PREdi has been operating the street lighting dispatcher control centre and solving failures and breakdowns of street lighting owned by the capital Prague. Since the 1st of January, street lighting failures can be reported 24/7 at the phone number +420 224 915 151.

12 years**12 years on the market**

PREdistribuce, a.s., which holds an electricity distribution licence from the Energy Regulatory Office No. 120504769, marked its twelfth year on the Czech market.

31.12.**30.11.****PRE FVE Světlík, s.r.o.**

At the end of the year, PREměření added a new subsidiary to its portfolio of photovoltaic power plants – PRE FVE Světlík, s.r.o., which owns the Světlík photovoltaic power plant with the installed capacity of 2.154 MWp. What sets it apart technically is the possibility to change the tilt of the solar panels both horizontally and vertically.

15.12.**The first 110 kV cable line was laid between TR Malešice and TR Jih, replacing the 110 kV overhead power line at the end of its lifetime**

The set of V 101 and V 102 overhead power lines dating back to 1928 is no longer viable. As it is located in what is now a densely populated Prague district, it cannot be renovated. In order to ensure the same supply reliability, the two overhead power lines need to be replaced by two 110 kV cables. The V 102 power line has already been replaced by the K 117 cable.

Information about risk management objectives and methods in the company

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

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

The information is presented in the financial statements.

Information about interruption of business

The company did not interrupt its business during the year.

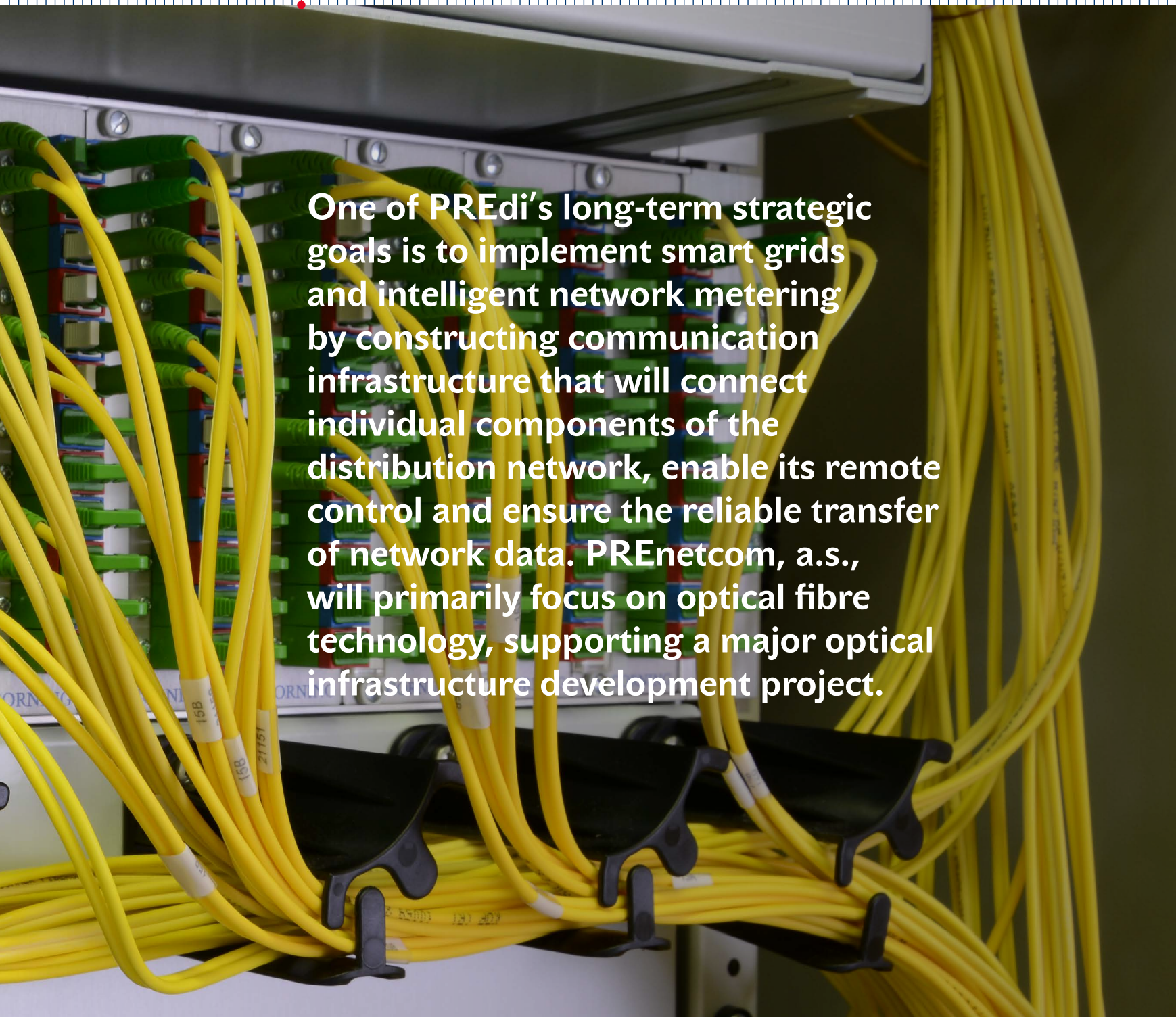
Information about acquisition of own shares

The company did not acquire its own shares.

November



Monday 27th



One of PREDi's long-term strategic goals is to implement smart grids and intelligent network metering by constructing communication infrastructure that will connect individual components of the distribution network, enable its remote control and ensure the reliable transfer of network data. PREnetcom, a.s., will primarily focus on optical fibre technology, supporting a major optical infrastructure development project.

Report on Relations

REPORT ON RELATIONS OF PREDISTRIBUCE, A.S., FOR 2017

(hereinafter the Report on Relations) drawn up in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter the Business Corporations Act) for the accounting period of 1.1.2017 to 31.12.2017. The relations are described in a manner respecting the provisions of Section 504 of Act No. 89/2012 Coll., the Civil Code, concerning trade secrets, and by analogy with the provisions of Section 359 of the Business Corporations Act concerning restrictions of information provision.

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

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

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

The companies PREdistribuce, a.s., PREměření, a.s., PREzákaznická, a.s., KORMAK Praha a.s., KORMAK nemovitosti s.r.o., eYello CZ, k.s., *PREnetcom, a.s.* (a 100% subsidiary of PREdi), and PRE FVE Světlík, s.r.o. (a 100% subsidiary 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.

PREdi is a 100% subsidiary of PRE. PRE elects and removes members of the Board of Directors and the Supervisory Board of PREdi.

PRE defines the strategic management of the PRE Group and also makes decisions about the PREdi business concept, including the rules of remuneration and the principles of collective bargaining. PRE formulates, assesses and supervises the objectives of the executive management of PREdi. 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 25 (a) of Act No. 458/2000 Coll., the Energy Act.

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

On the 27th of November 2017, PREdi founded a 100% subsidiary *PREnetcom, a.s.*, with effect from the 1st of January 2018.

