PRE Group Annual Report 2010

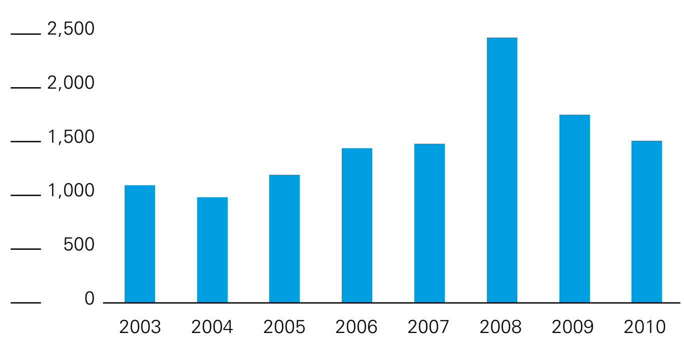
PRE

Selected Financial, Trading and Technical Indicators

Selected Financial, Trading and Technical Indicators from the Consolidated Financial Statements

	Unit	2010	2009	2008	2007	2006	2005	2004	2003
Total assets	MCZK	**18,395**	**19,441**	**18,296**	**15,222**	**13,680**	**12,635**	**12,233**	**11,208**
Fixed assets	MCZK	**16,043**	14,934	13,935	12,995	12,257	11,764	11,330	10,022
of which: tangible fixed assets	MCZK	**15,806**	14,700	13,703	12,698	12,085	11,569	11,120	9,809
of which: assets for distribution	MCZK	**13,878**	12,877	11,864	10,933	10,248	9,800	9,800	9,800
Depreciation of tangible and intangible fixed assets	%	**39**	40	40	41	41	41	40	38
Current assets	MCZK	**2,353**	4,507	4,361	2,227	1,423	871	903	1,186
Total liabilities	MCZK	**18,395**	**19,441**	**18,296**	**15,222**	**13,680**	**12,635**	**12,233**	**11,208**
Equity	MCZK	**11,520**	11,415	11,807	11,556	10,584	9,755	9,303	8,409
Share capital	MCZK	**3,869**	3,869	3,869	3,869	3,869	3,869	3,869	3,869
Long-term liabilities	MCZK	**3,159**	4,234	2,985	1,589	1,683	1,653	1,587	1,276
Short-term liabilities	MCZK	**3,717**	3,792	3,504	2,077	1,413	1,228	1,343	1,523
Total income (without turnover of fin. operations)	MCZK	**20,289**	20,761	19,062	16,728	14,158	12,267	11,188	10,342
of which: income from electricity sold	MCZK	**19,984**	20,366	18,879	16,533	13,947	12,141	11,009	10,025
Total costs (without turnover of fin. operations)	MCZK	**(17,422)**	(17,980)	(16,273)	(13,780)	(11,823)	(10,666)	(9,883)	(8,986)
of which: costs of electricity sold	MCZK	**(14,401)**	(15,164)	(13,677)	(11,108)	(9,352)	(8,160)	(7,237)	(6,380)
of which: depreciation of tangible and intangible fixed assets	MCZK	**(862)**	(811)	(740)	(740)	(688)	(834)	(877)	(611)
Net cash flow from investment activity	MCZK	**(1,894)**	**(1,849)**	**(1,764)**	**(1,376)**	**(1,255)**	**(1,434)**	**(1,503)**	**(878)**
Profit from ordinary activity before tax	MCZK	**2,791**	**2,682**	**2,730**	**2,978**	**2,336**	**1,586**	**1,287**	**1,243**
Profit from ordinary activity after tax	MCZK	**2,246**	**2,144**	**2,170**	**2,457**	**1,693**	**1,198**	**1,027**	**979**
Net profit from shares	CZK	**580**	**554**	**561**	**635**	**438**	**304**	**254**	**242**
EBIT	MCZK	**2,880**	2,781	2,757	2,993	2,352	1,608	1,303	1,270
EBITDA	MCZK	**3,742**	3,591	3,497	3,732	3,040	2,442	2,180	1,881

Profit after Tax (MCZK) Parent Company

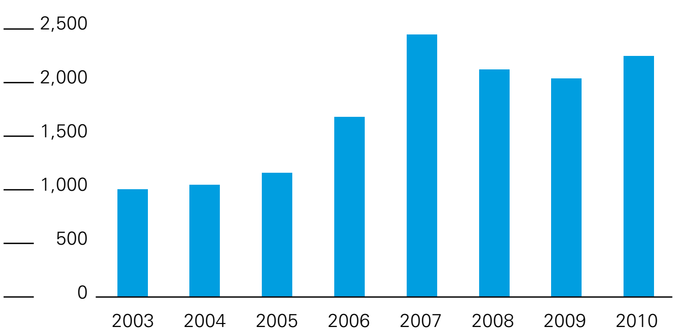


Other indicators

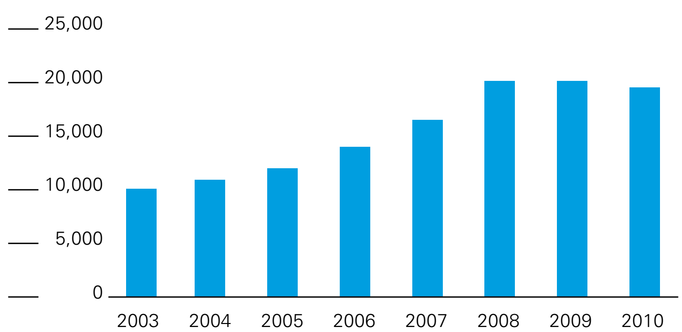
		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Gross distributed electricity	GWh	6450.5	6,339	6,373	6,172	6,085	5,842	5,667	5,500	5,278	5,443	4,983	4,926	4,914
Total active power costs	GWh	6,828	6,686	6,846	6,608	6,395	6,028	5,813	5,479	5,270	5,443	4,983	4,926	4,914
of which: compulsory purchase	GWh	0	0	0	32	29	57	251	207	241	238	214	213	195
Total number of consumption points as at 31.12.	number	721,681	744,539	728,235	721,740	716,541	703,499	697,143	688,498	682,504	676,329	671,667	666,522	661,112
of which: large customers	number	2,202	2,221	2,184	2,108	2,139	1,997	1,924	1,859	1,854	1,836	1,791	1,768	1,726
retail small businesses	number	132,099	141,980	136,916	135,455	135,566	130,804	128,347	125,579	123,344	119,986	117,934	115,205	112,276
retail households	number	587,380	600,338	591,400	584,177	578,836	570,698	566,872	561,060	557,306	554,507	551,942	549,549	547,110
Total length of networks:	km	11,781	11,679	11,552	11,544	11,229	11,229	11,197	11,180	11,123	12,607	12,525	12,409	12,028
of which: VHV	km	202	202	206	196	196	196	196	194	194	202	181	174	174
HV	km	3,829	3,780	3,701	3,670	3,476	3,556	3,581	3,633	3,546	3,535	3,570	3,575	3,530
LV	km	7,750	7,693	7,645	7,678	7,557	7,477	7,420	7,354	7,383	8,870	8,774	8,660	8,324
Average recalculated number of the Group employees (consolidated)[1]	persons	1,314	1,332	1,338	1,391	1,392	1,398	1,440	1,456	1,487	1,626	1,640	–	–

[1] Average recalculated number of employees for the entire PRE Group for the period 1999 and 1998 is not available.

Profit after Tax (MCZK) IFRS



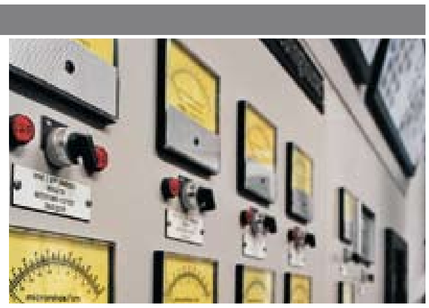
Electricity Revenues (MCZK)



We are the energy of this city

PRE Group

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



PRE Group Mission

to be a reliable partner of its customers and a Company that is socially responsible and thus support its relation to customers and key partners.

PRE Group's Strategic Mission

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

The PRE Group Strategy

is the constant sustainable growth of the value of the Group which will be a reliable partner of customers, a leader in innovations and a socially responsible energy Group. The basic segments of the strategy are Distribution, Electricity Trading and Gas Sales, Electricity Production and Energy Services.

Contents

Changes which have occurred since the end of the accounting period (31 December 2010) to the deadline for the issue of this Annual Report (15.4.2011) are marked in the text in ***bold italics***.

Introduction

PRE Group

The PRE Group consists of the parent company and three further stated 100% subsidiaries – controlled entities. All three 100% subsidiaries are included in the consolidated accounting unit by the full method drawn up according to IFRS. The term PRE Group began to be applied in connection with the preparation to detach the distribution system operator and form a separate 100% subsidiary as of 1.1.2006. One of the main reasons for creating an integrated Group of several entities interlinked by capital and the organisation structure is (with the appropriate coordination, quality management, application of various synergic effects, capital power, respect for the law laying down the independence of the distribution system operator and so on) above all to achieve greater competitiveness. Externally the PRE Group displays its unity by a unified external graphic style and common logotype.

Below stated entities are members of the PRE Group:

- **Pražská energetika, a.s. (PRE)** – line of business, see a separate chapter, ID No.: 60193913, Prague 10, Na Hroudě 1492/4, tel.: 267 051 111, Internet: www.pre.cz, e-mail:pre@pre.cz,

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

- **PREměření, a.s. (PREm)** – repairs and installation of electricity meters on the PRE supplied territory,electricity production ID No.: 25677063, Prague 10, Na Hroudě 2149/19, tel.: 267 052 254, fax: 267 052 263, Internet: www.pre.cz, e-mail: mereni@pre.cz,

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

The PRE Group with its registered office in Prague and with approx. 720,000 consumption points is the largest electricity supplier in the Czech Republic. Currently it employs about 1,300 employees; in 2010 it procured for its customers approx. 6 TWh of electricity and achieved a total consolidated net profit in the amount of 2.24 billion CZK.

Among the PRE Group's main activities is the sale, trading in electricity, its distribution and additional energy services. The Group's profile is presented as a reliable provider of a broad spectrum of services allowing it to fulfil its strategic vision of being a strong and important energy Company in the Czech Republic.

The PRE Group achieved record figures for the annual distribution of electricity –
6,450 GWh.

Pavel Petrecký

A SEGMENT SALES

“I cooperate in the development of new products, pricing, propose solutions for clients’ needs and acquisition of new customers, I actively participate in sales promotion events.“

The department concludes contracts on electricity supply and aggregated services, ensures active sales to customers, prepares and concludes contracts on connection and distribution; proposes consumption diagrams.

PRE Group Profile

Basic data on the PRE Group

Licence for trading in electricity – Pražská energetika, a.s. – No. 140605073 (in force from 17.1.2007 to 16.1.2012)	
Licence for electricity distribution – PREdistribuce, a.s. – No. 120504769 (in force from 1.1.2006 to 1.1.2031)	
Licence for electricity generation – PREměření, a.s. (in force from 14.12.2010 to 7.5.2035)	
Licence for gas sales – Pražská energetika, a.s. – No. 241018343 (in force from 2011 to 31.12.2016).	
Surface extent of licensed distribution area of Prague, including Roztoky	**ca 505 km^2**
Number of inhabitants in Prague area	**1,200,000 persons**
Average number of inhabitants per km^2	**2,376 persons**

The PRE Group has a rich tradition dating back over one hundred years. On 1 September 1897 Elektrické podniky královského hlavního města Prahy (Electrical Works of the Royal Capital City of Prague) was established, a Company which PRE considers to be its legal predecessor. At that time, this Company provided all the electricity production for the capital city, including construction, maintenance and operation of all electric tram routes, electric lighting in the streets and at home and, of course, electric power distribution to large industrial companies, small businesses and households.

During the first half of last century the Company underwent several reorganizations and restructuring, survived two world wars, the socialist management era and in 1990 Pražské energetické závody became an independent state-owned company. On 1 January 1994 the joint stock company Pražská energetika, a.s. was established in its current form.

Members of the PRE Group are, except of the parent company, three 100% subsidiaries – PREdistribuce, a.s., PREměření, a.s. and PREleas, a.s. PRE is a power Group operating on the whole territory of the Czech Republic. The main priority of the management and all PRE Group employees is to build a modern commercially oriented power Group that is capable of flexibly adapting itself to the changing requirements of its customers. The main objective for all employees is to improve the quality of all services provided in the energy sector and their innovative development, permanent improvement of economic indicators, securing economic results required by shareholders and last, but not least, to change the approach and attitude of all employees to their work and customers.

It is necessary to encourage the independence and responsibility of employees in service development. It is totally implicit that the Code of Ethics must be observed which applies to all employees of the PRE Group. The need for increased requirements for operating the PRE Group is also gradually reflected in changes to the employee structure. During the past several years there was a clear intensification of activities by new independent energy suppliers which (together with other facts) caused the need for radical changes in all areas of the PRE Group's activities.
The earlier focus only on the electricity distribution and trading segments with the supporting role of energy services will be developed into a business model based on four segments:

- Distribution
- Trading
- Production
- Energy services

The PRE Group's new strategic focus complies with the current challenges on the energy market which fully reflects market liberalisation, increase of competition and price fluctuation caused by macroeconomic instability (such as the economic crisis) and structural changes in European economies. The PRE Group is responding in its strategy to key topics mentioned above.

Main Events of the Year

January
- new Collective Agreement for 2010–2012 came into force and effect,

February
- the first anniversary of the re-opening of the Technical and Documentation Museum of Pražská energetika in its new premises in the Holešovice Substation,

March
- work meeting of section managers with the Group's Top Management,

April
- General Meetings of the 100% subsidiaries,

May
- the fifth annual conference "Energy Day" – attended by more than 200 B2B customers,
- ordinary General Meeting of the parent company,
- successful surveilance audit of the B2B and B2C segments,

June
- Technical and Documentation Museum of Pražská energetika included for the second time in the "Prague Museum Night" Project,

July
- flexitime introduced within the Group,

August
- the first anniversary of the opening of the PRE Energy Advisory Centre in the street Jungmannova 29,

September
- a significant change made in the shareholder structure – shareholder Honor Invest, a.s. sold its share to shareholder EnBW Energie Baden-Württemberg AG,

October
- as requested by shareholder of Pražská energetika Holding, a.s. an extraordinary General Meeting was held which approved the changes in the Supervisory Board and decided to change the form of all bearer shares to registered shares,

November
- important personnel changes within the Company's top management and Board of Directors – see the chapter on Statutory Bodies and PRE Group Management,
- reconstruction begun of substation 110 kV in TR Holešovice,

December
- on 1 December the historically highest load was reached in the distribution system of 1,209 MW at 2.00 p.m.

Board of Directors Review

Dear Shareholders, Dear Readers,

2010 was another successful year for the PRE Group. It achieved a consolidated profit of MCZK 2,246, which is a 4.8% increase compared with 2009. The further main indicators of last year were generally positive:

- compared with 2009 EBIT improved by MCZK 100 (+ 3.6%),
- significant reduction in the value of bad debts by MCZK 61,
- year-on-year increase of operating cash flow by MCZK 449 (+ 13%),
- reduction of operating expenses by 8% compared with the plan,
- fall in the year-on-year debt by MCZK 977 (- 28%).

2010 was a year marked by the gradual recovery of the performance of the Czech economy after the crisis in 2009. This fact affected the Company's economic results – the amount of distributed electricity compared with the previous year rose to 6,450 GWh (+ 1.7%).

The Group consists of the parent Company Pražská energetika, a.s. and three 100% owned subsidiaries. Purchase, sales of electricity and corporate services are secured by the parent company which holds the electricity and gas trading licence. The most important subsidiary is PREdistribuce, a.s. – the holder of the electricity distribution licence in the Capital City of Prague and the town of Roztoky u Prahy.

The second subsidiary is PREměření, a.s. which performs metering services, i.e. purchase, calibration, installation of electricity meters and their regular electricity readings, gas and heat readings and also ensures production of electricity from renewable sources. The third and last subsidiary is the company PREleas a.s. which provides intercompany leasing services. The Company or Skupina Pražská energetika, a.s. (Pražská energetika, a.s. Group) respectively, including its legal predecessors, has been in existence for 114 years now. The joint stock company in its present form was established with the transformation of the state enterprise of the same name in 1994.

Shareholders

In 2010 there was a major change in the shareholder structure. EnBW took over 41.10% shares of Pražská energetika, a.s., from Energetický a průmyslový holding and thereby acquired directly through PRE Holding a business share in the Company of approx. 70%. EnBW is the third biggest energy concern in the Federal Republic of Germany with a turnover exceeding 15 billion EUR and possesses an extensive know-how in the production, distribution, electricity and gas trading and in energy services. A cooperation agreement was concluded between both of the biggest shareholders, i.e. between EnBW and the Capital City of Prague which aims to promote the further strategic development of Pražská energetika, a.s.

On 1 December 2010 at 2.00 p.m. the highest network load was reached since 1898

1,209 MW.

Group Strategy

In the last several years major structural changes were gradually undertaken on the energy market to which the Company actively responded. The objective of the Company's new long-term strategy is the fulfilment of a vision to be an economically strong and socially responsible energy Company. This new strategic focus meets the current challenges of the energy market and fully reflects market liberalisation, rising competition and the fluctuation of prices caused by macroeconomic instability and structural changes in European economies. Fulfilling the strategy brings new challenges for the Group which extend beyond the existing business of electricity distribution and trading to the area of production and energy services.

In addition, there were marked organisational changes within each of the Group companies in order to ensure its constant efficiency while exploiting all considered emerging synergies, development of the market and customer-oriented management structure model, increase in the transparency of the unit structure and division of the professional scope of powers.

In 2010 the Fit For Future Programme continued which the Company's top management prepared for the period of 2009–2012 in response to the economic crisis of 2009. Savings were made in 2009 of 181 MCZK out of the total expected savings in expenses amounting to 550 MCZK for years 2009 to 2012; in 2010 it was 163 MCZK.

Commercial Activity

There was an increase in supplies to the industrials compared with the previous year of 2.8% and it can be stated that this year brought a historic record in this customer segment. Competition in the industrial customers segment is traditionally high. The fluctuation of prices forced customers not only to choose the right supplier, but to choose it at the right time (with regard to the trend on the stock exchange). The market share in this segment was maintained in the supply territory of PREdistribuce, a.s. at the positive value of approx. 80%.

The households and small businesses segment was marked in 2010 by the improvement in the quality of services and offers of new innovative products/offers for customers. The "KOMFORT+ Garant 2010" offer was made public at the start of the year (for households; containing a guaranteed fixed price of active power for a period of up to 2 years, in addition without monthly charges) and the "KOMFORT+ Bonus 2010" product was released in the second half of the year. A product called "AKTIV+ Pásma 2010" was created for the small businesses segment. The activities of the parent company concentrated, among other things, on maintaining existing customers as there was a marked increase in the activities of competitors above all in the direct (door-to-door) sales method especially in this segment.

Besides the traditional communications channels (Call Centre and Customer Centre) PRE explores new methods of intensifying electronic communication with customers – such as "My Customer Account".

The activity of the Energy Advisory Centre in Jungmannova street can be assessed as being fully successful which, due to attractive topics in the form of specialised exhibitions, lectures and cultural activities, means an annual increase in the number of visitors to the Centre. The Company also wants to be the leader in the E-mobility Project in the Capital City in cooperation with Prague City Council.

The situation concerning the purchase of electricity from sources for ensuring electricity procurement did not change substantially year-on-year; the Company continued to purchase from independent producers Energotrans, a.s. and Elektrárna Opatovice, a.s.; a considerable part of supplies was procured through the Pražská energetická burza PXE. The Company managed to make an additional profit in the trading portfolio.

In 2010 there was a significant increase throughout the Czech Republic in the number of photovoltaic power plants (PPPs), (producers had the last chance to make use of the highly advantageous procurement – regulated – prices or Green Bonuses). In 2010 the amount of purchased green electricity for PRE customers reached 142 GWh, which is almost by 54% more than in the previous year. The share from renewable sources out of the total quantity of electricity procured on the wholesale market was about 2%.

On the other hand, it was shown to what extent the society was influenced by the energy policy concerning PPPs and what impact this can have, for example, on the uncontrolled connection of sources to the stability of the power grid and the price of distribution services at end customers.

PREdistribuce, a.s.

The subsidiary PREdistribuce, a.s. completed the fifth year of its independent existence in 2010. No system faults and major breakdowns in the supply of electricity occurred last year in the distribution network on the licensed territory of Prague and Roztoky. As far as serious failures and the quality of supply are concerned the operating results of the entire distribution system confirm a trend in the fall of the distribution failure rate in Prague (according to the comparative statistics of the ERÚ, PREdistribuce, a.s. was the most reliable electricity distributor in the Czech Republic). Investments grew compared with 2009.

One of the main strategic constructions in 2010 was the almost complete renovation of a double-circuit overhead 110 kV line between the system's two delivery points – the Chodov and Řeporyje substations of almost 6 km in length. Two 40 MVA transformers were renovated at the 110/22 kV substations in Měcholupy and Malešice; a further two important constructions began which will increase the operating reliability of the City Centre, such as the replacement of the 110 kV encapsulated switchgear at the Holešovice substation and the laying of new 110 kV cable from the Karlov substation to the Pankrác substation.

Compared with 2010 when the economic crisis peaked, the subsidiary's profit increased by MCZK 225 which was namely due to the optimisation of expenses and increased quantity of distributed electricity. According to the Czech accounting standards the subsidiary achieved a profit after tax of MCZK 910.