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

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

... PREzákaznická, a.s., registered office Na Hroudě 1492/4, Prague 10, 100 05, ID No.: 06532438, registered with the Municipal Court in Prague, file ref. B 22870 (**PREzak**);

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

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

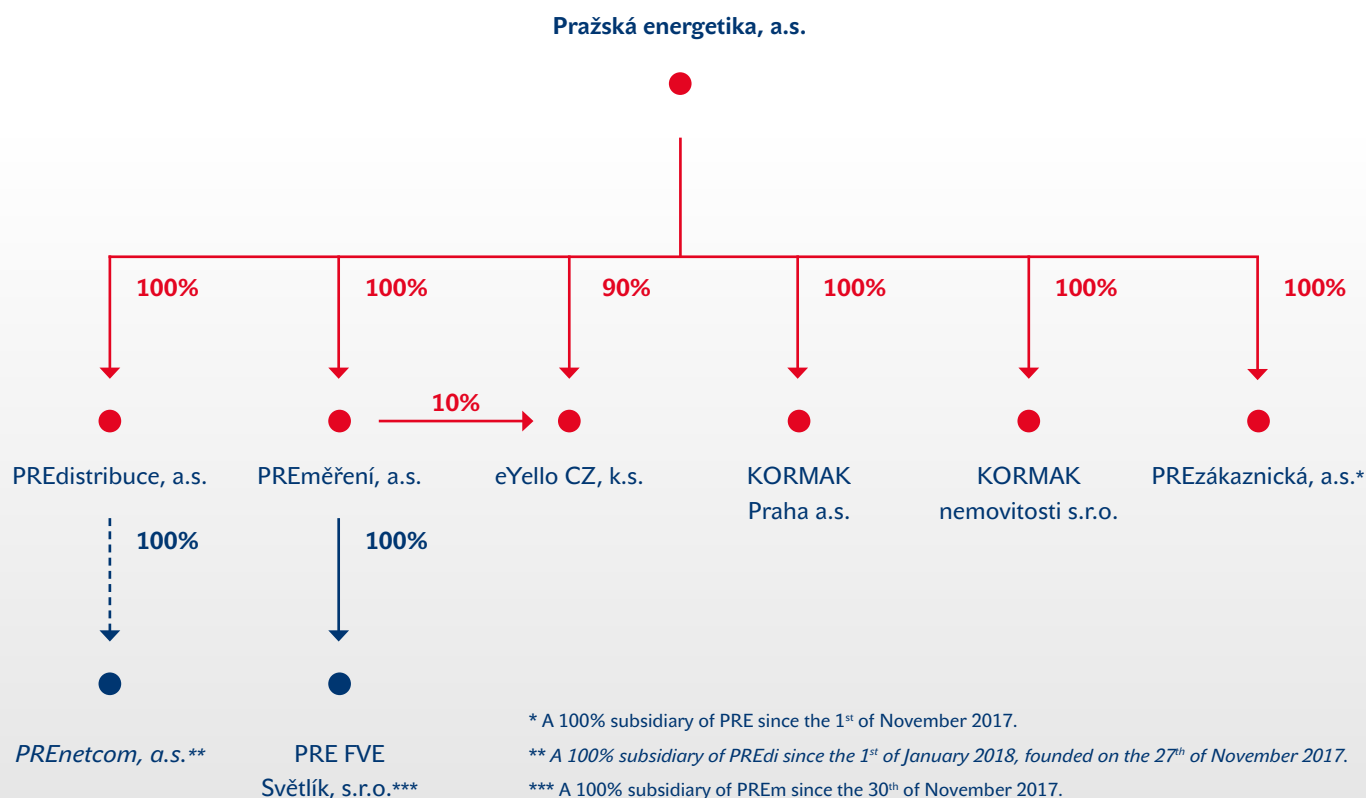
... KORMAK nemovitosti s.r.o., registered office K Sokolovně 667, Prague 10 – Uhřetěves, 104 00, ID No.: 02065801, registered with the Municipal Court in Prague, file ref. C 215222 (**KORMAK nemovitosti**);

... PREnetcom, a.s., (a 100% subsidiary of PREdi), registered office Na Hroudě 1492/4, Prague 10, 100 05, ID No.: 06714366, registered with the Municipal Court in Prague, file ref. B 23057 (**PREnetcom**);

... PRE FVE Světlík, s.r.o., (a 100% subsidiary of PREm), registered office Na Hroudě 2149/19, Prague 10, 100 05, ID No.: 28080378, registered with the Municipal Court in Prague, file ref. B 287994.

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

In 2017, no actions concerning assets exceeding 10% of PREdi's equity were carried out on the instigation or in the interest of the managing entity or its controlled entities.



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

a) Contracts between PREdi and PRE

| |
|---|
| Contract on the provision of services No. PS20000016/003 – in effect from 1.1.2016 to 31.12.2018 |
| Contract on electricity supply to cover losses in the distribution system and for the own needs of the distribution system operator No. P200006/14 – in effect from 1.1.2006 for an indefinite period of time |
| Contract on the provision of short-term loans No. P200006/22 – in effect from 30.11.2005 for an indefinite period of time, as amended |
| General mandate contract on the construction of telecommunication equipment No. P200006/27 – in effect from 2.5.2006 for an indefinite period of time |
| Licence contract No. PS20000011/029 – in effect from 3.1.2011 for an indefinite period of time |
| Lease contract No. NO21106/015 – in effect from 2.1.2006 for an indefinite period of time, as amended |
| Lease contract – plastic 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. NO21109/006 – in effect from 1.4.2009 for an indefinite period of time |
| 10 contracts on the establishment of easement to place PREdi's distribution system equipment in PRE's immovable assets, concluded for an indefinite period of time |
| Contract on the establishment of easement No. VV/G33/04457/08 – in effect from 31.3.2008 to 2.4.2048 |
| Lease contract No. NO21111/011 – in effect from 1.4.2011 for an indefinite period of time |
| General contract on the provision of GPRS module installation services No. PS20000013/033 – in effect from 25.10.2013 for an indefinite period of time |
| Contract on the sublease of the distribution system No. N21112/012 – in effect from 1.2.2012 to 31.12.2018, as amended |
| Contract on long-term loan No. 1/2014 (PS20000014/021) – in effect from 18.6.2014 to 18.6.2026 |
| Contract on long-term loan No. 2/2014 (PS20000014/030) – in effect from 26.11.2014 to 28.11.2026 |
| Contract on long-term loan No. 1/2015 (PS20000015/021) – in effect from 29.6.2015 to 29.6.2027 |
| Contract on joint gas supply services No. PS21001015/015 – in effect from 1.11.2014 for an indefinite period of time |
| Contract on the lease of non-residential premises for business No. NV/S21/1633025 – in effect from 1.3.2016 for an indefinite period of time |
| Contract on the lease of non-residential premises for business No. NV/S21/1633226 – in effect from 1.3.2016 for an indefinite period of time |
| Contract on the lease of non-residential premises for business No. NV/S21/1633022 – in effect from 1.3.2016 for an indefinite period of time |
| Contract on the lease of non-residential premises for business No. NV/S21/1633026 – in effect from 1.3.2016 for an indefinite period of time |
| Contract on the lease of non-residential premises for business No. NV/S21/1633021 – in effect from 1.3.2016 for an indefinite period of time |
| Contract on the lease of non-residential premises for business No. NV/S21/1633024 – in effect from 1.3.2016 for an indefinite period of time |
| Contract on the lease of non-residential premises for business No. NV/S21/1633027 – in effect from 1.3.2016 for an indefinite period of time |
| Contract on the lease of garage parking spaces No. NV/S21/1634181 – in effect from 1.4.2016 for an indefinite period of time |
| General contract on electricity distribution to consumption points of the electricity trader's customers No. PS20000011/011 – in effect from 1.1.2011 for an indefinite period of time |
| Contract on operational cash transfer No. PS20000017/009 – in effect from 17.2.2017 for an indefinite period of time |
| Contract on the provision of storage and handling services (VO) No. PS23000117/005 – in effect from 1.1.2017 for an indefinite period of time |
| Contract on the execution of construction alterations No. PS20000017/046 – in effect from 18.5.2017 for an indefinite period of time |
| PRE and PREdi have concluded contracts on the connection to the distribution system for all PRE's consumption points. |