A historical maximum load of the network of 1,209 MW was achieved on 1 December 2010. There were a total of 749,513 customers at the end of 2010 on the territory of PREdistribuce, a.s.; thereof 1,947 large customers (industrials) and 747,566 households and small businesses.

PREměření, a.s.

This 100% owned subsidiary also met its planned objectives during the year. The subsidiary developed two new strategic topics in 2010 which were electricity production from renewable sources and the automatic metering project (AMM). Photovoltaic power plants were commissioned by the end of last year with a total output of 603 kW located at the VHV substations of PREdistribuce, a.s. and supplying electricity to cover losses and the consumption of its own distribution system. These are the Jinonice, Lhotka, Hrouda, Pražačka and Sever 1 photovoltaic power plants. A total of 2,500 electricity meters were installed and the necessary technologies of the data centre, transmission and data processing, including automated data transmission to the billing systems as part of the AMM Pilot Project were implemented. Information will be collected in the next period about the real operation of the system and its evaluation.

Last year 1,314 employees worked in the PRE Group – thereof 615 in PRE and 504 in the subsidiary PREdistribuce, a.s.; the rest at the other 100% owned subsidiaries.

On behalf of the Board of Directors I would like to thank all our customers, the employees of the PRE Group, the shareholders and suppliers for their trust and cooperation in 2010 and for their contribution to the Group's good results.

Pavel Elis
Chairman of the Board of Directors

Statutory Bodies and PRE Group Management

Board of Directors as at 31.12.2010

Pavel Elis
Chairman (from 1.11.; until 31.10. Vice Chairman) | Graduate of the Faculty of Electrical Engineering of the Czech Technical University ČVUT – FEL in Prague, he has been working in the energy sector since 1989; in 2004 he graduated from Prague International Business School and was awarded a degree of MBA. | Member of PREleas, a.s. Board of Directors, (from 1996), member of FABRICOM CZ, a.s. Supervisory Board, (2003–2006) and member of PREdistribuce, a.s. Supervisory Board, (from 2006). | Date of birth: 24.11.1965 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Alexander Sloboda
Vice Chairman (from 1.11.; until 30.6. member of the Supervisory Board); from 1.7. member of the Board of Directors | Graduate of Vocational College. | In 1988–1992 he worked at Stadtwerke Wiesbaden AG – energetika; in the period of 1993–1997 at Rhenag Rheinische Energie AG, Headquarters – management of property participation; from 1997 at EnBW Energie Baden-Württemberg AG firstly at Neckarwerke Stuttgart AG and NWS Energie-Vertriebs AG & Co. KG, later at EnBW AG und EnBW Vertriebs - und Servicegesellschaft mbH (his last job was manager of the Department of Sales Strategy for Industry, Public Service Enterprises and Municipalities). In 2007–2009 he was member of EnBW Transportnetze AG Supervisory Board. From 1.9. member of PREměření, a.s. Supervisory Board; from 8.9. Chairman of PREměření, a.s. Supervisory Board, ***from 1.1.2011 member of PREdistribuce, a.s. Supervisory Board***. | Date of birth: 14.3.1963 | Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Milan Jančík
Vice Chairman (from 1.11. to 31.10. member) | Graduate of the Law Faculty and Conservatoire, member of the State Opera, private manager. | In 1998–2002 worked as a Deputy Mayor of Prague 5; from 2002–2010 he was the Mayor of this Prague district. At present he is a private entrepreneur. Member of the Municipal Authority of the Capital City of Prague. | Chairman of the Board of Directors of the World & Bohemia Group, a.s. (from 2002). Jančík & syn, s.r.o. – executive (from 2002), member of Čermák, a.s. Supervisory Board (until 10/2009), Vice Chairman of TCP-Vidoule, a.s. Board of Directors (from 2003); Jančík team Prague, s.r.o. – executive (from 2004). | Date of birth: 24.10.1959 | Address: Janáčkovo nábřeží 474/45, 150 00 Prague 5

Members of the Board of Directors in the course of the year also were:

Drahomír Ruta (until 31.10.)
Chairman | Graduate of the Faculty of Electrical Engineering ČVUT – Czech Technical University in Prague. He has been working in the energy sector since 1970. | Chairman of the Board of Directors of subsidiary PREleas, a.s. (from 1996), member of ČSZE Board of Directors until 2010, member of PREdistribuce, a.s. Supervisory Board (2006–2010). | In the period 2002–3/2003 he was a member of PRE-H Board of Directors | Date of birth: 12.1.1946 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Uwe Benkendorff (until 30.6.)
Member | Graduate of Hannover University, Germany where he was awarded a degree of economics engineer | He worked for 7 years in E.ON AG. In 1999 he started to work in EnBW Group (first as Project Manager in Yello GmbH; later as Manager of the Industrial Customers Department). | In 2005–2010 member of the PRE-H Board of Directors, also member of PT-H, a.s. Supervisory Board (2007–2010) and Chairman of PREměření, a.s. Supervisory Board (2007–2010). | Date of birth: 17.1.1963 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Supervisory Board as at 31.12.2010

Petr Hulinský

Chairman | Graduate of the Police Academy of the Czech Republic specializing in corruption and bribery in the area of criminal law | Chairman of the Financial Committee of the Municipal Authority of the Capital City of Prague and member of the Municipal Authority of the Capital City. | Date of birth: 25.8.1967 | Address: MHMP, Mariánské náměstí 2, 110 00 Prague 1

Hermann Lüschen

Vice Chairman | Graduate of Faculty of Physics at Kiel University, Germany | He has been involved in power industry since 1982. In 1982–1995 he worked at different positions in EnBW AG, in this Company he currently acts as Director of the Foreign Participation Section. In the past 10 years he was member of the stated below organs: | 2001–2006 Matra Mátrai Eromü Rt., Visonta, Hungary, member of the Supervisory Board | 2001–present: ELMÜ Budapesti Elektromos Müvek Rt., Budapest, Hungary, member of the Supervisory Board, EMASZ Eszak-Magyaroszági Áramszolgaáltató Rt., Miskolc, Hungary, member of the Supervisory Board | 2002–2009 MASZ Kft., Budapest, Hungary, member of the Supervisory Board | 2002–present PRE-H, member of the Supervisory Board | 2002–2004 Pražská teplárenská Holding, a.s. member of the Supervisory Board | 2002–present Everen Sp. Z.o.o., Warsaw, Poland, member of the Supervisory Board | 2006–present PREdistribuce, a.s., Vice Chairman of the Board of Directors | 2007– present Pražská teplárenská, a.s., Vice Chairman of the Board of Directors | Date of birth: 21.10.1953 | Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Hans-Peter Villis (from 15.10.)

Member | In 1987–1989 Commercial Director of Bergbau AG Westfalen, Dortmund; 1989–1992 Planning and Controlling Manager of VEBA Kraftwerke Ruhr AG, Gelsenkirchen; 1992-1993 Project Manager for Eastern Europe of VEBA AG; 1993–1999 Chief Executive Officer of Städtische Werke Magdeburg GmbH, 2000–2002 member of the Board of Directors of Gelsenwasser AG, Gelsenkirchen; 1/2003–9/2003 Chief Executive Officer of Elektrizitätswerk Wesertal GmbH, Hameln; 9/2003–6/2006 Chairman of the Board of Directors of E.ON Westfalen Weser AG, Paderborn; 6/2006–9/2007 Finance Director and Vice Chairman of the Board of Directors of E.ON Nordic AB; from 10/2007 Chairman of the Board of Directors and Director of EnBW AG | Date of birth: 6.7.1958 | Address: Durlacher Allee 93, 76131 Karlsruhe, Germany

Peter Krampf (from 15.10.)

Member | Graduate of Bayreuth University, (business administration studies, specialisation in the fields of marketing and production economics) | 5/1992-10/1992 Siemens AG, Kemnath (purchase practices and cost calculations); 10/1994–4/1995 Equitel SA, Curitiba/Brasil (controlling practices); 8/1996–9/2000 Volkswagen AG, Wolfsburg (purchase–later team leader for electrotechnology/electronics); 10/2000–02/2005 McKinsey&Company, Inc., Cologne and Zagreb/Croatia (consultant – later project manager; from 2/2005 EnBW AG, Karlsruhe; 2/2005–12/2007 Purchase Division Manager and General Representative of material management; from 7/2006 sales executive of EnBW Systeme Infrastruktur Support GmbH; from 12/2007 concern representative of the concern project Operative Exzellenz (Impuls); from 2009 head of the concern’s development and property interests; from 1/2008 Bayreuth University (lecturer at the Department of Production Economics and Studies of Industrial Enterprise Construction) | Date of birth: 3.2.1971 | Address: Durlacher Allee 93, 76131 Karlsruhe, Germany

Martin Konermann (from 15.10.)
Member | Studied at Aachen University, Germany, gained his doctorate at Erlangen University, Germany | from 1989–1992 worked at the research institute in Düsseldorf; from 1992–1997 he was project manager of acquisitions in the Czech Republic, Hungary and Thailand for Bayernwerk (today E.ON); from 1997–2000 he worked as manager of the controlling department in EnBW AG; from 2000–2003 he was a member of the Board of Directors of Eszak Magyaroszágy Áramszolgaltáto Nyrt., Miskolc and Budapesti Elektromos Müvek Nyrt. Budapest, Hungary; from 2002–2005 he was a member of the Supervisory Board of Sinergy Kft. Budapest, Hungary; from 2003–2004 a member of the Board of Directors of SSE, a.s., Žilina, Slovak Republic; from 6/2004–6/2007 he was a member of the company's Supervisory Board. From 2005–2009 head of distribution services at EnBW Regional AG in Stuttgart; Since 2009 head of Group controlling EnBW AG, Karlsruhe, Germany. | Date of birth: 27.8.1961 | Address: Durlacher Allee 93, 76131 Karlsruhe, Germany

Miroslav Poche
Member | Graduate of Faculty of Agricultural Economics and Management ČZU – Czech Agricultural University Prague and Faculty of Social Sciences, Charles University Prague (political science) | Chairman of the infrastructure committee of the Municipal Authority of the Capital City of Prague and member of the Council of the Capital City of Prague. He was a Chairman of PRE-H Board of Directors until 6/2007; partner in Balpo, v.o.s., (from 2004) and member of the HC Slavia Praha, s.r.o. Supervisory Board (from 2004). | Date of birth: 3.6.1978 | Address: MHMP, Mariánské náměstí 2, 110 00 Prague 1

Martin Langmajer
Member | Three years of studies at the Czech Technical University, Faculty of Mechanical Engineering, two years of faculty of Civil Engineering; graduate of the Finance and Administration University, o.p.s. – Economy of Public Administration. | In 1998–2006 he was Deputy Mayor of Prague 22 for Construction and Landscape Development; in 2002–2010 member of ZHMP. In 2007–2010 member of the Municipal Authority of the Capital City of Prague in the sphere of strategic and landscape planning. Since 2003 he has been a member of the Kolektory Praha, a.s. Supervisory Board; member of PREdistribuce, a.s. Board of Directors (from 2006). | Date of birth: 20.12.1964 | Address: MHMP, Mariánské náměstí 2, 110 00 Prague 1

Drahomír Ruta (from 1.11.)
Chairman | Graduate of the Faculty of Electrical Engineering ČVUT – Czech Technical University in Prague, he has been working in the energy sector since 1970 | Chairman of the Board of Directors of the Company 1/1994–10/2010; Chairman of the Board of Directors of subsidiary PREleas, a.s. (from 1996), member of ČSZE Board of Directors (until 2010), member of PREdistribuce, a.s. Supervisory Board (2006–2010). | In the period from 2002 – 3/2003 he was a member of PRE-H Board of Directors. | Date of Birth: 12.1.1946 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Eva Čančíková
Member | Graduate of University of Jan Amos Komenský in Prague | Chairwoman of the Workshop and member of the Works Committee of the Trade Union Organization. In PRE since 1984; she first worked in the section of the PRE Group Economy, payroll clerk (until 30.9.2006); from 1 October 2006 Company Executive Office Section, PR Department. | Date of Birth: 7.5.1958 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Diana Stuchlíková
Member | Graduate of University of Economics, Prague | in 1986–1992 – PRIOR, Pražské obchodní domy, s. p. In PRE since 1995, Sales to Small Businesses and Households Section, Manager of Department Prices and Products, from 1 March 2008 Manager of Methodology and Support of FO Department; ***from 1 February 2011 Manager of Department Administration of Customer Data***. | Date of birth: 27.5.1964 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Ondřej Běhal
Member | Graduate of Law Faculty of Masaryk University in Brno | initially a legal trainee and independent lawyer. In PRE since 2003; currently working in the legal section, Manager of the General Legal Department. | Date of birth: 14.10.1973 | Address: Na Hroudě 1492/4, 100 05 Prague ha 10

Ivana Grafnetrová
Member | Graduate of the Secondary School of Electrical Engineering in Resslova Street | In PRE since 1984; began working as a sales officer then billing officer. Currently working in the Sales Development Section, methodologist in the Sales Processes Support Department. | Date of birth: 16.1.1952 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Members of the Supervisory Board in the course of the year were:

Daniel Křetínský (until 15.10.)

Member | Graduate of the Law and Philosophical Faculty of Masaryk University in Brno | in 1999 he began to work for the J&T Group, to begin with in various jobs involving collective investment. From 2003 to 2009 he was a partner of the J&T Group responsible for the management of investments in the energy sphere and industry in the Czech Republic. In 2009 he became a 20% shareholder and Chairman of the Board of Directors of Energetický a průmyslový holding, a.s. into which assets of J&T in the sphere of energy and industry were invested. Other shareholders with equal shares of 40% are Groups PPF and J&T. He is a member of statutory and supervisory bodies of several other business companies, e.g. a sole member of the Board of Directors of Honor Invest, a.s. (from 2004) which holds 41% of PRE shares, Vice Chairman of the Board of Directors of Pražská teplárenská, a.s. (from 2009) and also Chairman of the Board of Directors of AC Sparta Praha fotbal, a.s. (from 2004). | Date of birth: 9.7.1975 | Address: Energetický a průmyslový holding, a.s., Pobřežní 14, 186 00 Prague 8

František Čupr (until 15.10.)

Member | Graduate of the Faculty of Operations and Economy of the Mendel University of Agriculture and Forestry | until 2004 he was working at Jihomoravská energetika, a.s. (Deputy Director of the Strategy Section; Deputy Director of the Sales Division). Currently he is working as energy projects manager in J&T Investment Advisors, s.r.o.; is executive officer and sales and marketing manager at the company AISE, s.r.o. Since 2006 he has been member of the Board of Directors of Czech Wind Holding, a.s. Since 2009 he has been member of Pražská teplárenská, a.s. Supervisory Board and member of Energotrans, a.s. Board of Directors | Date of birth: 31.8.1974 | Address: J&T Investment Advisors, s.r.o., Pobřežní 14, 186 00 Prague 8

Ladislav Vinický (until 28.5.)

Member | After graduating from university in 1985 he entered the entrepreneurial sphere where he worked until 1990. In 1990–1991 he worked at the Federal Ministry of Finance; since 1992 he worked in the banking sector; since 2000 to the present time in the energy sector. In the period 2000–2003 he was member of Elektrárna Holešovice a.s. Supervisory Board; since 2000 he has been member of Pražská teplárenská Holding, a.s. Board of Directors; since 2003 he has been executive of EnBW CZ, spol. s r.o. and member of PRE-H Board of Directors (since 2003); in (2004–2007) he was Vice Chairman of PT, a.s. Supervisory Board and Chairman of Energotrans, a.s. Supervisory Board (2004–2007). | Date of birth: 10.8.1959 | Address: EnBW CZ, spol. s r.o., Adria Palace, Jungmannova 36/31, 101 00 Prague 1

Alexander Sloboda (until 30.6.)

Member | Graduate of the Vocational University | In 1988–1992 Stadtwerke Wiesbaden AG; in 1993–1997 Rhenag Rheinische Energie AG, Headquarters – management of property participation; since 1997 EnBW Energie Baden-Württemberg AG firstly in Neckarwerke Stuttgart AG and NWS Energie-Vertriebs AG & Co. KG, later in EnBW AG und EnBW Vertriebs – und Servicegesellschaft mbH (his last job was manager of the Department of Sales Strategy for Industry, Public Service Enterprises and Municipalities). In 2007–2009 he was member of EnBW Transportnetze AG Supervisory Board. | From 1.9. member of PREměření, a.s. Supervisory Board; from 8.9. Chairman of PREměření, a.s. Supervisory Board, ***from 1.1.2011 member of PREdistribuce, a.s. Supervisory Board***. | Date of birth: 14.3.1963 | Address: EnBW AG, Durlacher Allee 93, 76131 Karlsruhe, Germany

Uwe Benkendorff (from 1.7. to 15.10.)

Substitute member | Graduate of Hannover University, Germany where he was awarded a degree of economics engineer | He worked for 7 years in E.ON AG. In 1999 he started to work in EnBW Group (first as Project Manager in Yello GmbH; later as Manager of the Industrial Customers Department). | In the period 3/2003–6/2010 he was member of the Company Board of Directors; member of PRE-H Board of Directors (2005–2010), member of PT-H, a.s. Supervisory Board (since 2007) and Chairman of PREměření, a.s. Supervisory Board (from 2007–8/2010). | Date of birth: 17.1.1963 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Axel Limberg (from 21.6. to 15.10.)

Substitute member | he gained his university diploma at the College of Judicial Administration | 1992-1995 Hannover University, officer; 1999 Hannover University, scientific assistant; from 1999 EnBW Energie Baden-Württemberg AG (in-house lawyer, senior manager of foreign interests of EnBW AG); from 2008 executive of EnBW CZ spol. s r.o. | 2008–2010 a member of the Board of Directors of Pražská teplárenská Holding a.s.; 2009–2010 a member of the Board of Directors of TERMONTA PRAHA a.s.; 2005 –2010 a member of the Supervisory Board of Pražská energetika Holding a.s.; 2007–2010 Vice Chairman of the Supervisory Board of Pražská teplárenská a.s.; from 2010 a member of the Board of Directors of Pražská energetika Holding a.s. | Date of birth: 28.7.1968 | Address: EnBW AG, Durlacher Allee 93, 76 131 Karlsruhe, Germany

Senior management of the parent company as at 31.12.2010

Pavel Elis
Chief Executive Officer (from 1.11.); until 31.10. Trading and Services Division Director

Alexander Sloboda
Commercial Director (from 1.11.); from 1.7. to 31.10. Sales and Strategy Division Director

Members of the senior management in the course of the year were:

Drahomír Ruta
Chief Executive Officer (until 31.10.)

Uwe Benkendorff
Sales and Strategy Division Director (until 30.6.)

Directors of 100% subsidiaries as at 31.12.2010

Milan Hampl
PREdistribuce, a.s.

Aleš Staněk
PREměření, a.s.

Jaroslav Oliva
PREleas, a s.

Aleš Staněk **Alexander Sloboda** **Pavel Elis** **Milan Hampl**

Company Administration and Management Code based on Principles of OECD

(Company Declaration concerning the Rate of Compliance of its Administration and Management with the Code)

The members of the Company Board of Directors strive to generally perfect the standards of Company administration and management and have adopted to the scope stated further in the text the “Company Administration and Management Code”.

Statutory, Management and Controlling Bodies

Board of Directors as at 31.12.2010:

Pavel Elis	— Chairman
Alexander Sloboda	— Vice Chairman
Milan Jančík	— Vice Chairman

The Board of Directors has 5 members. The members of the Board of Directors are elected and dismissed by Supervisory Board; the tenure in office of each member is five years. The Board of Directors holds a meeting usually once in a month or two; the meeting is governed by the rules of procedure. The Board of Directors can constitute a quorum only if an absolute majority of all its members is present and any decision may be accepted by an absolute majority of all not just the present members of the Board of Directors.

The Board of Directors decides on all Company matters which are not reserved by generally binding legal regulations and Articles of Association in the competence of the General Meeting or the Supervisory Board.

Two members of the Board have worked throughout their entire professional career in the energy sector at various levels of management, in various spheres of Company activities operating in the energy industry. This concerns specialists who are often invited as professionals to lecture at conferences and symposiums both at home and abroad.

The Board of Directors is entitled namely (under Articles 17 and 23 of the Company Articles of Association) to:

1. secure the Company commercial management,
2. exercise employer’s rights,
3. convene and organize the General Meeting,
4. secure the preparation and submit to the General Meeting:
   a) proposals for the increase or decrease of registered capital as well as the issue of exchangeable and priority bonds under Section 160 of the Commercial Code,
   b) the regular, extraordinary and consolidated or even temporary financial statement,
   c) proposal for the distribution of profit including fixing the level and method of paying out dividends, royalties and remuneration to members of the Board of Directors and Supervisory Board,
   d) reports on Company business activities and the state of its assets and on General Explanatory Report under the provision of Section 118(5) of the Capital Market Undertaking Act No. 256/2004 Coll.
   e) proposals for the manner in which the Company will compensate the losses,
   f) proposal for the increase of the reserve fund above the limit specified by the Articles of Association,
   g) proposals for the establishment and annulment of further bodies not stipulated in the Articles of Association as well as a definition of their position and authority,
   h) proposal for winding up the Company,
   i) draft amendment to the Articles of Association, exercise a resolution or decision of the General Meeting,

Darina Vetyšková

COMMERCIAL LAW

“In 2010 we processed a higher number of newly submitted debts in the department than in the previous year. When recovering and administering these we made sure our work was efficient while simultaneously ensuring the right client approach in relation to debtors.“

The Commercial Law department is one of the departments of the Legal Section. It recovers debts through legal proceedings and also provides legal support to the Sales Section when dealing with contracts concluded with customers.