b) Contracts between PREdi and PREm

| |
|---|
| Contract on the provision of services No. PS20000016/004 (M5000/O/2015/0009) – in effect from 1.1.2016 to 31.12.2018 |
| Contract on the supply of defunct metering equipment No. S252007/003 (C00261/06) – in effect from 30.12.2006 for an indefinite period of time |
| Contract on the supply of used metering equipment No. S252007/004 (C00260/06) – in effect from 30.12.2006 for an indefinite period of time |
| Contract for work No. P20006/19 (C00203/06) – in effect from 1.3.2006 for an indefinite period of time, as amended |

| |
|---|
| Contract on the lease of land No. N21110/016 (C00418/10) – in effect from 1.4.2010 to 31.12.2030 |
| Contract on the lease of land No. NO21110/004 (C00438/10) – in effect from 1.9.2010 to 31.12.2030 |
| Contract on the lease of land No. N21110/039 (C00436/10) – in effect from 1.10.2010 to 31.12.2035, as amended |
| Contract on the lease of a part of real estate No. NO21110/005 (C00439/10) – in effect from 1.10.2010 to 31.12.2035, as amended |
| Contract on the supply of metering equipment No. KV/S25/1532051 (M5400/RS/2015/0007) – in effect from 1.1.2016 to 31.12.2018 |
| 10 contracts on the cooperation on performing work on unmeasured parts of electricity consumption equipment |
| Contract on personal data processing No. PS20000013/038 (C00627/13) – in effect from 1.3.2013 for the time of the effect of the above-listed contracts on cooperation |
| Contract on the provision of distribution system services from MV and HV with the operator of local distribution system No. 80003131 (M6100/E/2016/0126) – in effect from 15.11.2016 for an indefinite period of time |
| 2 contracts on the purchase of movable assets (electric bikes) |
| PREm and PRedi have concluded contracts on the connection to the distribution system for all PREm's consumption points. |

c) Contracts between PRedi and PRE as one contracting party and PREzak as the other

| |
|---|
| Contract on the transfer of activities and related rights and obligations – in effect from 18.12.2017 |
|---|

d) Contracts between PRedi and eYello

| |
|---|
| General contract on electricity distribution to consumption points of the electricity trader's customers No. SOD/10390 – in effect from 16.11.2012 for an indefinite period of time |
|---|

e) Contracts between PRedi and KORMAK Praha

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|--|
| Contract for work – provision of expert services in the network of PRedistribuce, a.s., No. PS23000205/005 – in effect from 1.1.2006 to 31.1.2017, as amended |
| Contract for work – provision of expert services in the network of PRedistribuce, a.s., No. PS23000117/002 – in effect from 1.2.2017 for an indefinite period of time |
| Contract for work – graphic and drawing documentation No. PS21002012/004 – in effect from 15.2.2012 for an indefinite period of time |
| Contract on personal data processing – in effect from 6.1.2009 for an indefinite period of time |
| Contract on the cooperation on performing work on unmeasured parts of electricity consumption equipment – in effect from 29.2.2016 to 21.3.2018 or until the cooperating partner's certificate expires |
| General contract for work and Contract on the provision of services No. PS20000016/017 – in effect from 14.3.2016 to 31.12.2018 |
| Contract for work – emergency and routine maintenance of street lighting in Prague No. PS23320117/010 – in effect from 2.1.2017 to 31.12.2017 |
| Contract for work – emergency and routine maintenance of street lighting in Prague No. PS23320117/037 – in effect from 15.6.2017 to 29.12.2017 |
| Long-term contract on the provision of dispatcher control services and manipulation, operation and work No. PS23330217/011 – in effect from 1.1.2017 to 31.12.2017 |
| 3 contracts for work on the provision of design and engineering services for the repairs of distribution system equipment |
| 12 contracts for work on carrying out repairs of distribution system equipment |
| 92 contracts for work on the provision of design and engineering services for the construction of distribution system equipment |
| 102 contracts for work on carrying out construction of distribution system equipment |

f) Contracts between PRedi and KORMAK nemovitosti

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| PREdi and KORMAK nemovitosti have concluded contracts on the connection to the distribution system for all consumption points of KORMAK nemovitosti. |
|--|

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

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

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

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

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

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

In Prague, 5th of March 2018



Milan Hampl
Chairperson of the Board of Directors



Petr Dražil
Vice-chairperson of the Board of Directors

Supervisory Board Report on Activities in 2017

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

In 2017, five meetings of the Supervisory Board were held. The meetings of the Supervisory Board were regularly attended by the Chairperson and the Vice-chairperson of the Board of Directors.

During the meetings, the Supervisory Board regularly received information about the 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 2016 Annual Report.

The Supervisory Board debated and examined the separate financial statements for 2016 and acquainted itself with the auditor's report on the separate financial statements.

The Supervisory Board also debated and examined the Report on Relations for 2016.

The Supervisory Board approved the assessment of the 2016 objectives of the company's top management, debated the objectives of the company's top management for 2018 and approved the company's business plan for 2018.

Pursuant to Section 24 (da) of the Articles of Association, the Supervisory Board approved the decision of the Board of Directors to found a subsidiary, PREnetcom, a.s.

The Supervisory Board debated and approved the KT Invalidovna I investment project. The Supervisory Board also debated the investment project concerning the renovation of the overhead power lines V 111, V 112, V 113, V 114, and V 109 between TR Sever and TR Východ and approved the start of design works. Before the realisation of the investment project or any of its parts, it will be presented to the Supervisory Board for further deliberation.

The Supervisory Board declares that the company's economic results in 2017 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, 8th of March 2018



Pavel Elis
Chairperson of the Supervisory Board



KPMG Česká republika Audit, s.r.o.

Pobřežní 1a
186 00 Prague 8
Czech Republic
+420 222 123 111
www.kpmg.cz

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

Opinion

We have audited the accompanying financial statements of PREdistribuce, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note „General information“ to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

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

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT No. CZ699001996
ID data box: 8h3gtra



Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

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

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

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

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations of PRedistribuce, a.s. ("the Company") for the year ended 31 December 2017. The responsibility for the preparation and factual accuracy of this report rests with the Company's statutory body. Our responsibility is to express our view on the report on relations based on our review.

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

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations of PRedistribuce, a.s. for the year ended 31 December 2017 contains material factual misstatements.

Statutory Auditor Responsible for the Engagement

Petr Škoda is the statutory auditor responsible for the audit of the financial statements of PRedistribuce, a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague
23 April 2018

Signed by

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

Signed by

Petr Škoda
Partner
Registration number 1842

Separate financial statements

in full format as of December 31, 2017

Prepared in accordance with Accounting Act No. 563/1991 Coll., as amended; Regulation No. 500/2002 Coll., which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and the Czech Accounting Standards for Businesses, as amended.

Income statement (TCZK)

| Ident. | Text | Note | 2017 | 2016 |
|-----------|---|------------|--------------------|--------------------|
| I. | Revenue from distribution services and other revenues | (1) | 9,450,389 | 9,345,709 |
| I. 1.1. | Revenue from distribution services in the Group | | 5,796,574 | 5,964,519 |
| I. 1.2. | Revenue from distribution services outside the Group | | 3,528,782 | 3,351,005 |
| I. 2. | Other revenues | | 125,033 | 30,185 |
| A. | Cost of sales | (3) | (6,160,189) | (6,152,749) |
| A.2.1. | Cost of transit and system services and losses | | (4,608,562) | (4,679,783) |
| A.2.2. | Consumed material and energy | | (41,352) | (42,071) |
| A.3. | Purchased services | | (1,510,275) | (1,430,895) |
| D. | Personnel expenses | (2) | (450,777) | (456,407) |
| D.1. | Wages and salaries | | (313,422) | (306,093) |
| D.2. | Social security and health insurance expenses and other expenses | | (137,355) | (150,314) |
| D.2.1. | Social security and health insurance expenses | | (110,870) | (107,531) |
| D.2.2. | Other expenses | | (26,485) | (42,783) |
| E. | Adjustments relating to operating activities | | (1,305,281) | (1,352,026) |
| E.1. | Adjustments to intangible and tangible fixed assets | | (1,298,166) | (1,338,324) |
| E.1.1. | Depreciation and amortisation of intangible and tangible fixed assets | (6, 7) | (1,298,184) | (1,338,342) |
| E.1.2. | Impairment of intangible and tangible fixed assets | | 18 | 18 |
| E.3. | Adjustments to receivables | | (7,115) | (13,702) |

Translation note

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

| | | | | |
|-------------|--|------------|------------------|------------------|
| III. | Other operating revenues | | 230,609 | 227,027 |
| III.1. | Proceeds from disposals of fixed assets | | 2,886 | 1,532 |
| III.2. | Proceeds from disposals of raw materials | | 5,035 | 2,972 |
| III.3. | Other operating revenues | (1) | 222,688 | 222,523 |
| F. | Other operating expenses | | (19,862) | (97,108) |
| F.1. | Net book value of fixed assets sold | | (2,122) | (1,184) |
| F.3. | Taxes and charges | | (1,602) | (1,649) |
| F.4. | Provisions relating to operating activity and complex prepaid expenses | | (274) | (81,181) |
| F.5. | Other operating expenses | | (15,864) | (13,094) |
| * | Operating profit (loss) | | 1,744,889 | 1,514,446 |
| VI. | Interest revenue and similar revenue | (4) | 5 | 8 |
| J. | Interest expense and similar expense | (4) | (85,652) | (82,871) |
| VII. | Other financial revenue | | 6 | 3 |
| K. | Other financial expense | | (262) | (274) |
| * | Profit (loss) from financial operations | | (85,903) | (83,134) |
| ** | Profit (loss) before tax | (5) | 1,658,986 | 1,431,312 |
| L. | Income tax | (5) | (318,210) | (290,618) |
| L.1. | Current income tax | | (292,532) | (268,663) |
| L.2. | Deferred income tax | | (25,678) | (21,955) |
| ** | Profit (loss) after tax | | 1,340,776 | 1,140,694 |
| *** | Profit (loss) for the period | | 1,340,776 | 1,140,694 |
| * | Net turnover for the period | | 9,681,009 | 9,572,747 |

Balance sheet (TCZK)

| Ident. | ASSETS | Note | 2017 Gross | 2017 Adjust. | 2017 Net | 2016 Net |
|------------------|---|------|-------------------|---------------------|-------------------|-------------------|
| | TOTAL ASSETS | | 54,518,812 | (25,869,476) | 28,649,336 | 28,335,875 |
| B. | Fixed assets | | 52,061,400 | (25,819,216) | 26,242,184 | 25,949,669 |
| B. I. | Intangible fixed assets | (7) | 35,271 | (21,187) | 14,084 | 9,960 |
| B. I. 1. | Research and development | | 31,682 | (21,053) | 10,629 | 9,880 |
| B. I. 2. 1. | Software | | 3,242 | (134) | 3,108 | - |
| B. I. 5. 2. | Intangible fixed assets under construction | | 347 | - | 347 | 80 |
| B. II. | Tangible fixed assets | (6) | 52,026,029 | (25,798,029) | 26,228,000 | 25,939,609 |
| B. II. 1. | Land and buildings | | 37,838,652 | (17,405,295) | 20,433,357 | 20,215,832 |
| 1. | Land | | 688,465 | - | 688,465 | 651,137 |
| 2a. | Cable and overhead power lines | | 22,352,744 | (9,471,676) | 12,881,068 | 12,647,251 |
| 2b. | Power structures | | 14,797,443 | (7,933,619) | 6,863,824 | 6,917,444 |
| 2. | Plant and equipment | | 11,670,091 | (7,030,988) | 4,639,103 | 4,726,714 |
| 2a. | Transformer station and distribution plant technology | | 9,327,530 | (5,372,253) | 3,955,277 | 4,059,715 |
| 2b. | Dispatching and control system equipment | | 2,020,190 | (1,433,585) | 586,605 | 577,944 |
| 2c. | Other equipment | | 322,371 | (225,150) | 97,221 | 89,055 |
| 4. | Other tangible fixed assets | | 2,012,915 | (1,361,746) | 651,169 | 582,038 |
| 3. | Other tangible fixed assets – electricity meters in network | | 2,012,915 | (1,361,746) | 651,169 | 582,038 |
| 5. | Advance payments for tangible fixed assets and tangible fixed assets under construction | | 504,371 | - | 504,371 | 415,025 |
| 1. | Advance payments for tangible fixed assets | | 21,271 | - | 21,271 | 43,772 |
| 2. | Tangible fixed assets under construction | | 483,100 | - | 483,100 | 371,253 |
| B. III. | Long-term investments | | 100 | - | 100 | 100 |
| C. | Current assets | | 2,456,089 | (50,260) | 2,405,829 | 2,383,945 |
| C. II. | Receivables | | 2,454,747 | (50,260) | 2,404,487 | 2,382,211 |
| C. II. 1. | Long-term receivables | | 180 | - | 180 | 166 |
| 1. | Trade receivables | | 175 | - | 175 | 161 |
| 5. | Receivables – other | | 5 | - | 5 | 5 |
| 2. | Short-term receivables | | 2,454,567 | (50,260) | 2,404,307 | 2,382,045 |
| 1. | Trade receivables | (8) | 202,341 | (50,260) | 152,081 | 126,905 |
| 2. | Receivables – group undertakings | (17) | 86 | - | 86 | 105,643 |
| 4. | Receivables – other | | 2,252,140 | - | 2,252,140 | 2,149,497 |
| 3. | Tax receivables | | - | - | - | 22,124 |
| 4. | Short-term advances paid | | 494 | - | 494 | 635 |
| 5. | Estimated receivables | (17) | 2,249,027 | - | 2,249,027 | 2,126,171 |
| 6. | Other receivables | | 2,619 | - | 2,619 | 567 |
| C. IV. | Cash and cash equivalents | | 1,342 | - | 1,342 | 1,734 |
| C. IV. 1. | Cash on hand | | 1,342 | - | 1,342 | 1,734 |
| D. | Deferrals | | 1,323 | - | 1,323 | 2,261 |

| Ident. | LIABILITIES AND EQUITY | Note | 2017 | 2016 |
|--------------|--|------------|-------------------|-------------------|
| | TOTAL LIABILITIES AND EQUITY | | 28,649,336 | 28,335,875 |
| A. | Equity | (9) | 19,579,149 | 19,379,473 |
| A. I. | Registered capital | | 17,707,934 | 17,707,934 |
| A. III. | Funds from profit | | 530,000 | 530,000 |
| A. IV. | Retained profits | | 439 | 845 |
| A. V. | Profit (loss) for the period | | 1,340,776 | 1,140,694 |
| B.+C. | Liabilities | | 7,242,168 | 7,157,303 |
| B. | Provisions | (10) | 298,491 | 305,740 |
| C. | Liabilities | | 6,943,677 | 6,851,563 |
| C. I. | Long-term liabilities | | 5,713,464 | 5,687,786 |
| C. I. 6. | Liabilities – group undertakings | (17) | 2,700,000 | 2,700,000 |
| 8. | Deferred tax liability | (11) | 3,009,464 | 2,983,786 |
| 9. | Liabilities – other | | 4,000 | 4,000 |
| C. II. | Short-term liabilities | | 1,230,213 | 1,163,777 |
| C. II. 3. | Short-term advances received | | 397,402 | 394,714 |
| 4. | Trade payables | (12) | 413,797 | 410,121 |
| 6. | Liabilities – group undertakings | (17) | 206,446 | 140,184 |
| 8. | Liabilities – other | | 212,568 | 218,758 |
| 3. | Payables to employees | | 16,680 | 15,904 |
| 4. | Social security and health insurance liabilities | (5) | 10,244 | 9,968 |
| 5. | Tax liabilities and subsidies | (5) | 125,464 | 151,742 |
| 6. | Estimated payables | | 60,180 | 41,144 |
| D. | Accruals | | 1,828,019 | 1,799,099 |
| D. 1. | Accrued expenses | | 37,566 | 36,335 |
| 2. | Deferred revenues | (13) | 1,790,453 | 1,762,764 |