- j) proposal for appointing the financial statements auditor,
- k) proposals for deciding about accepting the Company's subscriber securities for trading on the regulated market and proposal for deciding their removal from trading on this market,
- l) proposal for the approval of the agreements specified in Section 67a of the Commercial Code,
- m) proposal for deciding about the purchase of own shares or shares of controlling persons,
- n) proposal for providing the total amount of gifts for the calendar year ,
- o) proposal for deciding about the merger, transfer of equity to one shareholder or division, or on a change of legal form,
- p) proposal for the approval of the controlling agreement, agreement on the transfer of profit and silent partnership agreement and their amendments,

5. execute resolution or decision of the General Meeting,
6. secure duly kept prescribed records, accountancy, trade books and other Company documents, compile reports on the quarterly economic results for the Supervisory Board and compiling and publishing the annual and mid–year report in accordance with the Securities Act, deposit the approved financial statement audited by an auditor together with the auditor's report in the collection of papers at the Registration Court within one month after its approval by the General Meeting, publishing selected information from the Annual Report,
7. conclude with members of the Supervisory Board and Board of Directors contracts on the exercise of their office in accordance with a resolution of the General Meeting,
8. approve the Company organisational rules,
9. publish the document under the provision of Section 120 (7) of the Capital Market Undertaking Act No. 256/2004 Coll.

The Board of Directors is entitled after the prior consent of the Supervisory Board to realise:

1. capital participation in other business companies or associations when the value of the contribution in individual case exceeds MCZK 30, or acceptance of any guarantee for payables of other persons exceeding the value of MCZK 5 in each individual case,
2. sales and lease of internal organizational units,
3. selection of an auditor of the financial statement and drafting the contract with this auditor,
4. alienation and long-term lease of property should in each individual case the book value should exceed MCZK 5,
5. investment projects exceeding MCZK 30, acceptance of long-term and medium-term loans (credit) and other long-term financial operations exceeding MCZK 30,
6. principles of Company wage policy,
7. proposals for the increase and decrease of registered capital as well as the issue of exchangeable and priority bonds under the Article 160 of the Commercial Code,
8. the economic plan consisting of the economic result plan, the financial plan, the balance plan, the investment plan, the personnel plan, the purchase and sales plan supplemented by the five-year plan as well as changes to the economic plan; the economic plan supplemented by the five-year plan will be submitted before the expiry of the previous business year for approval on time,
9. the Company business activity concept.

The Board of Directors is obliged to demand opinion of the Supervisory Board on the following matters:

1. amendments to the Articles of Association submitted at the General Meeting,
2. agenda of the General Meeting including materials for the General Meeting,
3. establishment and rules for the management of funds,
4. fundamental changes to the Company general organization,
5. use of the reserve fund,
6. proposal for the transfer of registered shares.

The members of the Board of Directors are obliged, when exercising the power of their office, to act with the care of a proper manager and observe the secrecy of confidential information and facts whose disclosure to third parties could incur damage to the Company.
The members of the Board of Directors are also obliged to respect restrictions concerning the ban on competition, which arise for them from relevant provisions of generally binding legal regulations.

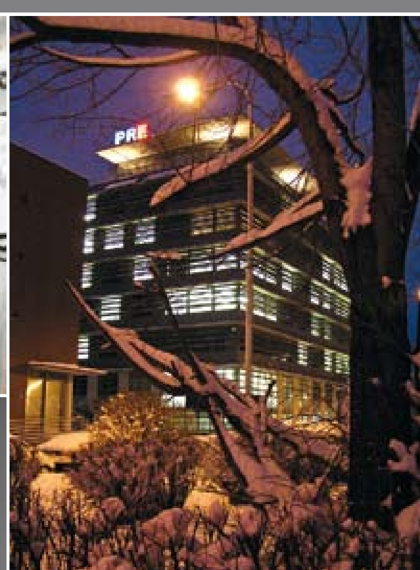
The consequences of breaching the obligations in the aforementioned two paragraphs arise from generally binding legal regulations.

The members of the Board of Directors are liable to the Company, under the terms and conditions and to the scope stipulated by generally binding legal regulations, for damage, which they inflict upon the Company through breach of the obligations while performing the duties of their office. Should more than one member of the Board of Directors inflict damage, they are liable to the Company jointly and severally.

Supervisory Board as at 31.12.2010:

Petr Hulinský	— Chairman
Hermann Lüschen	— Vice Chairman
Hans-Peter Villis	— member
Peter Krampf	— member
Martin Konermann	— member
Miroslav Poche	— member
Martin Langmajer	— member
Drahomír Ruta	— member
Eva Čančíková	— member
Diana Stuchlíková	— member
Ondřej Běhal	— member
Ivana Grafnetrová	— member

The Supervisory Board has 12 members. The members of the Supervisory Board are elected and dismissed by the General Meeting and the tenure in office of each member is five years. The Supervisory Board holds a meeting at least once every three months; the meeting is governed by the rules of procedure. The Supervisory Board can constitute a quorum only if an absolute majority of all its members is present and any decision may be accepted by an absolute majority of all and not just the present members of the Supervisory Board. At least 11 members must vote for the approval of especially important decisions.





The Supervisory Board is entitled namely (under Articles 24 and 29 of the Company Articles of Association) to:

1. check observance of generally binding legal regulations, the Company Articles of Association and the resolutions of the General Meeting,
2. review the financial statements and the draft distribution of profit including its amount and the manner of paying out dividends and royalties, and submit a report to the General Meeting,
3. discuss the quarterly economic results,
4. convene the General Meeting should the interests of the Company so require,
5. submit to the General Meeting and the Board of Directors its opinions, recommendations and proposals,
6. examine any time the records, accounts, trade books and other Company documents,
7. review the exercise of authority of the Board of Directors at the request of the shareholders whose shares have a total nominal value exceeding at least 3% of the registered capital,
8 provide an opinion concerning the proposal for compensating loss,
9. discuss the Company business activity and property situation report,
10. discuss the annual and consolidated annual report, mid-year report together with consolidated mid-year report and interlocutory report in accordance with a special legal regulation,
11. discuss and approve for the Board of Directors:
    a) the economic plan consisting of the economic result plan, financial plan, balance plan, investment plan, personnel plan, purchase and sales plan supplemented by the five year plan as well as changes to the economic plan,
    b) acceptance of a long-term loan and long-term financial transactions worth more than MCZK 100,
    c) capital participation in other business companies or associations when the value of the Company contribution in each individual case is higher than MCZK 100, or received guaranteed obligations of other entities worth more than MCZK 30 in each individual case,
    d) sales and lease of internal organizational units,
    e) realisation of investment projects worth more than MCZK 100,
    f) concept of Company entrepreneurial activity,
    g) selection of an auditor for the financial statements and drafting contract with this auditor,
    h) the Company's general measures applying to the provision of gifts in accordance with Article 11 (2) p) of the Articles of Association,
    i) general measures applying to the Company's PR activities in connection with the position of the Company as an enterprise which is part of the infrastructure of the Capital City of Prague,
    j) alienation and long-term lease of real property should the book value in each individual case exceed 30 MCZK and provided that this step is not part of the approved economic plan,
    k) proposal for the increase or reduction of the registered capital and issue of convertible and priority bonds under Section 160 of the Commercial Code submitted to the General Meeting,
12. discuss and provide the Board of Directors with an opinion of:
    a) use of the reserve fund,
    b) convening the General Meeting and its agenda including submitted materials,
    c) establishment and rules for the management of funds,
    d) proposal for the general Company organization,
    e) amendment of Articles of Association.

13. be kept informed by the Board of Directors of:
    a) important contracts of purchase with customers and suppliers,
    b) principles for collective bargaining,
    c) price proposals submitted to the regulatory body,
    d) wage development in the Company.

The Supervisory Board fulfils further tasks imposed upon it by the law and in its activities it is governed by generally binding legal regulations, the Company Articles of Association, the resolutions of the General Meeting and its procedural rules.

Obligations of the Members of Bodies

In accordance with the Company Administration and Management Code, members of the bodies are obliged, when exercising their office, to act with the due care of a proper manager and observe the discretion of confidential information and facts whose disclosure to third parties could inflict damage to the Company. This, in no way, affects the authorisation of the members of the Supervisory Board arising from the control powers of this Company body.

In accordance with the Act on Business Activities on the Capital Market, the method of handling internal information within the Group and the duties of all Group departments and persons that have access to internal information was defined by an inter-group management act.

Any possible conflict of interests is not forgotten in contracts on the terms and conditions of exercising the office of all members of the Company bodies where it is stated that: "A member of the Board of Directors (Supervisory Board) may not undertake business in the same or similar field as Company business, enter into business with companies, mediate or procure business for other entities, participate in the business of another Company as a member with unlimited liability or as a controlling person of another entity with the same or similar line of business, conduct work as a statutory body or member of a statutory or other body of a different legal person with the same or similar line of business unless this applies to a concern."

The consequences of breaching the obligations in the aforementioned paragraphs arise from generally binding legal regulations.

The members of the bodies are liable to the Company – under terms and conditions and to the scope stipulated by generally binding legal regulations – for damage, which they inflict to the Company through breach of the obligations while performing the duties of their office. Should more than one member of the body inflict damage, they are liable to the Company jointly and severally.

The relationship between the Company and a member of the body, when arranging Company matters, is governed appropriately by the provisions of the Commercial Code on the Mandate Contract unless a different definition of rights and obligations arises from the arrangements between the Company and the member of the body or from other provisions of the Commercial Code regulating his obligations.

Management as at 1.12.2010:
Pavel Elis
Chief Executive Officer (from 1.11.); until 31.10.Trading and Services Division Director

Alexander Sloboda
Commercial Director (from 1.11.); from 1.7. to 31.10. Sales and Strategy Division Director

Members of the senior management in the course of the year also were:
Drahomír Ruta
Chief Executive Officer (until 31.10.)

Uwe Benkendorff
Sales and Strategy Division Director (until 30.6)

The members of the bodies have sufficient commercial, financial and specific branch skills and practical experience to ensure the effective management and control of the Company.

All the members of the bodies have prompt access to all necessary information. The Board of Directors held nine meetings in 2009; the Supervisory Board six times. Detailed background information for the meetings was always sent to the members in compliance with the Board of Directors and Supervisory Board procedural rules 10 days prior to the relevant meeting so the members of the Board of Directors and Supervisory Board could make qualified decisions about matters they would have to settle. Some of the background information, if required, was presented and commented on orally.

As is apparent from the abovementioned, both two members of the senior management were also members of the Board of Directors at the end of the year. The members of the bodies, if they so require, may use the services of professional consultancy and advisory firms; and if need be also the services of an independent auditor.

The increase in the value of the Company for shareholders, the openness of information to all shareholders and investors and transparency of all decisions is one of the main priorities of the Company Board of Directors and of the management. An office has been established in the Company for contact with shareholders, which is available at all times to shareholders in case they have any questions or queries.

The Company legal section is also at full disposal of the members of the bodies if required, which, using its own resources or in disputes assisted by an external legal firm, secures compliance of the Company management with valid laws, decrees and directives. In compliance with the need to perfect the external regulatory and legal environment, the Company prioritises (as stated earlier) the professional reliability and independence of members of the bodies.

The Secretary of the Board of Directors attends all the Board of Directors meetings and is responsible for drawing up the minutes. The Supervisory Board also has a secretary who is its member.

Company Relations with Shareholders

The Company observes all provisions of the Commercial Code regarding the protection of the rights of shareholders, particularly and immediately providing all relevant information on the Company, convenes and directs the proceedings of its General Meetings.

The Company also ensures equal treatment off all shareholders and respects the principles of the Company Administration and Management Code. Representatives of the main Company units are always present at the General Meeting for the needs of the shareholders so they may immediately respond to and answer any of their questions or queries. All questions and queries raised at all hitherto regular and extraordinary General Meetings (since the joint stock company was established in 1994) have always been answered immediately at the meeting and there was no need to answer in writing post festum.

Shareholders are informed at the General Meeting and in the Annual Report of the level of remuneration paid to members of the bodies.

The Company fully ensures a secure method of shares ownership registration. In case of interest, shareholders may, at any time, examine the mid-year and Annual Reports and have access to information, which could affect the price of shares.

The Company in no way prevents open trading in its shares, which are traded through the BCPP, RM-S and SCP.

The Company always organizes the General Meeting in its own premises and in the morning hours for availability and savings of expenses. The agenda of the General Meeting is always planned in a manner so as to allow discussion of issues, which were validly and duly raised by any shareholder.

The Annual Report presents to all shareholders and investors clear information on the Company financial structure and executive management. In accordance with the relevant provisions of the Commercial Code and Capital Markets Act all shareholders are treated equally. For each type of shares the shareholders have the same voting rights. Every shareholder and investor receives (in case of interest) information on voting rights connected with all types of shares before he/she eventually purchases the shares. In an effort to provide as much information as possible to shareholders and the general public, all information on the Company activities are available, for those interested, on www.pre.cz. This is a proper, prompt and cost effective approach to the way in which to offer and obtain all information.

General Problems concerning the Openness and Transparency of Information

All members of the Board of Directors and Supervisory Board are obliged by said legal norms to show his/her considerable interest in the transactions conducted by the Company.

The Company observes the obligation imposed by the regulations adjusting the entrepreneurial activities on the capital market, on disclosure of all important information and respects the principles of the Company Administration and Management Code. Thus it allows all shareholders and potential shareholders to gain knowledge about the financial situation, performance, ownership and administration of the Company.

Committee for audit

Act No. 93/2009 Coll. which was approved during the year (Act on Auditors) contains a special provision for a compulsory audit of entities of public interest (a subject of public interest are among others, all companies whose securities are listed in the EU; this includes Pražská energetika, a.s.). The Supervisory Board performed this activity in the parent company.

Internal audit

The activity of internal audit and coordination of risk management system is ensured by the Internal Audit and Risk Management Department in line with respected international practice. The internal audit department is also responsible for the internal audit of the ISO 14 001 system and the internal audit of the occupational health and safety "Safe Enterprise".

The independence of the internal audit is guaranteed by its organisational incorporation into a direct subordination to the PRE Board of Directors.

Internal auditors are members of the Czech Institute of Internal Auditors and members of the international Institute of Internal Auditors. The execution of internal audit is also supported by using external sources.

Company Policy with regard to Interested Parties

The Company continuously fulfils all its legal obligations with regard to interested parties including its employees, creditors and suppliers.

The Company is also aware of its social responsibility to the local community and donates part of its income to generally beneficial purposes in the form of gifts.

In order to minimise possible risks, already in 2003 the Company completed work on preparing the "PRErisk" management system, which has since 2005 existed in a routine operation. Among others, this system should have as much as possible prevented risks connected particularly with the liberalisation of the market, restructuring, deregulation etc. The system operates in the form of so called integrated risk management, which involves all major risk areas of Company activities – including financial, commercial and operational risks.

PRE Group Risk Management System

The risk management system within the PRE Group is planned on a two-level arrangement. A unified methodical mechanism is binding for all companies of the PRE Group ensuing from common normative framework. Each company nominates its own Risk Management Committee which discusses in detail monitored risks within each individual company. Consequently the consolidation of risks within the Group is carried out and the PRE Group Risk Management Committee, based on the Overall Consolidated Report on Risk Management, stipulates the strategy of risk management in the context of main risk exposures of the Group.

The risk management system unambiguously defines the roles and responsibilities of key players of the risk management system, namely the Risk Management Committee, the PRE Group's Risk Manager, risk managers of individual companies and other persons involved in the risk management system. The risk management organizational structure is relatively independent of the line management structure.

Identification processes, analysis, measuring, monitoring and reporting of individual risks specifically form the basic pillars of the risk management system. The background for reporting is formed by regular uniformly structured reporting including the assessment of individual monitored risks and the most important measures to reduce the risk exposure. The risks are systematically monitored in market, financial, credit, legislative, regulatory, operating and other risk categories.

All monitored risks are projected with regard to their expected level of impact and relative frequency. Specific indicators such as VaR, CFaR, maximum loss etc. have been introduced for financial and market risks. Binding limits are set for selected indicators.

Among the main tasks of the risk management system also ranks assuring the function of timely warnings and simultaneous assessment of the efficiency of remedial measures. The most significant monitored risks, which virtually represent the greatest threat according to assessment, are in the centre of interest. Continuously work is under way to identify all actual risks which are collected in the risk list. The Risk Management closely cooperates with the PRE Group internal audit and thereby helps to identify the key interest areas.

Further development of the Risk Management System ensues from the need for closer cooperation within the shareholders EnBW Group and utilisation of shared know-how in this sphere.

Jiří Havlík

TRADING FLOOR

"In 2010 the six-member **"Trading Floor" Group** I manage concluded **4,952 operative transactions for more than 800 MCZK on the electricity market.**"

The department contributes to concluding short-term electricity trading transactions, concludes the Company's commercial position, secures border electricity trading and sets the PRE operative commercial position on the electricity wholesale market.

Review of the PRE Group
History Milestones

1897	on 1 September 1897 the Electricity Works of the Royal Capital City of Prague (Elektrické podniky královského hlavního města Prahy) was established,
1924	Government decree declared the Electricity Works (Elektrické podniky) a universal utility,
1934	construction of the Electricity Works Headquarters in Prague completed. The whole building concept by far exceeds the customs and traditions of that period and is one of the most modern in the Capital City of that time,
1941	the Electricity Works incorporated into the Prague Municipal Company,
1945	power industry nationalised by a presidential decree,
1946	the Transport Company separated from the Electricity Works; a national Company Central Bohemia Power Generation Company was established incorporating the former power generation section of the Electricity Works,
1959	foundation of the Central Bohemia Electricity Works, n.p. (STE) and the Prague District Administration,
1965	foundation of the Prague Distribution Enterprise within STE, n.p.,
1982	the Prague Electricity Works k.p. acquire the status of an independent Company within ČEZ Syndicate (České energetické závody) by split from STE, k.p.
1990	as of 1 July the Prague Electricity Works became a separate state-owned Company,
1994	foundation of the joint stock Company Pražská energetika, a.s.,
1995–6	subsidiaries PREmont Lhotka s.r.o. (later PREmont LHOTKA a.s.), PREleas, a.s. and others were being founded,
1996	construction of the new Company administration building commences in Na Hroudě street,
1997	100th anniversary celebrations of the Company existence, construction of the new administration building completed,
2000	an ambitious project of changes was initiated in PRE in order to fulfil the Company vision and strategic objectives,
	modernisation of all contact points within the Company completed, for customers operation of Call Centre was launched,
2002	PRE was more than successful in dealing with the repercussions of the August floods,
2003	100% subsidiary PREmont Lhotka, a.s. sold to Belgian firm Fabricom S.A.,
2004	in accordance with the European legislation the Company “unbundling” process was initiated, i.e. the separation of regulated and unregulated activities which means actual division of the existing parent Company into two independent entities,
	the Czech President, professor V. Klaus and his entourage accompanied by Prague City Council and Prague 10 city district officials visited PRE,
	operation began of the central dispatch in the building in Nitranská Street,
	the operation of the joint Adria Customer Centre together with a customer line and joint website with the Company PP, a.s. began as part of the “Together for Prague” Project 2005,
2005	the Compliance Programme has been adopted, which excludes the discriminatory behaviour of the PDS to the other participants in the electricity market, the following systems have been launched: electricity sales support system (SPP), electricity trading support system (OSNE),
	100% subsidiary PREdistribuce, a.s. was established (with registered capital of MCZK 2; at the end of the year it was increased to TCZK 21,549,811),
2006	as of 1 January the distribution system operator was detached and formed into a separate entity – 100% subsidiary,
2007	PRE Group celebrated the 110th anniversary of the establishment of the legal predecessor of today’s joint stock company,
	hurricane Kyrill caused considerable material damage,
	PRE became a member of the Pražská energetická burza – PXE,

2008
- during the WEC seminar the Czech Prime Minister Mirek Topolánek visited PRE,
- after terminating the liquidation, the 100% owned subsidiary ODEM a.s. was deleted from the Commercial Register on 5 December 2008,

2009
- the Group’s Fit For Future (FFF) Programme was launched in connection with the general economic crisis and its aim is to maintain the Group’s long-term high performance and competitiveness,
- the Pražská energetika Technical and Documentary Museum was moved into its new premises,
- the construction was completed of the Pankrác high-voltage distribution station,
- the anti-flooding measures were activated in the Capital City, first level of flooding activity on the Vltava River,

2010
- fundamental change in the shareholder structure – repurchase of the share of shareholder Honor Invest a.s. by the existing shareholder EnBW Energie Baden-Württemberg AG thereby becoming the majority shareholder,
- the formation of the new long-term strategy of the PRE Group which fully reflects market liberalisation, increase of competition in all segments and price fluctuation caused by macroeconomic instability (such as the economic crisis) and structural changes in European economies,
- in accordance with the new long-term strategy of the PRE Group 5 photovoltaic power plants (Jinonice, Lhotka, Na Hroudě 19, Pražačka and Sever) were gradually put into operation during the course of the year).