Cash flow statement (TCZK)

| | Note | 2017 | 2016 |
|--|---------------|--------------------|--------------------|
| Cash and cash equivalents, beginning of period | | 107,287 | (128,278) |
| Operating activity | | | |
| Proceeds from sale of distribution services | | 9,292,839 | 9,393,541 |
| Electricity consumed for grid loss | | (312,567) | (319,335) |
| Cash paid for purchase of transmission and system services | | (4,310,208) | (4,228,549) |
| Net cash inflow from sale of distribution services | (1, 3) | 4,670,064 | 4,845,657 |
| Intra-company expenditures | (17) | (1,010,261) | (974,752) |
| Other operating income | | 114,723 | 33,060 |
| Operating expenditures | (3) | (541,973) | (410,149) |
| Change in short-term working capital | | (690) | (61,486) |
| Personnel expenditures | (2) | (448,236) | (434,568) |
| Direct taxes | (5) | (281,055) | (227,895) |
| Financial inflows and outflows | (4) | (82,942) | (82,511) |
| Net cash flow from operating activity | | 2,419,630 | 2,687,356 |
| Investment activity | | | |
| Proceeds from sale of fixed assets | | 2,882 | 1,433 |
| Cash paid for acquisition of fixed assets | (6, 7) | (1,593,477) | (1,572,896) |
| Proceeds from investment contributions | (13) | 196,742 | 171,772 |
| Net cash flow from investment activity | | (1,393,853) | (1,399,691) |
| Financial activity | | | |
| Dividends paid and directors' fees paid | (9) | (1,141,100) | (1,052,100) |
| Intra-company loans | (17) | (3,870) | - |
| Net cash flow from financial activity | | (1,144,970) | (1,052,100) |
| Change in cash and cash equivalents | | (119,193) | 235,565 |
| Cash and cash equivalents, end of period | (18) | (11,906) | 107,287 |

General information

Establishment and description of the Company

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, ID No.: 27376516.

The Company's principal activities include the distribution of electricity in Prague and in Roztoky, 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 2017

Board of Directors

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

Supervisory Board

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

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

Organisational structure

The Company has two divisions, namely the 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.

The PRE Group

In 2017, the PRE Group consisted of the parent company, Pražská energetika, a.s., which is the holder of a licence for trading in electricity and gas in the Czech Republic, and its subsidiaries. These include PREdistribuce, a.s., PREměření, a.s., eYello CZ, k.s., KORMAK Praha a.s., KORMAK nemovitosti s.r.o., and from the 30th of November 2017 also PRE FVE Světlík, s.r.o., and from the 1st of November 2017 PREzákaznická, a.s.

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

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

Accounting principles

Statement of compliance

The financial statements were prepared in accordance with Accounting Act No. 563/1991 Coll., as amended; Regulation No. 500/2002 Coll., which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and the Czech Accounting Standards for Businesses, as amended.

Basis of the preparation of the financial statements

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

Foreign currency translation

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

Tangible and intangible fixed assets

Assets owned by the Company

Purchased tangible and intangible fixed assets are stated at acquisition cost, which includes the purchase price and costs related to the acquisition. Tangible and intangible fixed assets costing more than TCZK 40 and TCZK 60, respectively, with a useful life exceeding one year are recognised in the balance sheet. Acquisition cost does not include investment contributions (see below). The Company used the possibility of capitalising interest in line with Section 47 of Regulation No. 500/2002 Coll., as amended.

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

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

Low-value tangible and intangible assets

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

Technical improvements

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

Depreciation

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

| Asset category | Depreciation period |
|--|--------------------------------|
| Buildings, halls and other structures | 20, 50, 70 |
| Cable tunnels, cables and overhead power lines | 30, 40, 70 |
| Fibre optics | 30 |
| Power structures | 15, 25, 30 |
| Working machines and equipment | 4, 5, 6, 8, 10, 12, 20, 29, 30 |
| Telecommunication equipment | 4, 8, 15 |
| Machinery and special technology equipment, communication cables | 4, 6, 8, 10 |
| Electricity meters | 15 |
| Vehicles | 4 |
| Furniture and fixtures | 6, 8 |
| Hardware and software | 4, 8, 15 |
| Other intangible assets | 4 |

Short-term receivables

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

Investment contributions

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

Cash and cash equivalents

Cash and cash equivalents include cash, cash in transit, current bank accounts and other current highly liquid financial assets whose value can be easily determined and are easily convertible into cash. Cash pooling is regarded as a cash equivalent for the cash flow purposes.

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 on equity).

Dividends

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

Cash pooling

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

Provisions

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

Short-term payables

Short-term payables are stated at their nominal value.

Revenue recognition

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

Expense recognition

Operating leases

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

Finance leases

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

Income tax

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

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

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

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

Cash flow statement

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

Significant accounting estimates

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

Significant accounting events

Based on a partial review of the depreciation plan of PRedi and an increase in planning quality, the Board of Directors has decided to adjust the depreciation period in respect of part of assets. The change involved adjusting the periods of useful lives of the existing assets, which resulted in a decrease in annual depreciation charges of MCZK 40. The greatest change was made to the depreciation of electricity meters: from 12 to 15 years.

Contents of the notes to the financial statements

1. Revenues
2. Personnel expenses
3. Purchase of material, services and utilities
4. Interest expense
5. Income tax
6. Tangible fixed assets
7. Intangible fixed assets
8. Trade receivables
9. Equity
10. Provisions
11. Deferred tax liability
12. Trade payables
13. Temporary liabilities
14. Leased assets
15. Fees payable to auditors
16. Related parties
17. Intra-company relations
18. Cash flow statement
19. Material subsequent events

(1) Revenues (TCZK)

| Revenues relating to the supply of distribution services and other revenues | 2017 | 2016 |
|---|------------------|------------------|
| Sale of distribution and system services to B2B customers | 3,373,314 | 3,507,432 |
| Sale of distribution and system services to B2C (including low-voltage B2B) | 5,940,752 | 5,797,574 |
| Other revenues | 11,290 | 10,518 |
| Revenues relating to the supply of distribution services | 9,325,356 | 9,315,524 |
| Revenues from services rendered in the Group | 20,343 | 20,637 |
| Revenues from services rendered outside the Group | 104,690 | 9,548 |
| of which: servicing and installation | 98,375 | 3,874 |
| leases | 3,960 | 4,359 |
| Other revenues | 125,033 | 30,185 |
| Total | 9,450,389 | 9,345,709 |

| Other operating revenues | 2017 | 2016 |
|---|----------------|----------------|
| Release of connection fees accruals | 192,775 | 196,555 |
| Compensation for unauthorised consumption | 17,998 | 17,849 |
| Sundry | 11,915 | 8,119 |
| Total | 222,688 | 222,523 |