Long-term Company or the PRE Group Strategy

The process of restructuring the Company or its transformation to a customer-oriented entity was launched in **1995** soon after incorporation of the joint stock Company. In the first years of transformation (1995–1998) the whole process of changes was initiated with the project of mapping out the processes. This self-contained aggregate work laid the foundations for systematic knowledge and system management of the Company's individual activities and integration of the processes within the Company in such a way so they could undergo financial assessment. This project was followed by the process of PRE drawing up its own strategy.

In **2000–2002** the Compliance Programme took place, as part of the Company restructuring, which implemented changes approved by the statutory bodies in the organizational structure and activities of the Company. The target was to prepare the Company for creation of market environment. The Company's strategy was continuously updated in respect of the current legislation at any given time in the energy sector and any expected developments in this sector.

The Company's long-term strategy, its preparation for the gradual opening up of the market conceptually focused above all on two fundamental areas – on investments made in equipment modernisation and preparing human resources. By 2000 it was already fundamentally clear what form the liberalisation of the market would take in the Czech Republic. It was also at this time that the Company, by preparing for the competitive environment began increasing its careful and analytical monitoring of the surrounding environment – behaviour of future competitors were drawn up and the like. Large investments made into distribution equipment, accompanying the first stage of radical changes in the Company, were to ensure high quality supplies of electricity for the future. Another characteristic feature was the strong pressure exerted on a change in the behaviour of the employees, their attitude to customers, enhancement of solidarity with the Company, loyalty and so on. This in fact concerned a fundamental change in corporate identity, its culture respectively.

Further to the conclusions of the Compliance Programme, the Company organization was totally restructured in the course of the year 2002 and the first half of 2003 in the sphere of distribution, and several changes occurred in 2003 and 2004 in the senior management organizational structure (the transition to a divisional arrangement, formation of the Strategic Development Division, the separation of purchase and sales activities into two divisions and so on).

As a real milestone in the Company history the period of **2002–2006** should be mentioned; it was during this period that the Energy Act laid down the gradual liberalisation of the electricity market. In view of its membership in the European Union, the Czech Republic (for more information see the chapter "Brief History and Current Situation in Power Industry Sector") is obliged, among other things, to respect the valid legal documents of the EU, particularly Directive 2003/54/EC and its interpretation incorporated into the amendment to the Energy Act which defines the rules of business in the power industry. One of the fundamental requirements of these documents was the legal, organizational and accounting separation of regulated activities from the other Company activities, i.e. separation of the regulated activities of distribution from the other activities of the Company, above all from trading and sales.

During the year there were no system failures or extensive electricity breakdowns.

The Czech legislation incorporated the above Directive into legislation of the Czech Republic; further gradually issued decrees were based on the passed legal norm. Such established legislation valid in the relevant electricity sphere proved decisive and principle for the separation of regulated activities from other activities in power companies.

Therefore in **2004** work commenced in PRE on the **"Unbundling"** Project; i.e. on separating regulated activities from other business activities. The main aim of the project was to transform PRE into an optimally operating corporate Group, which would support the provision of services to customers and the competitiveness of the Company in meeting legislative requirements.

As of **1.1.2006** the 100% subsidiary company PREdistribuce, a.s. began its entrepreneurial activity, its main lines of business being the distribution of electricity in the territory of Prague and Roztoky u Prahy (the supply territory of PREdistribuce, a.s.), planning the renovation and development of the distribution system, construction, operation, management and maintenance of the distribution system's equipment (for more detailed information see the article on ownership interests).

In cooperation with PP, a.s. and PT, a.s. PRE has been developing a Project **"Together for Prague"** under the auspices of the Prague City Council. The entire process began in cooperation with PP, a.s. with a project that made it easier for customers of both companies to settle all paperwork in one commercial centre in the Adria Palace. In the years 2005–2010, this office had the greatest number of visitors out of all contact points for customers which confirmed the right decision for its opening.

In the year **2007**, after considering all the circumstances, the PRE Group introduced the annual reading, which brought on a series of changes in the subsidiaries. It was decided to consolidate all the activities connected with the metering of energy at LV level in one company – PREměření, a.s. The structure of the new company was adapted in accordance with the requirements for securing the optimum function of the organisation, which merges many professional activities, particularly the administration of meters, reading service and installations and electricity generation.

The second half of **2008** and most of **2009** were hit by a significant economic crisis which virtually affected all the economically active parts of the world in many economic sectors. In view of the crisis there was a significant and general fall in demand. The Fit For Future (FFF) Project was launched (in cooperation with the consultancy firm Facility, s.r.o.) as an absolute necessity from the financial point of view to optimise processes within the Group and to subject the area of costs to a detailed analysis in an aim to maintain the long-term performance and competitiveness of the PRE Group. This project identified the possibilities of improving the economic existence of the PRE Group in the years **2009–2012**. The measures that arose from the conclusions of the project were gradually applied in practice in the next period.

In the course of **2010** the process of changing energy supplier significantly intensified and so did the activities of competitors in virtually all segments. A number of independent suppliers appeared on the market as well as major European players. In view of these facts it was decided to immediately initiate work on the qualitative new long-term PRE Group Strategy.

During the summer months the Group's long-term strategy was fundamentally updated in cooperation with an external consultancy company. The mission, vision and objectives at corporate and subsidiary level were identified and defined. The objective of the Group's new long-term strategy is to fulfil its vision of being an economically strong and socially responsible energy company. Fulfilling the strategy brings new challenges for the Group which go beyond the existing business activities in electricity distribution and trading. It is for this reason that the new strategy contains the Group's entry into new segments, introduction of new products and making the current operation of the Group more effective.

The present focus on Electricity Distribution and Trading with the supporting role of Energy Services will be developed into a business model based on four segments:

- Distribution
- Trading
- Production
- Energy Services

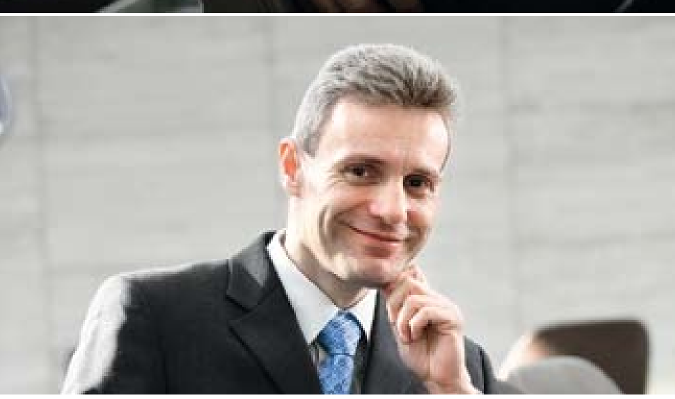
The new strategic focus complies with the current challenges on the energy market which fully reflects market liberalisation, increase of competition and price fluctuation caused by macroeconomic instability (economic crisis) and structural changes in European economies. The PRE Group is responding in its strategy to key strategic topics which will subsequently result in the need of main strategic activities.

In future the PRE Group wants to be profiled as a reliable partner for customers not only in the Capital City of Prague, but for all customers interested in receiving reliable supplies of electricity.

The PRE Group is a stable and prosperous entrepreneurial group with a tradition of more than 110 years.

Jiří Kalousek

IS ANALYSES, ORGANISATION AND DEVELOPMENT



"What I value about my work is the great diversity of the diffusion of the traditional field of the Group's business, changes associated with the liberalisation of the energy market and the opportunities brought about by the utilisation of the latest technologies. My latest challenge became the intensive cooperation with EnBW in managing the MOST Project."

The mission of the IS Analyses, Organisation and Development department is to be an active partner of the management, methodologists and end users when meeting the requirements for optimising the processes, systems of management, implementation and development of IT services.

Brief History and Current Situation in the Electricity Sector

It must be stated that as in many sectors of the economy, external economic conditions are not precisely defined in the long-term even in the energy sector and they are continuously subject to change (a classic case in this context is the area of photovoltaics in the last two years). The incompleteness and inconsistency of the legal framework in which the joint stock Company has operated in the last several years subsequently caused uncertainties especially in the Company's planning, creation of a concept and long-term development strategy (here it must be stated that this trend continued in 2010 – constantly more complicated approval processes, unforeseeable legislative changes, an ineffective state administration and last but not least increasing activities of various civic initiatives and environmental movements had a heavy impact on energy companies).

The newly constituted Energy Regulatory Office (ERÚ) was empowered with the execution of state regulation including price regulation as of 1 January 2001. The business activities in the energy sector are possible under state permission in the form of a licence.

A regulated third party access to networks (regTPA) model was adopted in the Czech Republic which in principle means that eligible customers have the right to select their electricity supplier and have authorised access to electricity networks. All electricity trading activities were gradually exposed to competition since the start of liberalisation of the electricity market.

All major distribution companies, without exception, began preparing for the process of the separation of distribution activity from trading activity by 1 January 2007 at the latest as required by the Energy Act; however after discussions with the regulator all processes were significantly speeded up and separation came about during the course of 2005 (this was carried out within PRE by the parent company transferring its distribution activities to a subsidiary called PREdistribuce, a.s. as of 1 January 2006).

As early as the end of 2005 PREdistribuce, a.s. received a distribution licence from the ERÚ and simultaneously cancelled the PRE distribution licence based on an application submitted to the ERÚ as of 31 December 2005.

The second half of 2008 and 2009 was marked by comment proceedings, and preparations to determine the rules for the third regulatory period of 2010–2014.

During the course of 2010 there was a significant escalation in the number of customers who decided to change their supplier. There was also a significant rise in the number of electricity traders (several hundred), but this figure also contains licence holders who are only engaged in cross-border trading at local level. There were only several tens of traders who actually offer electricity to end customers on the domestic market. A new factor that also appeared on the market in 2010 was big electricity companies from neighbouring countries such as RWE (Germany), ENEL (Italy), GAZPROM (UK) and IBERDROLA (Spain). However ČEZ, E.ON and PRE continue to maintain their position as the biggest suppliers to end customers.

The PRE Group is a reliable distributor for its licensed territory.

Another new factor was the extension of the portfolio of activities of some companies on the market – e.g. combining the offer of electricity and gas supply.

There was constantly more talk about the onset of intelligent grids (Smart Grid) or the introduction of intelligent energy consumption meters (Smart Metering) – a pilot project took place for this area within the Group.

The year 2010 was the first year of the third regulatory period for which the Energy Regulatory Office newly specified the regulatory framework for the affected regulated companies on the electricity market. A significant change in this respect occurred in the area of energy price regulation when the ERÚ made significant changes when preparing for this regulatory period in the regulatory formula parameters. The changes involved putting pressure on a reduction in permitted costs, especially in the permitted rate of losses and further increase in efficiency.

The electricity market in the Czech Republic continued to maintain the position of the most liquid market in the Central European region. The volume of transactions closed at transparent trading points continued to increase. The price trend in the electricity segment on the Czech market (just as in earlier years) was bound by the trend on the market in Germany; however the price limits still remained different, but their level has stabilised and during the course of the year there were no significant fluctuations. The Power Exchange Central Europe (PXE) maintains its stable position on the market and is still important for pricing to end customers.

Overview of relevant legal regulations issued in 2010.

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

The following legal regulations were adopted during the course of the year:

- Act No. 155/2010 Coll. of 21 April 2010 amended as of the effective date of 1 January 2011 Act No. 458/2000 Coll., on the conditions of business activities and execution of state administration in the energy sectors (Energy Act), as amended,
- on 4 February 2010 the ERÚ Decree No. 41/2010 Coll. was issued which amended Decree No. 540/2005 Coll. on the quality of electricity supply and related services in the electricity sector. This decree came into effect on 27 February 2010,
- Ministry of Industry and Trade (MIT) Decree No. 79/2010 Coll. of 18 March 2010 on dispatch control of the electrification system and transfer of data for dispatching control came into effect on 1 April 2010 (the Decree replaced the existing Dispatch Rules No. 220/2001 Coll.),
- MIT Decree No. 80/2010 Coll. of 18 March 2010 on the state of emergency in the electricity sector and on the contents of the emergency plan came into effect on 1 April 2010 (it replaced the State of Emergency Decree No. 219/2001 Coll.),
- ERÚ Decree No. 81/2010 Coll. which amended Decree No. 51/2006 Coll. on the terms and conditions of connection to the electrification system of 23 March 2010 (this Decree came into effect on 1 April 2010),

- ERÚ Decree No. 264/2010 Coll. which amends Decree No. 140/2009 Coll. on the method of price regulation in the energy sectors and price regulation procedures of 6 September 2010 (effective as of 15 September 2010),
- Act No. 137/2010 Coll. which amends Act No. 180/2005 Coll. on support of electricity production from renewable energy sources and on the amendment of some laws (the Renewable Sources Support Utilisation Act) of 21 April 2010 (this amendment came into effect on 20 May 2010),
- ERÚ Decree No. 300/2010 Coll. which amends Decree No. 475/2005 Coll. which implements some provisions of the Renewable Sources Support Utilisation Act, as amended, of 22 October 2010 (effective from 1 November 2010),
- ERÚ Decree No. 400/2010 Coll. which amends Decree No. 541/2005 Coll. on the rules of the electricity market, pricing principles for the activity of the electricity market operator and implementation of some other provisions of the Energy Act, as amended, of 20 December 2010 (this Decree came into effect on 1 January 2011, with the exception of Article I points 15 to 18 and 23 which come into effect on 1 April 2011, and points 2, 19 to 21 and 24 which come into effect on 1 May 2011, and with the exception of Article II which comes into effect on 31 December 2010),
- ERÚ Decree No. 401/2010 Coll. on the contents of the Rules of Operation of the Transmission System, Rules of Operation of the Distribution System, Rules of the Transmission System Operator, Regulations of the Distribution System Operator, Regulations of the Underground Gas Storage Operator and the business terms and conditions of the market operator (this Decree came into effect on 1 January 2011),
- Act No. 402/2010 Coll. which amends Act No. 180/2005 Coll. on support of production of electricity from renewable energy sources and on the amendment of some laws (the Renewable Sources Support Utilisation Act), as amended and some further laws of 14 December 2010 (came into effect on 28 December 2010).

During the course of the year the following ERÚ price decisions were issued:

- No. 2/2010 of 8 November 2010 which determines support for production of electricity from renewable energy sources, combined electricity and heat production and secondary energy sources (effective from 1 January 2011),
- No. 4/2010 of 30 November 2010 which determines electricity prices and related services for the calendar year of 2011,
- No. 5/2010 of 30 November 2010 which determines fixed electricity distribution prices for LV network customers for the calendar year of 2011,
- No. 6/2010 of 29 December 2010 which amends ERÚ Price Decision No. 4/2010.

An overview of granted licences granted to individual companies of the PRE Group for electricity trade, distribution and gas trading:

- the parent company was the electricity trading licence holder from the period of 1 January 2002 to 16 January 2007 under the ERÚ Decision of 14 August 2001. It received a licence on 21 November 2006 for the next period from 17 January 2007 to 16 January 2012.
- PREdi was also an electricity distribution licence holder under the ERÚ Decision of 26 October 2001; in the period from 1 January 2002 to 31 December 2005 (in the ERÚ Decision on the granting of a licence the period of its validity is set to last until 16 January 2027). In view of the end of the unbundling process the electricity distribution licence of the parent company was cancelled and subsequently granted to PREdistribuce, a.s., a newly established company, which came into force from 1 January 2006. This entity is the holder of the electricity distribution licence for the period of 1 January 2006 to 1 January 2031.
- PREm was granted an electricity production licence under the ERÚ Decision of 14 December 2010 in force until 17 May 2035 (this concerns electricity production at photovoltaic power plants Jinonice, Lhotka, Hrouda, Pražačka and TR Sever I).
- ***the parent company was granted a gas sales licence for the period of the next five years under the ERÚ decision of 12 January 2011.***

Tomáš Budínský

SUBSTATIONS

"Our work involves the repair, review and diagnostics of 110 and 22 kV substation equipment. As foreman I secure material, working and protective aids for the installers, communicate with the dispatching centre and directly participate in the work."

The department performs the operational handling of the VHV and HV network, proposes and makes repairs, provides a service to foreign customers, commissions equipment and performs service tests, supervises and services substations.

Trading Activity

Suppliers and Trading in electricity

In 2010 cooperation continued based on medium-term electricity purchase contracts with companies Energotrans, a.s., Elektrárny Opatovice, a.s. and Pražská teplárenská, a.s. Just as in previous years these companies supplied the PRE Group with approximately 40% of total electricity for end customers. The year 2010 was the last year for the validity of medium-term contracts with Energotrans, a.s. and Elektrárna Opatovice, a.s. in view of the shareholder changes in both these companies. The normal fluctuation in the consumption of customers was ensured by medium-term and operative electricity trading on the wholesale market in order to minimise total electricity purchasing costs.

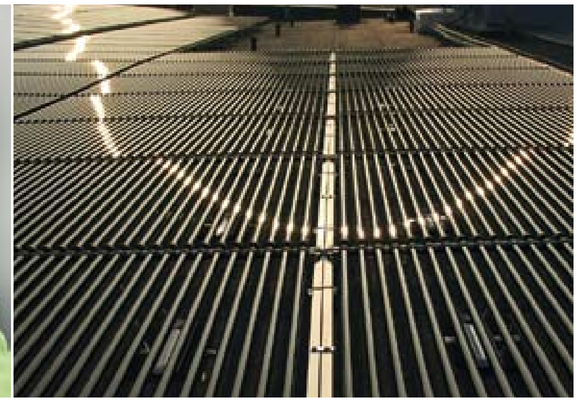
The trend in consumption in 2010 was still partly affected by the economic slump of the previous year. But this fact was not fully projected in the trend of electricity prices due to the growing supply of electricity from renewable sources.

The Group's portfolio of suppliers remained similar to that of the previous year. The only more significant change was a fall in the share of electricity purchased on the PXE at a level of 5% of the total quantity. This means a return to the usual level because the high share in the previous years was caused by the sale of the two-year compound product for years 2008–2009. This fact is displayed by an increase in the share of purchased electricity from ČEZ, a.s. This share accounted for more than 6% for 2010.

There was a rise in customer demand for green electricity. Therefore the PRE Group prioritised the green bonus regime in which it was possible to offer the producer the current price for active power. In 2010 cooperation continued with Povodí Vltavy, s. p. which continues to be the biggest supplier of green electricity. In that year there was also a significant rise in the number of photovoltaic power plants (producers could make use of the highly advantageous purchase – regulated – prices or Green Bonuses for the last time). In 2010 the volume of purchase of green electricity for PRE customers reached 142 GWh which is almost 54% more than in the previous year. The share of renewable sources accounted for about 2% of the total quantity of electricity purchased on the wholesale market.

The electricity market in Germany continued to determine the trend in the wholesale electricity market in the Czech Republic. Trading took place mostly through the OTC (brokers) and the Power Exchange Central Europe (PXE). Generally the volume of electricity trading and number of closed transactions on the market grew. This was caused, among other things, by the arrival of new major companies on the Czech market. PRE monitors this market trend and develops cooperation with active companies not only in the Czech Republic, but also abroad, above all in Germany. In 2010 PRE made active use of the option of direct trading on the spot market of the EPEX in Germany which includes intraday trading. The course of the price trend in 2010 showed a low level of price volatility with some exceptions. This fact was positively projected in prices of electricity purchased for customers, including further periods.

The indicator EBITDA reached a record-breaking level of **3,742** MCZK in the parent company.



Electricity procured on wholesale markets (GWh)

	2010	2009	2008	2007	2006	2005	2004	2003
TOTAL procured:	**6,828.01**	6,686.42	6,846.71	6,608.38	6,395.88	6,027.51	5,813.09	5,478.77
of which regulated prices	**0.41**	0	0	32.41	29.33	57.43	250.88	207.30
of which green bonus prices	**142.37**	92.85	94.18	4.41	23.76	0	0	0

	2002	2001	2000	1999	1998	1997	1996	1995
TOTAL procured:	5,270.13	5,443.23	4,983.28	4,926.04	4,913.62	4,978.10	5,033.03	4,777.45
of which regulated prices	240.72	237.72	214.40	213.20	194.75	279.36	346.03	390.84
of which green bonus prices	0	0	0	0	0	0	0	0

Electricity Sales

Trading activity as, among other things, arising from the general corporate strategy, is one of the key processes within the Company. This area is a section where the toughest struggle for the customer takes place and where the future economic success or failure of the Group is decided. The sphere of trading in electricity and its sales has gone through a whole range of changes without which satisfactory economic functioning of the Group wouldn't have been possible.

Electricity Sales (B2B segment)

As regards the sales to the large customers segment B2B, the year 2010 was significantly influenced by volatility of prices on the energy exchange in two previous years and customers thus very quickly recognized the risks related to choice of the right moment for purchasing electricity. Therefore large customers more often chose the model of electricity procurement in parts at different moments in time either according to pre-arranged time schedule, or more often, a customer chose the time of procurement of agreed volume of electricity by himself. All the time more intensive influence of competitors resulted in introduction of continuous electricity sales even by smallest customers of B2B segment. Electricity price fluctuations at the energy exchange caused reluctance of customers to conclude multiannual contracts. In the second half of 2010 state and regional administrative authorities work intensively on drawing up tenders under the Public Procurement Act or organizing electronic auctions. In these cases the offered prices were very low.

Results of sales in 2010 were characterized by an increase of supplies by 2.8% if compared with the critical year 2009, and by 2.3% as against the planned volume. The total volume of sales in 2010 on HV and VHV levels moderately exceeded the volume of 2008 and historically was a record-breaking year of this segment of customers. The increase of sales was achieved thanks to acquisition of new customers and by slight economic recovery. The positive market share of 79% on PREdi supplied territory was successfully maintained. The supply of VHV and HV customers outside of PREdi supplied territory increased by 13%.

The Project of Segmentation of retail customers/small businesses was in fact a reaction to the growing impact of the market. The Project assigned some of these customers (MOP-small businesses) to a segment of individual servicing. New segmentation of customers needed amendments in SAP Customer System and also organizational and personnel changes in B2B Sales Section.

Also in 2010 the emphasis was put on developing individual sales channels and new methods of selling electricity. In this context, sales representatives were trained to raise the level of their business skills.

Following measures were implemented in order to achieve mid-term objectives:
- development of new products related to electricity supply and price development at the energy exchange – modification of the product INDEX and a service product called Servis Spotřeba,
- realization of conclusions of a Project called “Transfer Prices” – individual evaluation and communication regarding concluded contracts in cooperation with Trading Section.

Electricity Sales (B2C segment)

Year 2010 in B2C segment was marked by improvements in services and by offers of new, interesting products for customers. At the beginning of the year the offer of new products “KOMFORT+ Garant 2010” intended for households was published, these products contain a guarantee of active power price fixed for 2 years (in addition without monthly standing charge), and also product “KOMFORT+ Bonus 2010” in the second half of the year. A product “AKTIV+ Pásma 2010” was offered to segment of small businesses. Work on Project “Re-gaining of churned customers” started. Within this project a trial implementation of retention interviews was executed through Call Centre with good results.

As in the year 2009, also in 2010 there were made unfair attempts of competitive traders to gain customers on the Company supplied area. As a proof of a high quality achieved in servicing customers the Company obtained certificate of Quality Management System (ČSN EN ISO 9001/2009). At the end of 2010 other new products were ready for launching to the market “KOMFORT+Garant 2011” for households and “AKTIV+Pásma 2011” for small businesses.

The Customer Centre serviced in all its three branches (Adria, Balabenka and Vladimírka) a total of more than 260,000 customers. Just a little lower number of customers (230,000) settled their requirements through Call Centre and more than 48,000 customers contacted PRE by e-mail.

Renata Čopová

ADRIA I – CUSTOMER SERVICE

"I have been working at the ADRIA Customer Centre for three years now. The main line of my work is customer service. I and my colleagues deal with individual requirements of PRE customers. In 2010 we provided a service to over 261,000 customers at our Customer Centre."

The Customer Centre provides advice and works directly with customers, administers contractual relations with customers, deals with claims, complaints and applications for changes, sets payment schedules and is involved in other activities associated with the repayment of receivables.

Number of visits at Customer Centre

Year	2010	2009	2008	2007
Total	**261,720**	240,026	216,288	235,355*

* Data before the year 2007 are not stated due to incompatibility with data for the years 2007–2009 (more Customer Centres were in operation, cash desks enabling payments in cash etc.).

Number of enquiries answered by the Call Centre

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Total	**230,472**	210,985	204,212	202,254	186,166	182,599	178,803	155,703	148,291	162,426	80,405

Number of e-mails answered by the Call Centre

Year	2010	2009	2008	2007	2006	2005	2004
Total	**48,834**	30,369	30,193	18,214	6,882	5,291	2,423

Sales Support (Back Office)

The Sales Support Department in its activities continues in the work of the Front Office departments and secures their direct support so that this is effectively differentiated from the Back Office processes and could devote themselves to their own business to the maximum extent. The activities in this area are constantly aimed at improving quality, efficiency and reliability of processes to the extent of defined powers, according to the needs of Front Office departments and depending on the impact of external environment (fluctuation of customers, legislative changes, behaviour of other entities involved in the electricity market).

In the framework of sales support the following activities are ensured (with the objective to efficiently support the sales processes carried out namely in B2B and B2C departments):

- change of a supplier process support,
- customer documentation administration, documents digitalization and archiving,
- invoicing electricity supplies to B2B and B2C customers,
- recovering bad debts for electricity supplies to B2C and B2B customers.

Among most important projects /activities implemented in 2010 were:

- project Optimization of invoicing processes and management of recovering bad debts from B2B customers,
- project Optimization of recovering bad debts from B2C customers,
- project Optimization of a supplier change processes.

The Sales Support department participates and cooperates on activities and projects of other Group departments; especially in preparing and implementation of new business products, in projects aimed at increasing the retention of customers and intensifying the sales competitiveness; it also participates in introducing new technologies of metering (Smart Metering, AMM technology), in preparation and transfer to new modern payment instruments.

Customer Services and Trading Support

Pražská energetika, a.s. is a customer-orientated company and its principal task is to continuously improve the quality and scope of provided services, reliability of electricity supplies, level of advisory services and the extension of the whole spectrum of customer services.

In the course of the year a number of marketing projects were implemented for customers.

E-mobility

During the course of the year the PRE Group worked intensively on the E-mobility Project which (in line with global trends) is to safeguard the gradually increasing share of ecologically-clean electric cars in operation which in future will replace combustion engines, especially in big cities where the resulting benefit to the environment is the most discernable. The Group has built a pilot network of charging points at its own cost that was missing in the Capital City. The "Praha elektromobilní" (Electromobiles in Prague) Project gradually gained momentum during the year and subsequently in 2011. This project generally supports e-mobility, i.e. electric cars, electric scooters, electric bikes, etc. The PRE Group cooperates with foreign partners who have a wealth of experience in this area.

Investments

Retrospective Overview of the PRE Group Investment Expenses per Major Allocations in 1995–2010 (MCZK)

Year	Distribution[2]	Meters[1]	Telecommunications, IT	Other	Total
1995	504.6	179.9	184.4	193.9	1,063.0
1996	1,009.9	178.7	144.8	431.4	1,764.8
1997	1,267.6	127.9	131.0	362.9	1,889.4
1998	1,249.8	168.1	112.3	319.3	1,849.4
1999	1,060.2	159.3	105.4	215.8	1,540.7
2000	1,174.5	204.5	110.3	153.6	1,642.9
2001	918.4	198.3	87.6	76.0	1,280.3
2002	887.8	–	98.9	27.2	1,013.9
2003	1,029.8	–	133.8	27.1	1,190.8
2004	1,009.7	–	133.7	109.4	1,252.8
2005	1,039.8	198.6	115.1	250.6	1,604.0
2006	1,088.4	137.4	115.3	185.9	1,527.1
2007	1,277.0	101.9	111.7	120.0	1,610.6
2008	1,637.4	82.6	103.2	183.2	2,006.4
2009	1,507.1	80.7	124.7	209.1	1,921.6
2010	**1,533.1**	**76.4**	**104.3**	**201.5**	**1,915.2**

1 In 2002–2004 meters were charged to expenses.
2 In consolidation the volume of investments to structures, lines and IT; PREdi volume of investments excluding capitalisation (i.e. also to land, meters, intangible assets) is MCZK 1,652.8.

Note: the source of figures shown up to 2005 are the separate PRE financial statements, the PRE consolidated financial statements as of 2006 then. From 2008 liabilities arising from unpaid investment invoices are included to investment expenditure.

Detailed information on investment expenses (including the method of financing) according to major allocations for the years 1995–2009 is stated in the Annual Reports for these years.

In compliance with the Group Strategy Plan, the investment programme in 2010 was directed above all at:

- renovation and modernisation of LV and HV network,
- extension and enhancement of the network in connection with new requirements of customers for connection and increase of the required input,
- development of new capacities and modernisation of the equipment of VHV/HV distribution stations and HV switching stations,
- perfection of information and control systems to improve customer services and increase in the reliability of the distribution system management.

In view of the fact that most investment funds for the entire PRE Group have been directed to the subsidiary PREdistribuce, a.s., as well as into informatics, this set of issues is dealt with in more detail in the following article.

Jiří Sedlák

TELECOMMUNICATIONS

“I am responsible for the **administration, development and service of the PRE telecommunications network**; and also of the voice, data and mobile service throughout the Group.“

The department provides and manages the telecommunication services, deals with the Czech Telecommunication Office (ČTÚ) and other telecommunication organisations, and operates the Internet and related services.

PREdistribuce, a.s.

The parameters and contents of the PREdistribuce, a.s. investment programme are based in the long-term on results of analyses respecting the technical condition, transmission capability and achieved network operation reliability, real physical service life of individual network components and the possibilities of their effective maintenance. It also takes into account the estimated development of customer demand for new connections, increase in consumed output respectively in the existing connection points on already built-up territory and in developing locations of the city. The prerequisite of the future trend is supported by the specific requirements of customers and current constantly recorded development of the last few years in Prague and the town of Roztoky u Prahy. The increased activity of investors in Prague after the Czech Republic accession to the EU persists, however it may mean a greater degree of uncertainty for estimates of future development. These starting points continue to indicate the need to maintain a virtually constant rate and extent of investment activity also for the future. The distribution of funds respects the slight shift in volume in favour of HV and VHV levels which are crucial for the reliable operation of the distribution system because their failure has a greater impact on network customers.

The structure of the investment plan as divided into individual categories of distribution equipment, on the one hand, the Company resolved with the extended reproduction of network systems based on available support documentation and with respect to the mutual links, while taking into account the expected customer requirements and the corresponding development of the load at individual locations. On the other hand, the investment plan dealt with the simple reproduction of distribution equipment ensuring, together with the planned repairs, the determined operating reliability and required standard of the distribution service, expected by the consumers of the Capital City. The standard of the supply quality and associated services was determined by the secondary legislation of the ERÚ. Unlike in previous years, as of 1.7.2006 non-performance of the guaranteed standards is encumbered with the obligation of providing compensation for non-observance of the guaranteed standard in accordance with the ERÚ Decree No. 540/2005 Coll.

The Company allocates investments to informatics only in case of dispatch and control technology. Investments to other spheres of information technology are secured by the parent company.

A significant part of investment funds must, in accordance with the valid energy legislation, be set aside for so-called customer investment meeting the distributor’s obligation to carry out network modifications enabling the connection of customer consumption points and satisfying the quantitative (size of input, volume and profile of energy transmission) and qualitative (reliability of energy supply and quality) of the consumers´ requirements on the supply territory for which the Company holds a distribution licence. The new legislation embodied in the ERÚ Decree No. 51/2006 Coll., which came into force on 1.3.2006, changed the existing addressing method of determining the share of customer payments regarding the distributor’s entitled expenses for connection and securing the input and introduced the generalisation of payments for individual voltage levels according to specific rates, relating to the unit of reserved input (ampere per LV level or MW per HV and VHV levels). Thanks to this methodical change and transition period, which Decree No. 51/2006 Coll. introduced, it was difficult to estimate the possible volume of contributions to this category of constructions.

That part of the investment programme deserves special attention, which deals with so-called strategic investment that particularly involves the construction of new 110/22 kV transformation points and their system connection on the 110 kV level. It also involves additional equipment and extension of the capacity of these stations due to the increase in the load in areas, which they supply including the construction of new connecting lines ensuring the optimal output to lower network levels.

Informatics

The next important area where a large volume of investments is to be allocated to is information technology. The following article deals more with this topic.

Informatics

ICT services (informatics, telecommunications) are secured centrally within the PRE Group that is to say not only for the parent company, but also for other members of the Group. On long-term basis the PRE Group is then able to maintain and develop a uniform ICT strategy, an integral part of which is the ICT investment policy.

The year 2010 was very successful with regard to informatics. Among others, it was possible to carry out:

- implementation of SAP system for communication with customers,
- further enhancement of Lancelot system functionalities, development of support of trading on the electricity market,
- the Company internet portal was significantly extended,
- the AMM project (clever metering) successfully continued,
- a project of informatics support to introduce a flextime was very successfully implemented,
- informatics was successfully certified to the ISO 27 001 (IT security).

A number of development changes are planned as part of the Group Strategy approved for 2011 which will require a significant informatics support. This namely concerns:

- implementation of a new system of bulk printing,
- increase of customer service efficiency displayed in the implementation of new functionalities of the SAP system,
- further development of bad debts management and debtors management system,
- continuation of AMM technology verification,
- modifications of IT systems ensuing from the Decree No. 540/2005 Coll.,
- development of telecommunications in accordance with the requirements of the development and management of the distribution system,
- development of new functionalities in trading with electricity,
- preparation project for changing the systems of network management (SCADA).

By using the latest technologies and procedures the PRE Group fully meets the requirements and expectations of its customers.

Financial Report

Financial performance (profit and cash flow)

In the calendar year of 2010 the PRE Group achieved a consolidated net profit of MCZK 2,246 which, compared with the previous year, means an increase by 4.8%. The planned result was exceeded by 11%. Thanks to the successful strategy in the purchase of electricity for end customers, the Company could reduce the price of electricity so its final average price, including that of distribution services, fell by about 3%.

The volume of supplied electricity in 2010, after the fall in 2009, exceeded the value of 2008 (+1.2%); the result is a year-on-year increase of the gross margin from the sales of electricity and distribution services by 7.3%. The Group continued in its savings measures which had already begun in 2009 and saved a total of 8% in the planned operating costs in 2010. On the other hand, as a consequence of the economic recession, revenues from selected contributions for the connection of new customers to the distribution network fell year-on-year by MCZK 78 to MCZK 144 MCZK (-35%).

An important item affecting profit was personnel costs which increased year-on-year by MCZK 52 (+ 5.2%). In view of the economic recession, the average wage rose only slightly (+ 0.9%), however the greatest effect on the increase of personnel costs was the revaluation of payables to employees arising from the collective agreement. These payables increased substantially in accordance with IAS 19 thanks to the significant fall in long-term interest rates. The EBIT (earnings before tax and interest) of the PRE Group reached MCZK 2,880 for 2010, which just as in the case of net profit, means exceeding the planned value. The year-on-year growth of this indicator was 3.6%. The Group's net operating cash flow in 2010 reached MCZK 3,970, which is a significantly better result than in the same period last year (MCZK 3,521). The cause was a year-on-year increase in the trade margin by MCZK 381 and an improvement in the collection of advances for electricity supply and distribution.

Financial position (assets, payables and equity)

The Group's long-term consolidated assets increased from the start of the year by MCZK 1,109 (+ 7.4%). The main capital expenses went towards the construction of distribution networks in the Capital City of Prague. In 2010 work was completed on the construction of the Zličin cable tunnel, reconstruction of the double-circuit overhead 110 kV lines in Řeporyje – Modřany, replacement of the 40 MVA transformer in TR Měcholupy 110/22 kV and replacement of the 40 MVA transformer at TR Malešice. At the end of the year work began on the reconstruction of the Holešovice 110 kV substation and 110 kV cable was laid between TR Karlov and TR Pankrác. Eleven switching stations were also reconstructed. The main purpose of the investment construction was and is to achieve the high reliability and quality of electricity supply and satisfaction of customer demand for new connections to the distribution network.

The PRE Group ensures reliable, ecological and innovative supplies of energy and energy services throughout the Czech Republic while focusing on the Capital City of Prague.

Hana Weisová

METHODOLOGY AND TAXES

"My work mainly involves dealing with the accounts and processing the Group's monthly financial statements. I and my departmental colleagues also record and send financial reports to EnBW."

The department manages the tax system application under the Group's conditions, including all relations concerning accounting, record-keeping and reporting, it represents the Company in the tax area and in tax controls.

Short-term assets fell overall from the start of the year by MCZK 2,155 to MCZK 2,353. The cause was a fall in monetary equivalents by MCZK 953, a fall in the revaluation of trading derivatives for the sale of electricity by MCZK 680, a fall in PXE margin deposits (initial margin and M2M) by MCZK 262 and a fall in tax receivables by MCZK 139.

During 2010 long-term payables fell overall by MCZK 1,075 to MCZK 3,159. The reclassification of part of the long-term bank loans due in 2011 of MCZK 1,302 to short-term payables especially contributed to this significant fall in their value. On the contrary, the long-term part increased of the payable to employees arising from the collective agreement by MCZK 55.

The total value of short-term payables significantly changed, however the revaluation of trading derivatives for the purchase of electricity fell by MCZK 669; the net balance of received advances and unsettled electricity bills increased by MCZK 335 and tax payables fell by MCZK 22. In addition, short-term loans increased (the original loans were duly repaid) but now the reclassified part of long-term loans due in 2011 is recorded in short-term payables (see above). In view of the fact that in 2010 a sum was paid out as part of the distribution of profit comparable with net profit of the current year the PRE Group's consolidated equity increased by 1%. In view of the repayment of part of the loans the ratio of equity to overall assets increased from 59% to 63%; hence the PRE Group's financial position is highly stable.

Increase of performance (cost savings and new products)
Although the results of 2010 are slightly above the planned targets, the Company is not underestimating the common risks arising from the consequences of economic recession and is dealing with them by implementing cost savings measures. The Company is preparing new electricity supply products aimed at individual customer segments in order to accommodate their specific needs which is reducing the risk of the loss of customers on one side and increasing the probability of acquiring customers outside the Company's distribution territory on the other.




Financial analysis

Financial analysis	Unit	**2010**	2009	2008	2007	2006	Calculation formula
Level of liquidity							
Total revenues (revenues from sales of electricity, services and goods)	MCZK	**20,248**	20,719	19,013	16,661	14,075	Sales of electricity + Revenues from services provided
Sales margin	MCZK	**5,583**	5,203	5,202	5,425	4,596	Sales margin from income statement
Profit after t tax	MCZK	**2,246**	2,144	2,170	2,457	1,693	Profit after tax from income statement
Level of profit of the revenues							
Sales margin from sales of electricity and distribution per CZK 1 of revenues (from SE and DS)	%	**27.9**	25.5	27.6	32.8	32.9	Sales margin from sales of electricity and distribution: sales of electricity x 100
Profit before tax per CZK 1 of total revenues	%	**13.8**	12.9	14.4	17.9	16.6	Profit/loss from regular activity before tax: total revenues x 100
Profit after tax per CZK 1 of total revenues	%	**11.1**	10.3	11.4	14.7	12.0	Profit after tax: total revenues x 100
Other indicators							
Regular liquidity	%	**63.3**	118.9	124.5	107.2	100.7	Short-term assets: short-term payables x 100
Equity interest in total invested capital	%	**62.6**	58.7	64.5	75.9	77.4	Equity: total invested capital x 100
Return on total assets – ROA	%	**12.2**	11.0	11.9	16.1	12.4	Profit after tax: total assets x 100
Return on equity – ROE	%	**19.5**	18.8	18.4	21.3	16.0	Profit after tax: equity x 100
Return on capital employed – ROCE	%	**19.6**	17.8	18.6	22.8	19.2	ROCE = EBIT / (total assets–short-term payables)
Total revenues labour productivity	TCZK/ employee	**15,201**	15,485	14,210	11,978	10,112	Total revenues: average adjusted number of employees
EBIT	MCZK	**2,880**	2,781	2,757	2,993	2,352	Operating profit/loss before interest and tax
EBITDA	MCZK	**3,742**	3,591	3,497	3,732	3,040	EBITDA = EBIT + depreciations
Net cash flow after tax	MCZK	**2,076**	1,672	1,060	980	1,677	NCF from operating activity decreased by NCF from investments

The Group estimated economic results in 2011–2014

The consolidated financial plan of the PRE Group was drawn up using IFRS standards; all three 100% subsidiaries were incorporated in the consolidated unit by a full method of consolidation. A fundamental precondition for achieving planned indicators is that no significant differences will arise in the trend of GDP macroeconomic indicators, especially inflation, living costs, prices of industrial products, interest rates, exchange rates of electricity purchase prices and income tax rates. The plan aims to maintain high performance throughout the planning period and continue with long-term stable economic results. The plan also takes into account the possible risks of increasing competition on the energy market and the uncertainty of the impact of stricter regulatory rules in the third regulatory period; however in addition it reflects the anticipated changes in the economic and legislative environment in the next four years. The Company will ensure a dividend policy in accordance with shareholders' requirements; it will systematically follow the planned preconditions and will flexibly respond to the changing conditions of the internal environment by correcting its strategy. Due to the further rise in the PRE Group's overall performance, the parent company will also explore suitable investment opportunities in electricity generation. In case of such investment the Company is prepared to secure financing by a combination of its own and foreign sources as part of an approved plan. The Company will systematically monitor fulfilment of planning preconditions and will flexibly respond to the changing conditions of the external environment by correcting its strategy which will be projected in future planned Company objectives in the continuous updating of this document.

Human Resources

In the area of human resources, the PRE Group has two main priorities for the future:

- building of customer oriented corporate culture,
- ongoing changes of the organizational structure in line with the Group needs in personnel sphere.

Complete personnel paperwork and wage calculation has been carried out centrally in the parent company, as well as work safety and environment services.

The Company uses the module SAP HR version ECC 6.0 for the administration of personnel and wage paperwork.

There are clear rules within the whole PRE Group concerning remuneration, while its basic principles are the result of collective bargaining between trade union officials and managements of individual entities within the Group. A wage regulation forms, among others, a part of the Collective Agreement; the relevant corporate norms deal with the specific application of the remuneration system. Tariff and non-tariff wages are enforced in the Company.

Number of employees – average full time equivalent

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
PRE	**615**	617	611	618	610	1,214	1,238	1,248	1,287	1,314
PREdi	**504**	514	515	555	583	-	-	-	-	-
PRE Group	**1,314**[1]	1,332	1,338	1,391	1,392	1,398	1,440	1,456	-	-

[1] Note: other members of the PRE Group have the following number of employees – average full time equivalent: PREměření, a.s. – 193 persons and PREleas, a.s. – 2 persons.