(2) Personnel expenses (TCZK)

| | 2017 Employees and executives | 2016 Employees and executives |
|---|-------------------------------------|-------------------------------------|
| Average headcount | 512 | 513 |
| Wages and salaries | 274,572 | 268,786 |
| Salaries paid depending on the Company's goal performance | 25,826 | 24,481 |
| Insurance | 110,870 | 107,531 |
| Remuneration of the members of the Company's bodies | 13,024 | 12,826 |
| Other social costs (according to the collective agreement)* | 26,485 | 42,783 |
| Total | 450,777 | 456,407 |

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

| | 2017 | 2016 |
|--|------------------|------------------|
| Electricity consumption for grid losses* | 316,111 | 381,488 |
| Services of the parent company | 635,257 | 632,848 |
| Lease of non-residential premises | 68,736 | 68,750 |
| Lease of cars | 22,225 | 21,991 |
| Installation work and reading of meters | 223,738 | 222,419 |
| Repairs of fixed assets | 35,651 | 18,935 |
| Other | 12,216 | 9,955 |
| Costs of purchase of material, services and utilities in the Group | 1,313,934 | 1,356,386 |
| Purchase of distribution and system services | 4,292,451 | 4,298,295 |
| Consumed material and energy | 37,711 | 38,663 |
| Repairs of fixed assets | 288,986 | 235,275 |
| Lease of cable tunnels | 104,776 | 101,122 |
| Lease of non-residential premises | 33,521 | 33,771 |
| Sundry | 88,810 | 89,237 |
| Costs of purchase of material, services and utilities outside the Group | 4,846,255 | 4,796,363 |
| Total | 6,160,189 | 6,152,749 |

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

(4) Interest expense (TCZK)

| | 2017 | 2016 |
|-------------------------------------|-----------------|-----------------|
| Interest income: from cash pooling | 5 | 8 |
| Interest expense: from cash pooling | (1,524) | (1,285) |
| from loans in the Group* | (82,540) | (81,095) |
| from employee benefits | (1,588) | (466) |
| other | - | (25) |
| Total (net) | (85,647) | (82,863) |

* In addition to interest expense, part of the borrowing costs also included capitalised interest of TCZK 8,297 for 2017 (2016: TCZK 8,814), which is included in the acquisition cost of assets.

(5) Income tax (TCZK)

| Effective tax rate | 2017 | 2017 | 2016 | 2016 |
|---|------------------|---------------|------------------|---------------|
| Profit or loss for the period | 1,340,776 | | 1,140,694 | |
| Income tax | 318,210 | | 290,618 | |
| Profit before tax | 1,658,986 | | 1,431,312 | |
| Income tax using the applicable income tax rate | 315,207 | 19.00% | 271,949 | 19.00% |
| Impact of items that are never tax-deductible | 2,771 | 0.17% | 18,407 | 1.28% |
| Corrections of estimates of prior years' taxes | 232 | 0.01% | 262 | 0.02% |
| Total income tax / effective tax rate | 318,210 | 19.18% | 290,618 | 20.30% |

| Payables to the state | 2017 | 2016 |
|--|---------|---------|
| Social security and health insurance liabilities | 10,244 | 9,968 |
| Tax liabilities* | 125,464 | 151,742 |

* Tax liabilities as of the 31st of December 2017 primarily include paid corporate income tax prepayments, a recorded income tax provision equalling the tax estimate and a VAT liability. The Company calculated a corporate income tax liability as at the balance sheet date and reports it in "Tax liabilities".

None of these liabilities are overdue.

(6) Tangible fixed assets (MCZK)

| | Land | Power structures | Cables and overhead power lines | Telecommu- nication and information technologies | Electricity meters | Other | Assets under construction | Total |
|-------------------------------------|--------------|---------------------|---------------------------------------|---|-----------------------|----------------|---------------------------------|-------------------|
| Acquisition cost | | | | | | | | |
| 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 |
| Additions | 32.0 | 448.6 | 736.8 | 75.2 | 100.1 | 26.8 | 154.8 | 1,574.3 |
| Disposals | (0.3) | (68.4) | (143.5) | (65.9) | (91.5) | (3.5) | - | (373.1) |
| Reclassification | - | 79.7 | 80.2 | 30.1 | 15.5 | 0.5 | (206.0) | - |
| Balance on 31.12.2016 | 651.1 | 23,802.1 | 21,691.0 | 2,039.2 | 1,986.4 | 306.3 | 415.0 | 50,891.1 |
| Accumulated depreciation | | | | | | | | |
| Balance on 31.12.2015 | - | (12,344.4) | (8,644.7) | (1,414.8) | (1,382.1) | (202.4) | - | (23,988.4) |
| Depreciation | - | (548.0) | (542.5) | (112.3) | (113.8) | (18.3) | - | (1,334.9) |
| Adjustments | - | - | - | - | - | - | - | - |
| Disposals | - | 67.5 | 143.5 | 65.8 | 91.5 | 3.5 | - | 371.8 |
| Reclassification | - | - | - | - | - | - | - | - |
| Balance on 31.12.2016 | - | (12,824.9) | (9,043.7) | (1,461.3) | (1,404.4) | (217.2) | - | (24,951.5) |
| 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 |
| Net book value on 31.12.2016 | 651.1 | 10,977.2 | 12,647.3 | 577.9 | 582.0 | 89.1 | 415.0 | 25,939.6 |

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

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

Major additions to fixed assets in 2017 include a cable network of TCZK 340,705.

(7) Intangible fixed assets (MCZK)

| | Software | Other | Assets under construction | Total |
|-------------------------------------|----------|---------------|---------------------------|---------------|
| Acquisition cost | | | | |
| Balance on 31.12.2015 | - | 26.7 | 0.2 | 26.9 |
| Additions | - | 9.3 | 0.1 | 9.4 |
| Disposals | - | (2.3) | - | (2.3) |
| Reclassification | - | 0.2 | (0.2) | - |
| Balance on 31.12.2016 | - | 33.9 | 0.1 | 34.0 |
| Accumulated depreciation | | | | |
| Balance on 31.12.2015 | - | (23.0) | - | (23.0) |
| Depreciation | - | (3.4) | - | (3.4) |
| Disposals | - | 2.4 | - | 2.4 |
| Reclassification | - | - | - | - |
| Balance on 31.12.2016 | - | (24.0) | - | (24.0) |
| Net book value on 31.12.2015 | - | 3.7 | 0.2 | 3.9 |
| Net book value on 31.12.2016 | - | 9.9 | 0.1 | 10.0 |

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

Low-value fixed assets

In line with the Company's accounting policies (refer to "Accounting principles"), low-value fixed assets are expensed upon acquisition. The acquisition cost of low-value tangible assets with the acquisition cost of up to TCZK 40 that were in use as of the balance sheet date amounts to TCZK 86,154 (2016: TCZK 84,723). The Company holds no low-value intangible fixed assets.

(8) Trade receivables (TCZK)

| Trade receivables | 2017 | 2016 |
|---|----------------|----------------|
| Up to 6 months past due | 14,785 | 33,788 |
| 6 to 12 months past due | 7,102 | 5,721 |
| More than 12 months past due | 42,317 | 25,536 |
| Gross past-due trade receivables | 64,204 | 65,045 |
| Before due | 138,137 | 105,005 |
| Total gross trade receivables | 202,341 | 170,050 |

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

| | |
|---|---------------|
| Balance on 31.12.2015 | 29,443 |
| Additions and utilisation during the current period | 13,702 |
| Balance on 31.12.2016 | 43,145 |
| Additions and utilisation during the current period | 7,115 |
| Balance on 31.12.2017 | 50,260 |

(9) Equity (TCZK)**Registered share capital and types of shares as of the 31st of December 2017**

The Company's share capital comprises 21,549 registered shares in the certificate form (2016: 21,549 shares) with the nominal value of CZK 821,752 (2016: CZK 821,752).