A priority of the Company is always to provide effective support for employees being made redundant; particularly those employees of pre-retirement age, single parents and less privileged. The Company operates a system of social and financial compensation measures to alleviate the negative consequences of organizational change.

Unified Collective Agreement for the period of 2010–2012 is valid within the Group; an Amendment to the Collective Agreement was concluded at the end of the year.

The Company ensures comprehensive works medical and dental care for its employees. A programme of preventive healthcare is taking place in the Company, which meets the requirements of the National Health Promotion Programme. The following four projects were implemented beyond the framework for employees: an oncology programme (designed to prevent and treat breast cancer), preventive check-ups of thyroid gland, preventive urological programme, vaccination against tick-borne encephalitis, hepatitis A and influenza.

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

Alena Šafrová

HUMAN RESOURCES ADMINISTRATION

"If you need advice about labour law contact our department. We will be happy to help you."

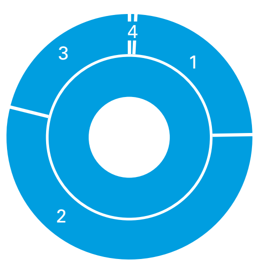
The department cooperates in drawing up Collective Agreements, performs the personnel agenda, keeps records of the start and termination of employment relationships, recruits employees, deals with pension applications and cooperates with the labour offices and general health insurance company, and processes statistical analyses.

The PRE Group strategy is the constant sustainable growth of the value of the Group.

On a long term basis the PRE Group has been cooperating with two Prague electrotechnical vocational schools (Secondary Electrical Vocational School (SOU energetické) – Prague 9, Poděbradská 12 and the Technical Business Vocational Training Centre – Prague 9, Poděbradská 1a). In the same manner it cooperates with the František Křižík Higher Professional School and Secondary Technical School of Electrical Engineering – Prague 1, Na Příkopě 16 and the Secondary Technical and Higher Technical School of Transport – Prague 1, Masná 18.

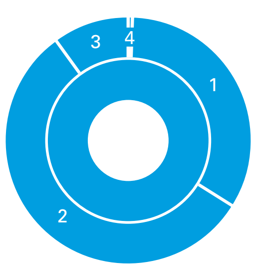
PRE operates a training centre which is used as an aid to ensure professional internship. In March 2009 the process of moving this facility from its original location in Novovysočanská street to Teplárenská in Malešice was completed. From the second quarter of 2009 1,607 persons, of whom 197 were students, passed the professional internship here.

Qualification Structure PRE Group



1	University	23.79%
2	Vocational with GCSE	54.38%
3	Secondary and apprenticeship	20.28%
4	Elementary	0.98%

Qualification Structure PRE



1	University	33.28%
2	Vocational with GCSE	56.22%
3	Secondary and apprenticeship	9.85%
4	Elementary	0.65%

Safety and Protection of Health at Work Policy

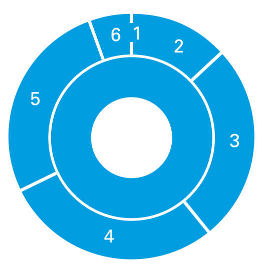
The parent company has been four times presented with the “Safe Enterprise” award. The introduced safety and protection at work management system, responsibility of employees for observing regulations and for their health brought a marked fall in work injuries. Only one injury resulting in work incapacity of more than three calendar days was reported in the years 2005 and 2006; in 2007 and 2008 two injuries were reported in each year, in 2009 three injuries and in 2010 two injuries were reported.

In 2008, the Czech Republic Ministry of Health awarded a certificate “Third Level Health Promoting Enterprise” (for years 2008–2011) which certifies high level of health care of employees. The companies of the PRE Group received this confirmation for the second time.

The policy of safety and protection of health at work above all prioritizes:

- safety and protection of health at work as an integral part of Company management activities,
- the common objective of Group members´ management and all employees – avoid risk situations and threat by consistent observance of safety at work rules,
- system of corporate norms applying to health protection, preventive checks, OOPP (Protection of Persons at Work) and risk analysis of individual activities ensures that legislation is upheld and the obligations of the employer and employees observed.

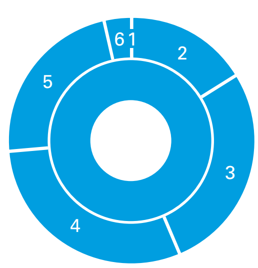
**Age Structure
PRE Group**



1	up to 20 years	0.03%
2	20–30 years	13.22%
3	30–40 years	25.98%
4	40–50 years	28.70%
5	50–60 years	26.66%
6	over 60 years	5.36%

Average age as at 31.12.2010: 43.62

**Age Structure
PRE**



1	up to 20 years	0.16%
2	20–30 years	16.16%
3	30–40 years	27.46%
4	40–50 years	30.05%
5	50–60 years	22.62%
6	over 60 years	3.55%

Average age as at 31.12.2010: 42.09

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

PRE Group ranks among modern corporations that take responsibility for the environment as their priority and attempt to constantly improve the conditions for its protection. Considerable funds are provided as part of the environmental protection policy to modernise the distribution network equipment. Older oil transformers are constantly being replaced by hermetically sealed transformers or ones without oil tanks, so-called dry transformers. This reduces the risk of possible contamination of surface and ground water.

In 2009 samples were taken of oil tanks of energy equipment to test that there was no presence of PCB in accordance with the Waste Act No. 185/2001 Coll. In 2009, in accordance with the Waste Act No. 185/2001 Coll. and the implementing order, testing of oil tanks of energy equipment to prove the absents of PCB, was terminated. No PCB was detected in any equipment.

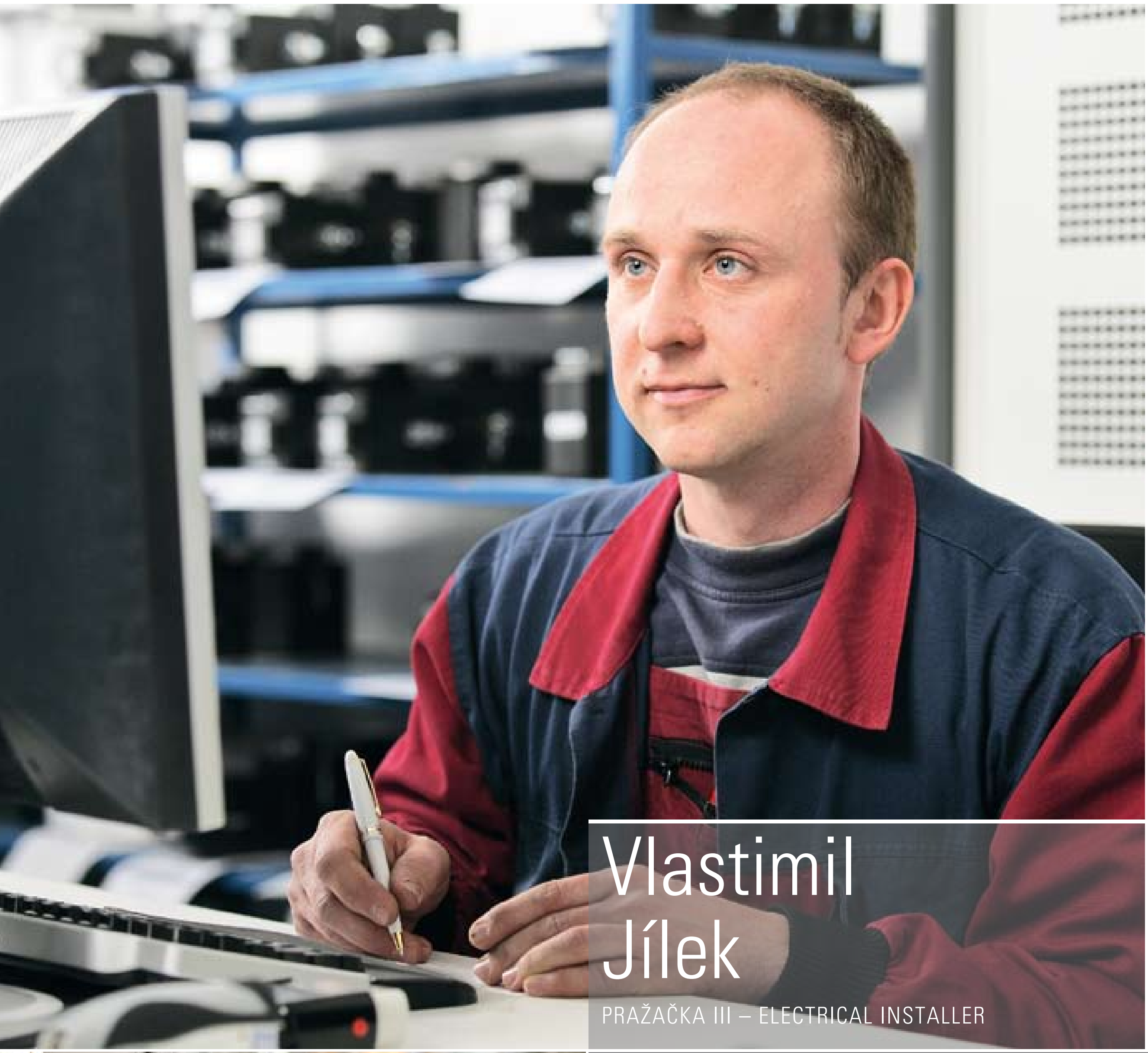
A working system of sorting and collection of dangerous and other waste and return collection of products has been created at the PRE Group workplaces. Employees are continuously trained in a whole scope of issues concerning environmental protection; selected employees are then trained in handling dangerous chemical substances and preparations. Educational presentation is available on the Intranet.

The ISO 14 001 – EMS system was introduced in PRE and in the subsidiary PREdistribuce, a.s. A surveillance audit was carried out in both companies in 2009.

Environmental Protection Policy

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

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



Vlastimil Jílek

PRAŽAČKA III – ELECTRICAL INSTALLER

“I work at the PRE Group as an electricity meter installer. Every morning I set off on planned and preventive visits to our customers. I visit an average of fourteen consumption points every day. So I and my co-workers visit a total of 110,000 consumers a year.“

The department installs and dismantles metering devices, operates an emergency service in non-metered installation areas, compiles data on metering devices.

Public Relations

Consistent customer orientation is a constant top priority of the PRE Group. Together with an extensive investment programme and creation of qualitatively higher level of external and internal communication, the Group has been for a long time deliberately building its external image.

The strategic objective in the area of public relations is to achieve the positive image of all members of the PRE Group in the eyes of the public, shareholders and all business partners. All available means are used in order to achieve this objective like refining all premises for customers, being as accommodating as possible in dealings with customers, seeking new forms of communication with customers, the public, regional and municipal administration, achieving a single external and internal graphic image. An appreciable part of creating a public positive image lies with advisory services for customers and marketing, which significantly contribute to creating the external picture of the Company as a serious business partner.

The newly operating website was also created in an aim to move as many customer contacts from Commercial Centres to the Internet, eventually to the Call Centre. The level of elaboration and user comfort of the website was positively assessed during the annual competition Czech Top 100. In 2005–2007 the Group's website ranked in the 1st place in this prestigious competition; in 2008 in the 3rd place and in 2009 in the 2nd place. The Group launched on its website (in the framework of a project of free advisory services for public) the PRE Energy Advisor – for more details about these activities see chapter "Customer Services and Trading Support".

The PRE Energy Advisory Centre (CEP), which launched its activities in 2009, provides free advisory services aimed at the economical utilisation of electricity for households and small businesses; for customers thematic small exhibitions of electrical appliances and technologies are prepared regularly. Likewise, it offers customers discounts for the acquisition of electrothermal equipment. The article on "Customer Services and Sales Support" provides detailed information about these activities.

The Group business philosophy lays down as its goal to combine the application of the latest technology with a friendly relationship towards its customers, being accommodating to the needs of surroundings – to humanitarian, cultural, sports and other events.

The PRE Group Sponsor and Donor Activities are considered an important part for building the PRE Group positive image and reputation. The purpose of the sponsored activities is to present the PRE Group as a dynamic Company, positively and openly communicating with the public. It must be stated that the sponsorship philosophy of all members of the PRE Group under the conditions of a transforming economy and gradually opening energy market does not merely serve publicly beneficial needs, but also plays an important communication role. The PRE Group always makes careful decisions about sponsoring individual projects, which target group to choose and how the specific project will address it.

A significant change in the shareholder structure – by repurchasing the share of shareholder Honor Invest, a.s., EnBW Energie Baden-Württemberg AG became the majority shareholder.

The main features of the PRE Group sponsorship activities are as follows:

- sponsorship funds must be able to help promote the Group good reputation in the eyes of the general public,
- as a Group of entities with a distinctly regional scope of activities it must be able to direct most of its sponsor activities to the region of the Capital City of Prague; likewise in accordance with the gradual liberalisation of the electricity market, be able to extend these activities to the rest of the Czech Republic,
- give preference to projects aimed at the general public that will most significantly contribute to creating a positive image among the public,
- promote projects that emphasize the vitality, adaptability, openness and helpfulness of new ideas,
- focus on projects that have their own strong communication potential, i.e. in themselves cause extensive publicity or are generally and positively accepted,
- based on the feeling of joint responsibility, not to reject joint participation in events of a humanitarian nature and national importance,
- promote environmental activities in order to improve the Company ecoimage.

Partners who were provided sponsorship contributions in 2010:

- the F. Křižík Higher Professional School and Secondary Technical School of Electrical Engineering – purchase of equipment and instruments for teaching specialised electrical engineering subjects,
- PVTS – PRE branch – operation of the company,
- Vysoká škola zdravotnická, o.p.s. (Medical University) – purchase of computer technology to equip special classrooms,
- PALESTRA University of Physical Education and Sport – additional IT equipment for the school,
- ZŠ Praha 3, Lupáčova 1/1200 (basic school Lupáčova) – purchase of computer technology and software for the needs of the “Progress Project”,
- Faculty of Electrical Engineering ČVUT – support of research work and operation of the faculty,
- People in Need, o.p.s. – help to victims of earthquake in Haiti,
- Královské Vinohrady Teaching School – equipment for the Burns Clinic.

In 2010 a total of CZK 2,382,500 was spent on these activities.

The Group’s external uniform visual image is also purposefully built up by advertising activities which are, in accordance with the drawn up corporate concept, directed above all at publicly beneficial, cultural and sports spheres.

The following are some of the main publicly beneficial advertising events:

- Top Expo CZ – competition of the Czech Energy and Ecology Project (ČEEP),
- NKL Žofín – Žofín´s forums,
- Czech Electrical Union – national congress of inspection technicians of electrical equipment 2009,
- Institute for Public Discussions – cycle of lectures on energy safety,
- V. M. EST, a.s. – ORL Doctor’s Congress,
- University of Finance and Administration, o.p.s. – textbook of Microeconomics,
- Done, s.r.o. – conference on Function of Energy Market in Czech Republic and EU,
- EUROMARKETING CZ, s.r.o. – VI. Prague Conference on Security “Future of Europe: people – resources – technologies”,
- Czech Committee for Scientific Management – professional seminar “Upcoming Changes in Energy Legislation”,
- Union of Professional Mediators of the Czech Republic – conference on “Out-of-Court Settlement of Disputes”.

Advertising events took place in the cultural sphere in cooperation with the following partners:

- Agentura Gejzír – art exhibitions in the Company registered office and in premises of PRE Energy Advisory Centre,
- Ransome@whittaker Marketing s.r.o – Rallye through night Prague,
- V. P. ART – "Prague Junior Note 2010" music competition,
- NedomYsleno ČR, s.r.o.– the "Prague Celebrations 2010" project,
- Medialogue, s.r.o. – exhibition Charles Bridge 2010 at Kampa island,
- Městská divadla pražská – ABC, Rokoko,
- Ostrovy, s.r.o. – music festival "United Islands of Prague 2010",
- Foibos – book Famous Villas of Bohemia, Moravia and Silesia,
- Riff Raff – Kašpárkohraní Children's Festival,
- NedomYsleno, s.r.o. – 19th Annual "Mezi ploty" Festival,
- Franz Kafka Society – cultural and educational programmes,
- Febiofest – 17th annual festival "Febiofest 2010",
- DARGOS, s.r.o. – Children´ day at Císařská louka,
- Delight, s.r.o. – Smíchov beach at the Hořejší embankment,
- Vltavín Auction Room – exhibitions,
- Theatre Semafor,
- Private Higher Vocational Film School – 10th International Student Film Festival Písek 2010,
- MGA GREIF, s.r.o. – Ice rink at Ovocný trh.

In the sports sphere:

- ENIC – golf tournament and triathlon,
- Club of sport dancing SILUETA Praha – dance performance and competition of the dancing pair J. Gross – T. Šimáčková,
- Cube Production – sports festival JoyRide,
- Spastic Handicap, a.s. – handicapped sportsmen,
- CU Bohemians Praha – football club,
- Premier Sports CZ – announcement of the best handicapped sportsman of the Czech Republic in 2009,
- Autoklub Markéta – Grand Prix of the Czech Republic,
- TJ Uhříněves – football club,
- TMM, s.r.o. – Velká Chuchle – horse racing,
- SK Horní Měcholupy – football club,
- FK Slavoj Vyšehrad – football club,
- TJ Orion – medical hypotherapy,
- Golf Club Hodkovičky,
- ARITMA Vokovice – Sport Club – football and basketball sections,
- Jan Němec – Easy Rider – representative in grass skiing,
- PSK Olymp Praha – athletic club,
- TJ Sokol Žižkov – major league women's volleyball club,
- HC Slavia Praha – ice hockey club,
- SK Slavia Praha – water polo,
- AC Sparta Praha – youth football club,
- HC Sparta Praha – ice hockey club,
- Sport Hostivař, a.s. – golf club,
- SK Motorlet Praha – football, swimming, fitness,
- SPINFLO – Tatran Střešovice – floorball club,
- Karel Bláha – PRE Golden Tour 2010 indoor football league,
- Balance Club Brumlovka – fitness club,
- SK Stopa Praha – skiing orienteering,
- Association Růže – summer ice hockey school of Vladimír Růžička,
- ALPY, spol. s r.o. – festival of alpinism.

In 2010 a total of CZK 36,776,037 was spent on advertising activity.

At its own cost the parent company operates the Technical and Documentary Museum of Prague power industry – the rooms of the museum are open to those people interested in visiting by previously booking over the telephone. Visitors will find dozens of exhibits, photographs and original printed materials covering an area of over 300 m². By displaying these exhibits the PRE Group wishes to contribute towards spreading knowledge to the public about part of the history of the capital city with regard to the production and distribution of electricity. The exhibition is constantly extended and enriched by new exhibits. By March 2008 the museum was located in Novovysočanská premises; after reconstruction it was moved and in November last year it reopened its collections to the public in the distribution station in Holešovice. In 2009–2010 the Technical and Documentary Museum participated in all-Prague project "Museum Night".

Since 1998 the parent company has been staging regular exhibitions of paintings, photographs and other art objects in the rooms that were earmarked for these purposes. In the period of 1998–2010 a total of 101 exhibitions (15 in 2010) were staged which undoubtedly enabled to present to visitors a representative cross-section of the work of contemporary Czech artists. The second exhibition gallery was opened in the PRE Energy Advisory Centre in TeTa Palace in Jungmannova street.

By organizing these events the PRE Group publicly presents itself as a Company that is not only a reliable supplier of electricity, but also one that helps to promote art.

It can be stated that this really is the case, not only connoisseurs but also general public – above all schools and individuals, who found their way to both exhibition rooms.

All 100% subsidiaries operated at a profit in 2010.

Capital Interests as at 31.12.2010

The Company focuses in its entrepreneurial activities above all on business in the same or related field; the most important acquisition is the 100% subsidiary PREdistribuce, a.s. which was established under valid legislation by transforming the distribution system operator to an independent entity.

During the year 2010 PRE held 100% interest in the following companies:

PREdistribuce, a.s.

Registered office: Prague 5, Svornosti 3199/19a
ID No. 27376516

The Company was formed on 16 August 2005 (registered in the Business Register on 7 September 2005) with a registered capital of MCZK 2.

In the view of the fact that it is the most important 100% subsidiary, more detailed information on it is submitted below.

The General Meeting of PRE held on 28 December 2005 decided to increase the share capital of PREdistribuce, a.s. through the subscription of shares and payment of the issue rate attached to the subscribed shares by making a non-monetary contribution of part of the Company. The share capital was increased by TCZK 21,547,000 which is the value of the part of the Company contributed as determined on the basis of an expert valuation as of 30 June 2005.

On 29 December 2005 PRE and PREdistribuce, a.s. entered into a contract for contribution of part of the Company with the effect from 1 January 2006.

On 29 December 2005 PRE and PREdistribuce, a.s. entered into a contract for subscription of shares pursuant to above-mentioned increase.

On 1 January 2006 PREdistribuce, a.s. took over of the part of the Company after the Memorandum of Hand-over and Take-over between PRE and PREdistribuce, a.s. was signed.