Distribution of profit

The General Meeting will decide on the distribution of profit of TCZK 1,340,776 (2016: TCZK 1,140,694).

Statement of changes of equity

| | Share capital | Fund from profit – reserve fund | Profit or loss | Retained earnings | Total equity |
|-------------------------------|-------------------|------------------------------------|-------------------|----------------------|-------------------|
| Balance on 31.12.2015 | 17,707,934 | 530,000 | 1,052,026 | 919 | 19,290,879 |
| Additions to the reserve fund | - | - | - | - | - |
| Dividend payments | - | - | (1,040,926) | (74) | (1,041,000) |
| Directors' fees paid | - | - | (11,100) | - | (11,100) |
| Retained profits | - | - | - | - | - |
| Net profit for 2016 | - | - | 1,140,694 | - | 1,140,694 |
| Balance on 31.12.2016 | 17,707,934 | 530,000 | 1,140,694 | 845 | 19,379,473 |
| Additions to the reserve fund | - | - | - | - | - |
| Dividend payments | - | - | (1,129,594) | (406) | (1,130,000) |
| Directors' fees paid | - | - | (11,100) | - | (11,100) |
| Retained profits | - | - | - | - | - |
| Net profit for 2017 | - | - | 1,340,776 | - | 1,340,776 |
| Balance on 31.12.2017 | 17,707,934 | 530,000 | 1,340,776 | 439 | 19,579,149 |

(10) Provisions (TCZK)

| | Business risks | Salaries | Employee benefits | Total |
|---|-------------------|---------------|----------------------|----------------|
| Balance on 31.12.2015 | 35,524 | 35,736 | 142,575 | 213,835 |
| Additions to provisions in the current period | 83,284 | 1,156 | 18,151 | 102,591 |
| Utilisation/release of provisions in the current period | (2,104) | - | (8,582) | (10,686) |
| Balance on 31.12.2016 | 116,704 | 36,892 | 152,144 | 305,740 |
| Additions to provisions in the current period | 1,770 | 54,574 | 232 | 56,576 |
| Utilisation/release of provisions in the current period | (1,496) | (36,892) | (25,437) | (63,825) |
| Balance on 31.12.2017 | 116,978 | 54,574 | 126,939 | 298,491 |
| Long-term provisions | 116,978 | - | 115,409 | 232,387 |
| Short-term provisions | - | 54,574 | 11,530 | 66,104 |
| Total | 116,978 | 54,574 | 126,939 | 298,491 |

Reserves are recognised in respect of the following:

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

(11) Deferred tax liability (TCZK)**Deferred tax assets and liabilities reported in the balance sheet:**

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

| | 2017 | 2016 |
|---|------------------|------------------|
| Fixed assets | 3,052,488 | 3,029,617 |
| Receivables | (2,881) | (4,358) |
| Provisions | (16,771) | (13,359) |
| Liabilities arising from the collective agreement | (23,372) | (28,114) |
| Total | 3,009,464 | 2,983,786 |

(12) Trade payables (TCZK)

The Company carries no trade payables past their due dates.

(13) Temporary liabilities (TCZK)

| | |
|---|------------------|
| Deferred revenues | |
| Balance on 31.12.2015 | 1,787,547 |
| Investment contributions received | 171,772 |
| Investment contributions accounted for in revenues* | (196,555) |
| Balance on 31.12.2016 | 1,762,764 |
| Investment contributions received | 196,742 |
| Investment contributions accounted for in revenues* | (192,775) |
| Correction factor of permitted revenues** | 23,723 |
| Balance on 31.12.2017 | 1,790,453 |

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

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

(14) Leased assets (TCZK)**Operating leases**

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

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

| | 2017 | 2016 |
|--------------------------|----------------|----------------|
| Cable conduits | 104,776 | 101,122 |
| Non-residential premises | 33,521 | 33,771 |
| Administrative buildings | 68,736 | 68,750 |
| Vehicles | 22,963 | 22,697 |
| Total | 229,996 | 226,340 |

(15) Fees payable to auditors (TCZK)

Fees payable to auditors for a statutory audit of the financial statements for the period ended December 31, 2017, were TCZK 685 (31.12.2016: TCZK 919).

(16) Related parties (TCZK)

Persons having managing authority include members of the Board of Directors, the Company's management 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:

| | 2017 | 2016 |
|-----------------|--------|--------|
| Number | 8 | 8 |
| Bonuses in TCZK | 24,687 | 24,354 |

Transactions with members of statutory bodies and executive management

As of the 31st of December 2017, the Company recorded receivables from the members of the Board of Directors and the Supervisory Board in the aggregate amount of TCZK 19 (2016: TCZK 13). These receivables were settled during January 2018.

(17) Intra-company relations (TCZK)

| | Receivables of PREdi as of 31.12. | | Payables of PREdi as of 31.12. | |
|--|-----------------------------------|------------------|--------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Pražská energetika, a.s. | 1,692,226 | 1,790,646 | 2,896,468 | 2,825,368 |
| of which: trade receivables/payables | - | - | 145,654 | 89,033 |
| trade receivables/payables from cash pooling | - | 105,553 | 13,248 | - |
| accrued revenues/expenses from cash pooling | - | - | 184 | 127 |
| long-term loan* | - | - | 2,700,000 | 2,700,000 |
| accrued expenses (loan interest) | 3 | - | 37,382 | 36,208 |
| estimated amounts – unbilled distribution services** | 1,692,223 | 1,685,093 | - | - |
| eYello CZ, k.s. | 37 | 37 | - | - |
| PREměření, a.s. | 62 | 45 | 40,700 | 45,920 |
| KORMAK Praha a.s. | 24 | 8 | 6,844 | 5,231 |
| Total | 1,692,349 | 1,790,736 | 2,944,012 | 2,876,519 |

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

** Estimated receivables reported in the balance sheet amount to TCZK 2,249,027 (31.12.2016: TCZK 2,126,171), of which TCZK 1,692,223 (31.12.2016: TCZK 1,685,093) represents unbilled distribution services provided to Pražská energetika, a.s., and TCZK 556,804 (31.12.2016: TCZK 441,078) represents unbilled distribution services and unbilled credit notes, if any, related to these services provided outside the PRE Group.

| | Revenues of PREdi | | Expenses of PREdi | |
|---|-------------------|------------------|-------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Pražská energetika, a.s. | 5,808,980 | 5,977,783 | 2,475,210 | 2,400,319 |
| of which: distribution services | 5,789,902 | 5,958,577 | - | - |
| services, consumed material | 19,047 | 19,102 | 738,434 | 733,544 |
| electricity for grid losses and own consumption | - | - | 316,111 | 381,488 |
| material | - | - | 198,304 | 153,093 |
| fixed assets | - | - | - | - |
| other revenues | 26 | 96 | - | - |
| dividends | - | - | 1,130,000 | 1,041,000 |
| interest on cash pooling | 5 | 8 | 1,524 | 1,285 |
| interest on loans | - | - | 90,837 | 89,909 |
| eYello CZ, k.s. | 6,676 | 5,942 | - | - |
| of which: distribution services | 6,673 | 5,942 | - | - |
| services – leases | - | - | - | - |
| other revenues | 3 | - | - | - |
| PREměření, a.s. | 1,211 | 1,207 | 352,246 | 332,417 |
| of which: installation and supply of electricity meters | 1,211 | 1,207 | 352,246 | 332,417 |
| KORMAK Praha a.s. | 1,649 | 365 | 232,428 | 163,808 |
| of which: fixed assets | - | - | 196,777 | 144,873 |
| repairs of fixed assets | - | - | 35,651 | 18,935 |
| services | 89 | 335 | - | - |
| other revenues | 1,560 | 30 | - | - |
| Total | 5,818,516 | 5,985,297 | 3,059,884 | 2,896,544 |