The sole shareholder approved the subscription of shares by a non-monetary contribution which consisted of part of the enterprise, the "Distribution Division" evaluated by an expert opinion to be worth TCZK 21,549,000. Its registered capital was increased by a decision of the PRE General Meeting held on 28.12.2005. This involved part of the enterprise that performs the following activities:

- providing distribution services, management of contractual relations with customers, network connection management,
- planning, concepts, development and maintenance of the distribution network, substations and cable tunnels,
- constructing the distribution network, management of contractual relations with contractors,
- administering and recording of assets designed for electricity distribution,
- archiving data for technical and operating documentation,
- inspecting and continuous control activities of existing equipment and equipment being built,
- network operation management in real time, power flow management and loss optimisation and HDO/mass remote control management,
- managing planned shutdowns, solving breakdown situations, managing breakdown services,
- preparing frequency and disconnection plans and mid-term and short-term disconnection plans,
- diagnosing and measuring technical properties of the distribution network,
- administering and operating communication metallic cables,

- administering and operating the network management systems,
- measurements in the distribution network including their assessment and submitting the measured and assessed data to the electricity market operator,
- comprehensive economic paperwork for all departments of the division and regulation reporting,
- technical controlling.

Pražská energetika, a.s. as a sole shareholder of PREdistribuce, a.s. adopted the decision on 19 June 2006 to reduce the registered capital of PREdistribuce, a.s.

The registered capital was reduced from the sum of CZK 21,549,000,000 by the sum of CZK 3,841,066,152 to the sum of CZK 17,707,933,848.

The reason for reducing the registered capital of PREdistribuce was to compensate the Company's accumulated losses from previous years.

The registered capital was reduced by the proportional reduction in the nominal value of all PREdistribuce, a.s. shares so that the nominal value of one hitherto company ordinary registered certificated share worth MCZK 1 was reduced by CZK 178,248, i.e. after the reduction of the registered capital, one company ordinary registered certificated share had the nominal value of CZK 821,752.

In the second half of 2007 (following the decision on a single annual reading), it was decided to consolidate all activities related to the metering of energy on the LV level to PREměření, a.s. Following this decision 35 employees were transferred to PREměření, a.s. as at 1.1.2008.

Main company indicators (MCZK):

	2010	2009	2008	2007	2006
Total Assets	**27,148**	**26,624**	**26,314**	**24,864**	**24,494**
Distribution equipment	**22,465**	21,989	21,721	20,880	20,643
Other fixed assets	**2,079**	2,136	1,997	2,322	2,315
Group cash pooling	**0**	0	0	339	317
Trade receivables	**2,575**	2,367	2,498	1,274	1,157
Other assets	**29**	132	98	49	62
Total liabilities	**27,148**	**26,624**	**26,314**	**24,864**	**24,494**
Equity	**18,933**	**18,673**	**18,850**	**19,582**	**18,456**
Deferred tax liability	**2,953**	2,958	2,968	2,995	3,806
Group cash pooling payables	**254**	192	874	0	0
Trade payables	**235**	124	133	156	160
Deferred revenues	**1,863**	1,810	1,743	1,675	1,599
Provisions	**179**	158	157	176	169
Loans	**2,600**	2,600	1,500	0	0
Other liabilities	**131**	109	89	280	304
Gross profit from distribution services sales	**4,765**	4,695	4,699	4,621	4,187
Profit from regular activity before tax	**1,133**	847	1,080	1,293	1,025
Profit from regular activity after tax	**910**	685	880	1,742	776
Extraordinary profit/loss	**0**	0	0	0	(28)
Profit after tax	**910**	**685**	**880**	**1,724**	**748**

Distribution network

The parent company PRE was the regional operator of the distribution system on the defined territory of the Capital City of Prague and the town of Roztoky until 31.12.2005 in accordance with the ERÚ licence issued on 26.10.2001 for the period of 1.1.2002–16.1.2027. In accordance with the requirements of the Energy Act No. 458/2000 Coll. as amended the legal division was completed as at 1.1.2006 of the distribution system operator into the separate subsidiary PREdistribuce, a.s. which as of this date became the new ERÚ licence holder for the distribution of electricity for the territory of the Capital City of Prague and the town of Roztoky.

Distribution of electricity means all the processes and activities connected with ensuring the transmission of electricity from facilities or transfer points with the transmission system to the consumption or transfer points of individual customers through the distribution system which consists of lines and electricity stations of a voltage of 110 kV, 22 kV and 0.4 kV and further equipment for dispatch control of the distribution system and measurement of the electricity currents. The key processes and activities for securing distribution are the development and restoration of network activities, connection of new customers, buildings and structural units, optimum control of operation and resolving failure, maintenance and repairs of the network, measurement and transfer of data for settlement of supplies in the distribution system. Electricity distribution is subject to price and qualitative regulation performed by the ERÚ which aims to optimise costs and prices for the use of the network while observing the adequate quality of electricity distribution and the user and customer services related therewith.

The total load of distribution network reached its maximum of 1,209 MW on 1 December 2010; a total of 6 TWh (6,077.5 GWh) was distributed on all voltage levels and all input and energy requirements of the existing and new customers and investors of development projects on the licensed territory were covered.

Standards of the quality of electricity supplies and related services were met with regard to customers connected to the distribution system throughout the year as in accordance with the ERÚ Decree No. 540/205 Coll.

You may find more details about this subsidiary in its Annual Report.

Comparison of selected network indicators (as at 31.12. of given year)

Indicator	Unit	**2010**	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Achieved maximum	MW	**1,209**	1,207	1,147	1,141	1,090	1,086	1,065	1,029	1,055	1,036	994	952	1,057	1,003
Length of VHV network	km	**202**	206	206	196	196	196	196	194	194	202	181	174	174	174
Number of VHV/HV stations	pieces	**22/24**	21/24	21/24	20/23	20/23	20/23	20/23	19/22	19/22	19/22	18/21	17/20	16/21	15/20
Length of HV line	km	**3,829**	3,780	3,701	3,670	3,584	3,556	3,581	3,632	3,546	3,535	3,570	3,575	3,530	3,469
Number of HV stations	pieces	**4,778**	4,796	4,783	4,750	4,693	4,656	4,635	4,578	4,626	4,640	4,522	4,500	4,562	4,398
Number of HV/LV distribution stations	pieces	**3,254**	3,277	3,281	3,272	3,258	3,238	3,241	3,222	3,255	3,407	3,345	3,331	3,403	3,421
Length of LV network [1]	km	**7,750**	7,693	7,645	7,678	7,557	7,477	7,420	7,354	7,383	8,870	8,774	8,660	8,324	8,041

[1] leap change of the LV network length between the year 2001 and 2002 resulted from the technical records specification of the applications of the graphic information system of the network

Emergency Service Line

Number of enquiries answered by the Emergency Service Line

Year	**2010**	2009	2008	2007
Total	**32,860**	28,800	34,260	31,200
Of which breakdowns	**22,160**	18,650	23,300	22,300

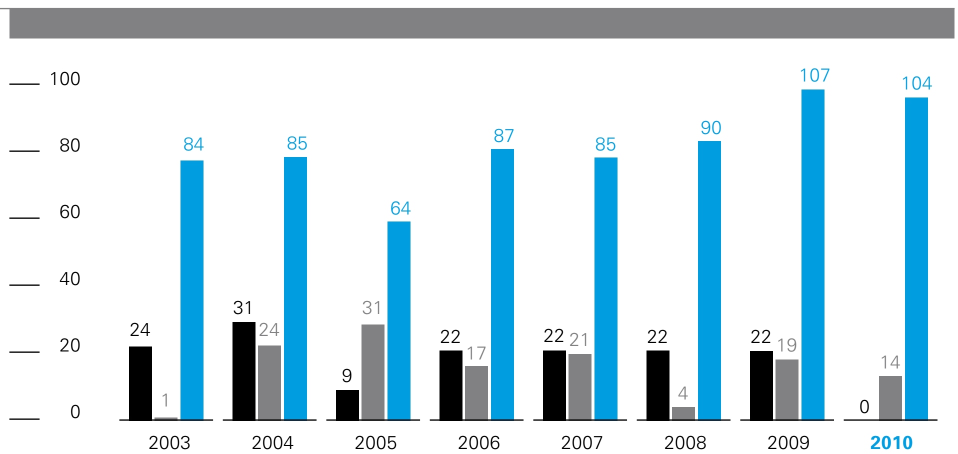
Number of e-mails answered by the Emergency Service Line

Year	**2010**	2009	2008	2007
Total	**1,577**	1,230	679	100

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

VHV
VHV/HV
HV

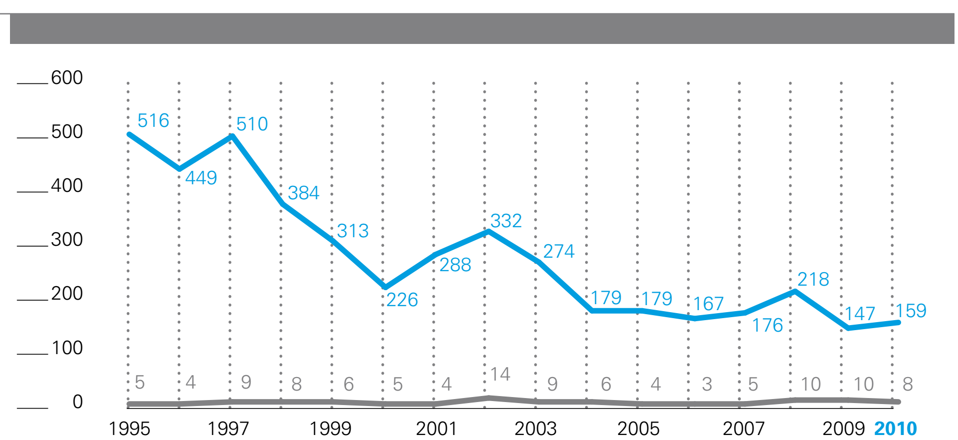
Note: The increase of average time of electricity disconnection in 2009 was caused by worse traffic conditions in Prague during repairs of failures in HV transformer stations.



Number of VHV and HV failures

VHV failures
HV failures

Note: The increase of failure rate in 2002–2003 was caused by floods and long-term distribution equipment shutdown.



PREleas, a.s.

Registered office: Prague 10, Limuzská 2110/8
ID No.: 25054040

The Company was established in 1996; its registered capital is MCZK 10. Its main line of business is leasing and renting of technology and technological units. Its leasing activities are directed only to members of the PRE Group; its business plan is not to enter the leasing market. The Company utilises leaseback to conduct its business activities.

Company strategic objectives

- ensure the PRE Group with financial leaseback,
- ensure the reasonable profitability of the Company and create a stable and strong capital structure.

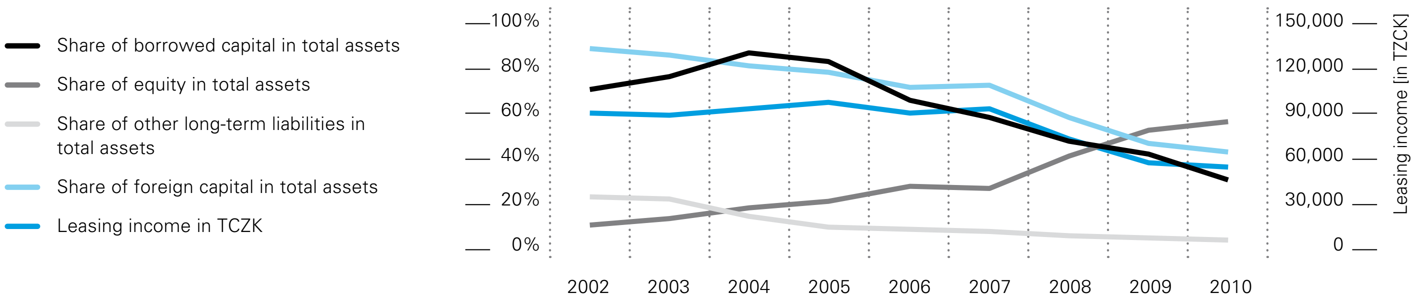
Main data about the Company (TCZK):

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Assets	**86,645**	118,343	164,540	216,235	280,542	352,896	329,985	320,023	291,473	271,502	231,906	151,797	99,752
Liabilities	**86,645**	118,343	164,540	216,235	280,542	352,896	329,985	320,023	291,473	271,502	231,906	151,797	99,752
Equity	**48,815**	62,172	68,422	59,442	79,372	77,281	61,467	45,538	32,471	25,281	19,439	14,775	12,737
External sources/liabilities[1]	**32,994**	47,278	81,409	135,619	170,804	232,999	209,876	195,674	178,703	165,782	137,804	84,983	55,735
Revenues	**46,565**	63,822	72,262	87,844	99,676	125,308	129,685	115,824	106,207	90,105	69,605	74,594	16,086
Costs	**3,822**	53,972	62,182	75,674	86,585	108,494	112,956	102,451	97,723	83,463	64,541	72,256	15,275
Profit after tax	**7,743**	9,850	10,080	12,170	13,091	16,814	16,729	13,373	8,484	6,642	5,064	2,338	811
Data on major investments made in the current accounting period and previous accounting periods including financial investments	**0**	0	0	0	0	112,689	103,012	110,151	99,863	106,912	119,603	101,929	70,626

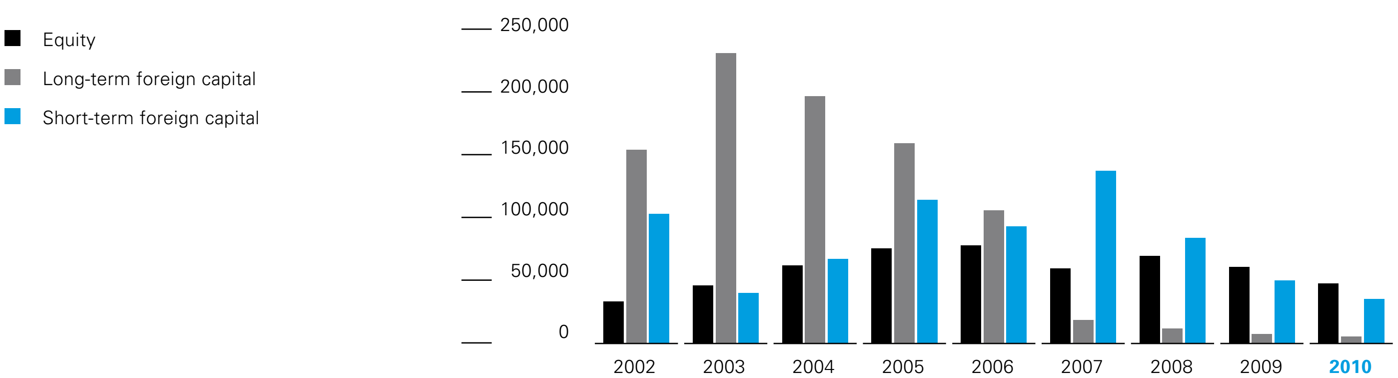
[1] Without accruals.

Company's main investments are directed to leaseback, whereas this property was originally owned by companies within the PRE Group.

Development of financial stability



Development of capital structure (TCZK)



PREměření, a.s.

Registered office: Prague 10, Na Hroudě 2149/19 (until 4.2.2008 Prague 7, Partyzánská 7a)
ID No.: 25677063

The Company was established in 1998 (initially called Cejchovna elektroměrů Praha, a.s.); its registered capital is MCZK 35. The main subject of its business activities is the production, installation and repair of electrical machinery and instruments; repair and assembly of metering equipment, operating the state metrological centre for checking metering equipment, purchase of goods for the purpose of their further sale and sale, organizing training and qualification courses. On 24.10.2003 the Company scope of business was extended to include assembly, repair, review and testing of selected electrical equipment. On 24 November 2005 it was decided to change the name of the Company to PREměření, a.s. This name was entered in the Commercial Register on 5 December 2005.

As of 1.7.2006 the subsidiary took over activity within the PRE Group connected with the installation of metering equipment in the LV networks and secures its performance.

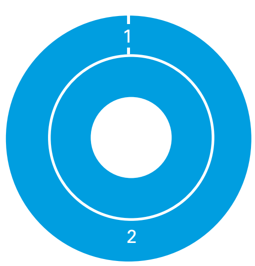
In 2001 the Company was accepted as member of the Asociace zkušeben vysokého napětí (AZVN) (Association of High Voltage Test Rooms) and holds a qualifying certificate for testing activities. The test room provides tests of measuring transformers of current and voltage, and tests of electrical consistency of working and protective aids up to 40.5 kV.

Further to the decision to carry out annual readings, it was decided to consolidate all activities associated with LV energy metering within PREměření, a.s. Based on the decisions carried out in 2007 and coming into force as of 1 January 2008, the organisational structure was regulated in line with requirements for ensuring the optimum function of processes associated with electric meters, i.e. administration of metering instruments, reading service and installation. In compliance with this decision most of the employees of ODEM a.s. “in liquidation”, (pursuant to § 249 of the Labour Code related to the transfer of rights and obligations from labour law relations) were transferred to PREměření, a.s. on 1 January 2008.

As of 1 January 2008 the subsidiary within the PRE Group took over the activities associated with readings of electric meters, gas meters and calorimeters and ensures their performance.

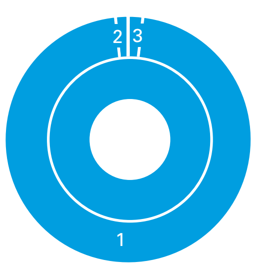
Based on the ERÚ decision of 14 December 2010, PREm was granted a licence to generate electricity which will be in force until 17 May 2035 (this concerns generation in FVE Jinonice, Lhotka, Hrouda, Pražačka and TR Sever I).

Number of checked meters in 2100



1	Induction meters	0.05%
2	Static meters	99.95%

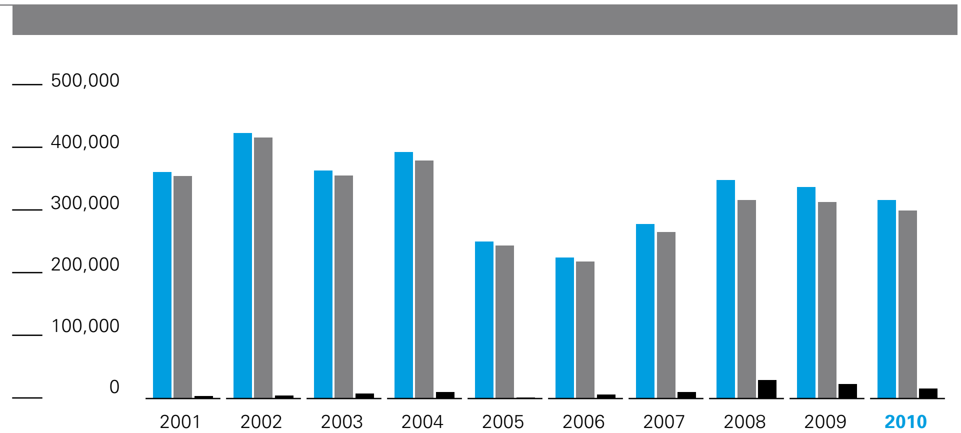
Success rate of meter readings in 2010



1	Regular readings	96.2%
2	Self readings	1.6%
3	No readings	2.2%

Development of revenues, costs and profit (TCZK)

- Revenues
- Costs
- Profit after tax



In the future period, main tasks of PREměření, a.s. will be: production, installation and repairs of electric machines and appliances, assembly and repairs of measuring instruments, readings and data collection of measuring instruments, sealing checks, meter readings and other specialized activities.

Main data about the Company (TCZK):

	2010	2009	2008	2007[1]	2006	2005	2004	2003	2002	2001	2000	1999	1998
Assets	**128,404**	120,889	122,581	103,172	69,147	74,001	90,394	81,611	104,509	102,401	91,151	61,496	63,602
Liabilities	**128,404**	120,889	122,581	103,172	69,147	74,001	90,394	81,611	104,509	102,401	91,151	61,496	63,602
Equity	**56,408**	67,940	72,032	51,310	48,939	56,961	66,792	59,725	55,968	53,461	54,625	51,623	44,663
Liabilities/external sources	**71,996**	52,949	50,549	51,862	20,208	17,040	23,602	21,886	48,248	48,631	36,104	9,584	18,766
Revenues	**316,573**	339,674	347,438	278,741	227,878	247,243	392,558	364,816	421,488	359,007	162,563	69,737	36,769
Costs	**298,025**	313,771	315,313	267,926	220,938	246,525	380,830	358,596	417,612	355,939	154,497	61,826	27,372
Profit after tax	**14,368**	25,903	32,125	10,815	6,940	718	11,728	6,220	3,876	3,068	7,783	7,911	9,397
Data on major investments made in the current accounting period and previous accounting periods including financial investments	**46,942**	1,899	0	7,364	3,344	2,500	3,700	3,525	2,498	2,997	9,947	26,517	-

[1] The balance of the deferred tax since 2008 is being shown as net value. In 2007 the deferred tax receivable was not balanced with a deferred tax obligation

All subsidiaries operated at a profit in 2010.

Members of the PRE Group are active members of the Club of Friends of the National Technical Museum in Prague, the Economic Chamber of the Capital City of Prague, Czech Union of Employers in the Power Industry and the Association for Electronic Commerce.

The PRE Group is also a member of the ČSRES Association, World Energy Council – CR Energy Committee, ČK CIRED, Czech Company Lawyers Association (Unie podnikových právníků ČR o.s.), Electricity Market Operator (Operátor trhu s elektřinou, a.s.), Czech-German Chamber of Commerce and Industry (Česko-německá obchodní a průmyslová komora) and the Czech Institute of Internal Auditors (Český institut interních auditorů).

Total net income from financial investments on behalf of the parent company for 1995–2010 (MCZK)

2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
680.80	891	1,616.77	630.63	24.00	10.95	4.82	2.74	7.69	9.72	8.51	7.52	15.18	7.77	–	–

Shareholders

All shareholders have free access to all important information on the Company. All materials are available either directly over the Internet or upon request from the department G 11 100 – Shareholder Agenda, which is fully available to shareholders.