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

| | Intra-company sales | | Intra-company expenses | |
|---|---------------------|----------------|------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Relations with subsidiaries and associates | 113,197 | 16,677 | 24,320 | 29,537 |
| Capital City of Prague | 113,197 | 16,677 | 24,320 | 29,537 |
| Relations with other entities | 403,926 | 401,302 | 107,173 | 102,476 |
| Dopravní podnik hl.m. Prahy, a.s. | 399,397 | 397,676 | 2,653 | 1,609 |
| Kolektory Praha, a.s. | - | - | 104,508 | 100,855 |
| Pražská plynárenská, a.s. | 4,529 | 3,626 | 12 | 12 |
| Total | 517,123 | 417,979 | 131,493 | 132,013 |

| | Receivables | | Payables | |
|---|---------------|---------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Relations with subsidiaries and associates | 15,685 | 1,027 | 1,865 | 956 |
| Capital City of Prague | 15,685 | 1,027 | 1,865 | 956 |
| Relations with other entities | 21,313 | 20,788 | 35,547 | 30,449 |
| Dopravní podnik hl.m. Prahy, a.s. | 19,838 | 20,514 | 23,703 | 23,704 |
| Kolektory Praha, a.s. | - | - | - | - |
| Pražská plynárenská, a.s. | 1,475 | 274 | 11,844 | 6,745 |
| Total | 36,998 | 21,815 | 37,412 | 31,405 |

(18) Cash flow statement

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

| | Balance on 31.12. | |
|--------------|-------------------|----------------|
| | 2017 | 2016 |
| Cash | 1,342 | 1,734 |
| Cash pooling | (13,248) | 105,553 |
| Total | (11,906) | 107,287 |

(19) Material subsequent events

The Company is the sole shareholder of PREnetcom, a.s., which was established on the 1st of January 2018.

In Prague, 23rd of April 2018



Milan Hampl
Chairperson of the Board of Directors



Petr Dražil
Vice-chairperson of the Board of Directors

Affidavit

To the best of our knowledge, the Annual Report, in exercising all reasonable due diligence, presents a true and honest picture of the financial situation, business activities and economic results of PREdistribuce, a.s., in 2017, and of the prospects for the company's future development. No facts have been deliberately omitted from or distorted in the Annual Report which could have altered its meaning.

In Prague, 23rd of April 2018



Milan Hampl
Chairperson of the Board of Directors



Petr Dražil
Vice-chairperson of the Board of Directors

List of abbreviations

AMM - automatic metering management

B2B - big customers

B2C - small customers

ČSRES - Czech Association of Regulated Power Supply Companies (České sdružení regulovaných energetických společností)

ČVUT - Czech Technical University in Prague

EnBw - EnBW Energie Baden-Württemberg AG

ERÚ - Energy Regulatory Office (Energetický regulační úřad)

eYello - eYello CZ, k.s., a 90% subsidiary PRE and a 10% subsidiary of PREm

FVE - photovoltaic power plant

GWh - gigawatt hour

HV - high voltage

KORMAK Praha - KORMAK Praha a.s., a 100% subsidiary of PRE

KORMAK nemovitosti - KORMAK nemovitosti s.r.o., a 100% subsidiary of PRE

KT - cable tunnel

kV - kilovolt

MCZK - millions of Czech crowns

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., a 100% subsidiary of PRE

PREm - PREměření, a.s., a 100% subsidiary of PRE

PREnetcom - PREnetcom, a.s., a 100% subsidiary of PREdi

PREzak - PREzákaznická, a.s., a 100% subsidiary of PRE

PRE Group - PRE + PREdi + PREm + eYello + PREzak + PREnetcom + KORMAK Praha + KORMAK nemovitosti + PRE FVE Světlík, s.r.o.

TCZK - thousands of Czech crowns

TR - transformer station

VO - wholesale

Contact information

| | Address | Postal code | Telephone number |
|----------------------------------|--|------------------|--|
| PREdistribuce, a.s. | Prague 5, Svornosti 3199/19a | 150 00 | 800 550 055 |
| ID No.: 27376516 | web: www.predistribuce.cz e-mail: distribuce@predistribuce.cz | | For calls from foreign numbers: +420 267 055 555 |
| Distribution Emergency Line | Prague 2, Kateřinská 1528/9 | 120 00 | 1236, e-mail: poruchy@pre.cz |
| PREnetcom, a.s. | Prague 10, Na Hroudě 1492/4 | 100 05 | 800 550 055 |
| ID No.: 06714366 | web: www.pre.cz e-mail: pre@pre.cz | | For calls from foreign numbers: +420 267 055 555 |
| Pražská energetika, a.s. | Prague 10, Na Hroudě 1492/4 | 100 05 | 800 550 055 |
| ID No.: 60193913 | web: www.pre.cz e-mail: pre@pre.cz | | For calls from foreign numbers: +420 267 055 555 |
| PRE Press Relations | Prague 10, Na Hroudě 1492/4 | 100 05 | +420 267 051 102 |
| PREzákaznická, a.s. | Prague 10, Na Hroudě 1492/4 | 100 05 | 800 550 055 |
| ID No.: 06532438 | web: www.prezakaznicka.cz e-mail: pre@pre.cz | | For calls from foreign numbers: +420 267 055 555 |
| PRE Customer Centre | Prague 1, Jungmannova 36/31 Prague 4, Vladimírova 64/18 | 110 00 140 00 | |
| PRE Call Centre | Prague 10, Kubánské náměstí 1391/11 | 100 00 | 800 550 055 |
| PREměření, a.s. | Prague 10, Na Hroudě 2149/19 | 100 05 | 800 550 055 |
| ID No.: 25677063 | web: www.premereni.cz e-mail: mereni@pre.cz | | For calls from foreign numbers: +420 267 055 555 |
| Emergency line | for PRE customers in case of main circuit-breaker failures www.premereni.cz/opravy | | +420 733 143 143 |
| PRE Service Centre | Prague 1, Jungmannova 747/28 e-mail: centrum.sluzeb@pre.cz PREmobilita: premobilita@pre.cz orders of energy services: servis.prem@pre.cz | 110 00 | |
| PRE FVE Světlík, s.r.o. | Prague 10, Na Hroudě 2149/19 | 100 05 | |
| ID No.: 28080378 | | | |
| eYello CZ, k.s. | Prague 10, Kubánské náměstí 1391/11 | 100 00 | +420 267 056 704 |
| ID No.: 25054040 | web: www.yello.cz e-mail: yello@yello.cz | | |
| KORMAK Praha a.s. | Prague 10 – Uhřetěves, K Sokolovně 667 | 104 00 | +420 271 071 311 |
| ID No.: 48592307 | web: www.kormak.cz e-mail: kormak@kormak.cz | | |
| KORMAK nemovitosti s.r.o. | Prague 10 – Uhřetěves, K Sokolovně 667 | 104 00 | +420 271 071 311 |
| ID No.: 02065801 | web: www.kormak.cz e-mail: nemovitosti@kormak.cz | | |