In accordance with regulated legislation, information began to be provided obligatorily, with links to important changes in the Company found on the AliaWeb financial server. This means that shareholders have access to immediate information on any important changes in the Company.

Main PRE Shareholders (%)

Status as at 31.12.	**2010**	from 9/2010	2009	2008	from 9/2008	2007	2006	2005	2004	from 7/2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
PRE-H	**57.87**	57.87	57.87	57.87 (57.8744)	57.8744	50.78	50.78	50.78	50.78	50.78	50.78	50.78	50.77	-	-	-	-	-	-	-
ČEZ, a.s.	-	-	-	-	-	-	-	-	-	-	34.00	-	-	-	-	-	-	-	-	-
Honor Invest, a.s.	-	-	41.10	41.10 (41,0965)	41.0965	34.00	34.00	34.00	34.00	34.00	-	-	-	-	-	-	-	-	-	-
MPSV ČR	-	-	-	-	-	14.19	14.19	14.19	14.19	14.19	14.19	-	-	-	-	-	-	-	-	-
FNM ČR	-	-	-	-	-	-	-	-	-	-	-	48.19	48.19	48.19	48.19	48.19	48.19	48.19	51.59	100.00
Capital City of Prague	-		-	-	-	-	-	-	-	-	-	-	-	25.89	33.83	33.83	33.83	33.83	33.83	-
EnBW Energie Baden-Württemberg AG	**41.26**	41.26	0.16	0.16 (0.1592)	0.1592	0.16	0.16	0.16	-	-	-	-	-	-	-	-	-	-	-	-
GESO AG	-	-	-	-	-	-	-	-	0.16	0.16	0.16	0.16	0.16	17.42	16.76	16.49	16.09	15.59	-	-
RWE Energie AG[1]	-	-	-	-	-	-	-	-	-	-	-	-	-	7.61	-	-	-	-	-	-
Legal entities	**0.18**	0.18	0.18	0.18 (0.1830)	0.1830	0.16	0.17	0.17	0.17	0.17	0.17	0.17	0.18	0.18	0.26	0.48	0.50	0.73	12.81	-
Natural persons	**0.69**	0.69	0.69	0.69 (0.6869)	0.6869	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.71	0.79	0.84	0.82	1.09	1.60	-
Employee shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.40	0.40	-	-

[1] From 2001 the firm RWE Plus AG; from 2003 RWE Energy AG.

Romana Tomšů

CUSTOMER LINE I

“In my work **I try to meet customers requirements and wishes to their satisfaction.** I deal with eighty to a hundred customers every day.“

The customer line provides information and advice, deals with B2 customer requirements, claims, complaints and other requirements concerning changes, deals with correspondence and administers incoming contacts from the telephone exchange.

Structure of PRE Shareholders

Status as at k 31.12.	**2010**		2009		2008		2007		2006		2005	
	Number of shareholders	**Nominal value (TCZK)**	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)
Domestic shareholders	**7,505**	**2,267, 617**	7,562	3,856,752	7,605	3,856,752	7,659	3,856,756	7,720	3,856,751	7,821	3,856,761
Foreign shareholders	**10**	**1,601,826**	10	12,691	10	12,691	9	12,687	9	12,692	8	12,682
Total shareholders	**7,515**	**3,869,443**	7,572	3,869,443	7,615	3,869,443	7,668	3,869,443	7,729	3,869,443	7,829	3,869,443
Natural persons	**7,495**	**28,048**	7,550	26,551	7,594	26,582	7,646	27,305	7,708	27,327	7,807	27,193
Legal entities	**20**	**3,841,395**	22	3,842,892	21	3,842,861	22	3,842,138	21	3,842,116	22	3,842,250
– of which IPF	**0**	**0**	0	0	0	0	0	0	0	0	0	0

Status as at 31.12.	2004		2003		2002		2001		2000		1999	
	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)
Domestic shareholders	8,062	3,856,889	8,218	3,856,894	8,434	3,855,871	8,808	3,856,620	9,817	2,895,264	10,610	3,212,796
Foreign shareholders	10	12,554	8	12,549	7	13,572	6	12,823	8	974,179	9	656,647
Total shareholders	8,072	3,869,443	8,226	3,869,443	8,441	3,869,443	8,814	3,869,443	9,825	3,869,443	10,619	3,869,443
Natural persons	8,047	27,189	8,203	27,208	8,419	27,241	8,786	27,177	9,795	27,545	10,587	30,678
Legal entities	25	3,842,254	23	3,842,235	22	3,842,202	28	3,842,266	30	3,841,898	32	3,838,765
– of which IPF	0	0	0	0	0	0	0	0	0	0	0	0

During the summer months of 2010 the European Commission and the Office for the Protection of Competition of the Czech Republic approved the takeover of the block of PRE shares (41.10%) from Energetický a průmyslový holding (owner of Honor Invest, a.s. shareholder) by EnBW Energie Baden-Württemberg AG.

On 15 September the Company received a request of shareholder Pražská energetika Holding, a.s. to convene an extraordinary General Meeting (based on the provision of Section 181 (1) of Act No. 513/1991 Coll., the Commercial Code, as amended and the provision of Article 13 (3), c) of the Company's Articles of Association).

On 20 September 2010 the Company received the "Notice of the Share of Voting Rights" in which it was informed about the relinquishment of voting rights of shareholder Honor Invest, a.s. of 41.10%.

On 22 September 2010 shareholder EnBW Energie Baden-Württemberg AG informed by a notice of the coming into effect of the shareholder agreement that on 20 September 41.10% of the Company's shares were transferred under the share exchange contract from shareholder Honor Invest, a.s. to shareholder EnBW Energie Baden-Württemberg AG.

On 29 December information was published that shareholder EnBW Energie Baden-Württemberg AG, in accordance with Act No. 104/2008 Coll. on Tender Offers, as amended, made a compulsory tender offer to all owners of ordinary shares received for trading on the regulated market (ISIN: CZ0005078154) issued by the Company for the purpose of increasing its shareholder share.

Under the offer the shareholder acquired 317 of the Company's shares. These newly acquired shares represent a 0.0082% share in the Company's registered capital. At the time of the binding force of the tender, which expired on 10 December 2010, the shareholder did not acquire any other of the Company's shares outside the offer. In view of the fact that the conditions were not met of Section 49 of Act No. 104/2008 Coll. no additional duty of offer arose for the shareholder. The fact that the conditions were not met of Section 49 of Act No. 104/2008 Coll. no additional duty of offer arose for the shareholder.

On 17 February 2011 the Company received a notice, in accordance with Section 122 of the Capital Market Undertaking Act No. 256/2004 Coll., that on this date EdFI (E.D.F. International S. A.) and its controlling entities (EdF and the French Republic) have relinquished an indirect 99.13% share in the voting rights of Pražská energetika, a.s.

On 17 February 2011 the Company received a notice, in accordance with Section 122 of the Capital Market Undertaking Act No. 256/2004 Coll., that on this date NECKARPRI GmbH, with registered office in Maybachstr.6, 70469 Stuttgart acquired an indirect 99.13% share in the voting rights of Pražská energetika, a.s.

Trading in Company shares on the capital market in 2010

The shares of the parent company rank, as is apparent from the abovementioned overviews and in view of the long-term investments, among the stable stock market products both on the BCPP (Prague Stock Exchange) and the RM-S.

PRE shares were floated on the open market of the BCPP on 1 March 1995 at a starting price of CZK 2,750; they were accepted on the main market on 25 September 1995 (ISIN: CZ0005078154). From 1 May 1998 the Company shares have been traded on the secondary BCPP market.
The Company did not request any of the regulated (even foreign) markets to receive issued shares for trading (with the exception of the Prague Stock Exchange).

Burza cenných papírů Praha, a.s. (BCPP)/Prague Stock Exchange
The shares of the joint stock Company Pražská energetika, a.s., ISIN = CZ0005078154 were present at a total of 242 sessions of the BCPP in 2010. In the course of 2010 the shares increased their rate twenty times and their rate fell twelve times. In the remaining 210 days the rate stagnated. The maximum rate during 2010 was CZK 7,700, the minimum rate was CZK 6,800. The longest interval (measured by the number of trading days) during which the rate of Company shares did not fall lasted 46 trading days. This stable period started on 25.1. and ended on 9.4. On the following trading day the rate fell. During this period the rate strengthened from the starting value of CZK 6,880 to the value of CZK 7,488. The longest interval, during which the rate of shares did not rise, lasted 40 trading days. This period lasted from 22.1. to 30.3. (the rate strengthened on the following trading day). During this period the rate decreased from CZK 7,300 to the value of CZK 6,880. In 2010 trading took place on the BCPP on 37 trading days and a total of 202 shares at an integrated value of CZK 1,474,000 changed owners through the automated trading system of the Prague Stock Exchange.

From the above-mentioned information it is evident that an average of 5 shares were traded and the daily average transactions amounted to CZK 39,849. Most shares traded through the BCPP automated trading system on one day (35 pieces) was on 25 January at a rate of CZK 6,880 which represents a transaction to the volume of CZK 254,660. This amount also represents the biggest daily volume of trade with Company shares through the BCPP automated trading system in 2010. On average, in the year 2010 one Company share was traded through at BCPP for CZK 7,300.

RM-system (RM-S)
On the market of the RM-system it was possible to trade with the Company shares at a total of 253 continuous auctions. Trading in Company shares took place within 67 auctions during which a total of 338 shares changed owners. There is a continuous trading on the RM-S market and not at a fixed rate as on the BCPP. Only the total volume of trading transactions is known for each continuous RM-S auction, for which we cane determine the average price of a share on that day. The highest average Company share price in 2010 on the RM-S was CZK 7,720, the lowest average price achieved at continuous RM-S auction was CZK 6,801. The total volume of transactions through RM-S was CZK 2,467,028. The greatest volume at one auction was achieved on 2.11. when a total of 27 shares changed owners at an average selling price of CZK 7,497. The result is record daily volume worth CZK 202,430. It was on that day when the greatest number of shares was traded during an auction.

If trading with Company shares through RM-S took place, then the daily volume of transactions at RM-S in 2010 was CZK 36,821 and 5 shares were traded on a continuous auction.

Středisko cenných papírů (SCP) Securities Centre/Centrální depozitář cenných papírů (CDCP) Central Securities Depository
Apart from public stock markets (BCPP and RM-S) shares can also be transferred over SCP counters (until 30.6. and from July through CDCP participants). This entity publishes weekly overviews of transfers together with average agreed price of transferred shares.

Outside of public stock markets, a total of 317 shares at an integrated value of CZK 2,482,110 were transferred in 2010 which results in an average price of CZK 7.830 per share. All transfers in 2010 were carried out at the rate of CZK 7,830.

Shares issued by PRE (No.)

Status as at 31.12.	2010[2]	2009	2008	2007	2006	2005	2004	2003	11.6.2003[1]	2002	2001	2000	1999	1998	1997	1996
Bearer share	0	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,553,831	2,538,353	2,538,353
Registered	3,869,443	1,315,612	1,315,612	1,315,612	1,315,612	1,315,612	1,315,612	1,315,612	1,315,612	1,315,611	1,315,611	1,315,611	1,315,611	1,315,611	1,315,611	1,315,611
Registered – employee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15,478	15,478
Registered with special rights	0	0	0	0	0	0	0	0	0	1	1	1	1	1	1	1
Total	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443

[1] Share with special rights was cancelled by the decision of the Steering Committee on 11.6.2003.
Note: The General Meeting held on 8.10.2008 approved transfer of 1 ordinary registered share from the shareholder Ministry of Labour and Social Affairs of the Czech Republic to the shareholder PRE-H.

[2] The Extraordinary General Meeting held on 15.10. approved the change of form of 2,553,831 ordinary shares to registered shares

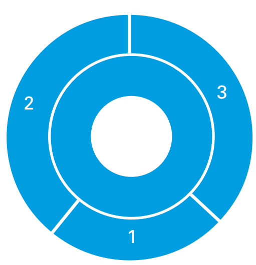
Bearer shares — until 15.10. had non-material form, full voting rights and were freely transferable.
Registered shares — have a non-material form, full voting rights and are transferable.

All the above-mentioned shares are entitled to dividend payments provided the General Meeting approves their payment.

Should the right to the payment of dividends not be enforced within the period from the maturity date approved by the General Meeting to the time laid down by the law, it will be forfeited to the Company.

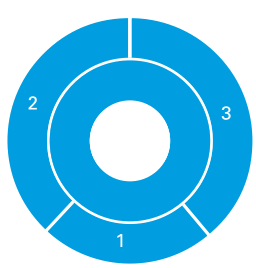
During the current accounting period the Company did not acquire its interest shares.

Market shares – number of transferred shares



1 BCPP 23.57%
2 RM-S 39.44%
3 SCP/CDCP 36.99%

Market shares – financial units



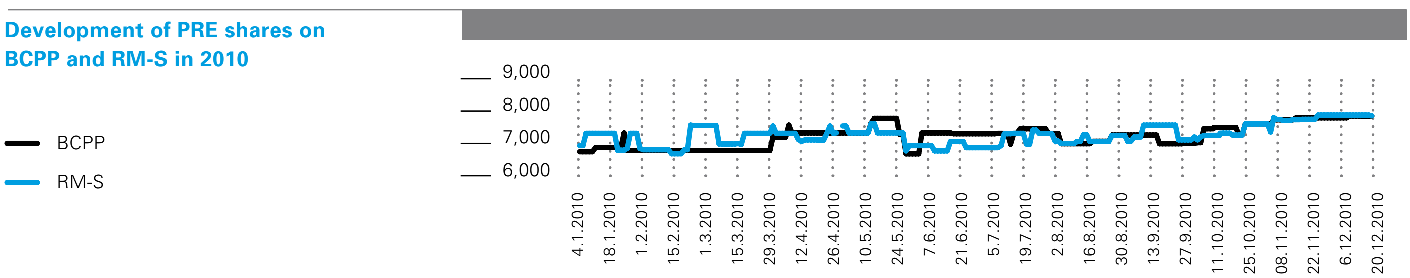
1 BCPP 22.95%
2 RM-S 38.41%
3 SCP/CDCP 38.64%

Financial Ratio Indicators

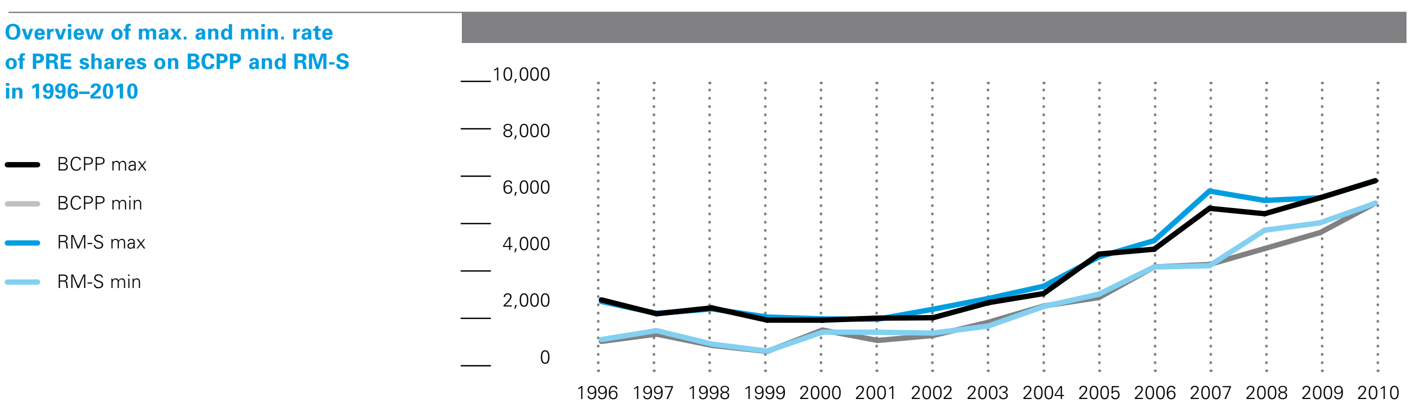
Indicator	Unit	**2010**[1]	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Net profit per share (EPS)[2]	CZK	**580.36**	554.00	560.93	634.95	437.60	318.27	246.58	252.91	256.71	267.58	141.46
Net operational cash flow per share	CZK	**1,025.98**	909.99	729.71	608.85	757.70	531.00	369.09	400.56	495.96	429.86	439.08
Dividend per share (DA)	CZK	**520.00**	543.00	543.00	620.00	356.00	218.00	188.00	178.00	168.00	110.00	95.00
Accounting value per share	CZK	**2,977**	2,950	3,051	2,986	2,735	2,539	2,230	2,173	2,081	1,973	1,822
Payment ratio	%	**89.59**	98.01	96.80	97.65	81.35	68.50	76.24	68.51	65.44	41.11	67.16

[1] Values submitted for approval to the General Meeting.
[2] Without royalties paid.

Development of PRE shares on BCPP and RM-S in 2010



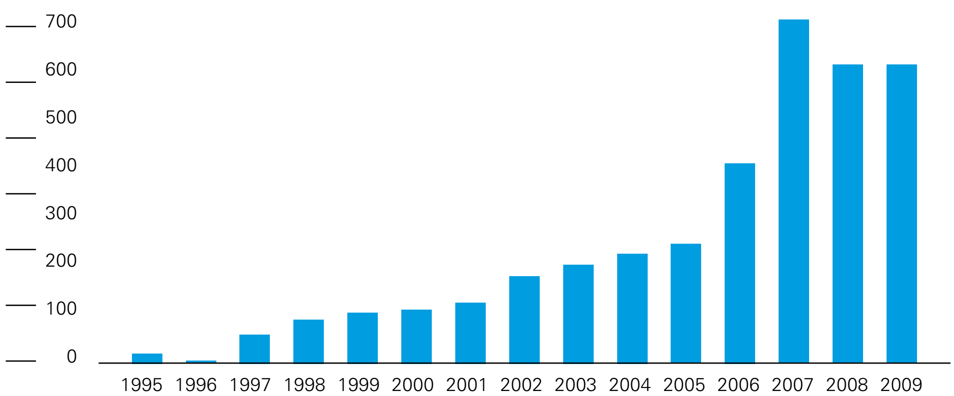
Overview of max. and min. rate of PRE shares on BCPP and RM-S in 1996–2010



Dividend Policy

The Company will continue to create conditions for a stable dividend policy; coverage of dividends will be ensured to the decisive extent by sufficient profitability of the Group. The amount of paid out dividends is determined according to the decision of shareholders at the General Meeting with the view of achieved economic results of the Group. The shareholders and capital market supervisory authority (and possible investors) are informed in respect of legal requirements about the level of paid out dividends, as well as about other important information relating to issuer's prospectus.

Amount of paid out dividend CZK/share



The branches of the Customer Centre were visited in the course of the year by

261,720 customers.

Information on General Meetings held in 2010

During the year there were held one ordinary General Meeting and one extraordinary General Meeting convened by request of the shareholder Pražská energetika Holding, a.s.

Information on the ordinary General Meeting held on 28 May:

The General Meeting approved:

- the procedural rules of the General Meeting,
- the report of the Board of Directors on the business activity and the state of the assets for 2009,
- the summarizing explanatory report according to section 118, (5), letters a) to k) of the Capital Markets Act No. 256/2004 Coll. as amended on trading on the capital market,
- consolidated and regular (separate) financial statements for 2009,
- distribution of profit,
- amount of gifts for 2010 in the total amount of MCZK 10,
- monthly remuneration of members of the Board of Directors and the Supervisory Board in the total amount of CZK 600,000 for the period up to the next ordinary General Meeting.

On 15 September the Company received a request from a shareholder of Pražská energetika Holding, a.s. to convene an extraordinary General Meeting with the agenda presented below (in accordance with the provision of Section 181 (1) of Act No. 513/1991 Coll., the Commercial Code, as amended and the provision of Article 13 (3), c), of the Company's Articles of Association).

Information on the extraordinary General Meeting held on 15 October:

The General Meeting approved:

- the procedural rules of the General Meeting,
- change in the type of 2,553,831 ordinary bearer shares in book-entry form to registered shares,
- change in the Articles of Association,
- changes in the members of the Supervisory Board.

Note: the changes in the Articles of Association involved the wording to comply with the amendments to legislation, i.e. the Commercial Code, the Auditors' Act, the Capital Market Undertaking Act and the Trades Licensing Act, and contain an adjustment in the Company's line of business, way of appointing the auditor, rules for the shareholder's attendance at the Company's General Meeting and convening the General Meeting. There were also approved changes caused by a change in the type of existing Company bearer shares to registered shares (the change in the type of existing bearers shares to registered shares will not affect the rights of shareholders owning these shares). The division and specification of the Company Board of Directors and Supervisory Board powers and competences was specified and supplemented, the amendment of distribution of Company other own resources and number of the Board of Directors Vice Chairmen changed, the Board of Directors and Supervisory Board decision-making regulated, the acting and signing on behalf of the Company altered and a change to the way the Company makes facts public.

Top Management Organizational Structure as at 31.12.2010

Chief Executive Officer

Commercial Director

Services Unit

- Company Executive Office
- Company Economy
- Human Resources
- Legal
- Informatics
- Support Services
- Group Economy

Commercial Unit

- B2B
- B2C
- Trading in Electricity
- Development and Strategy
- Sales Support

Unit

Section

As of 1.2.2011, a change of Organizational Structure of all companies within the Group came into force. Its objective is to:

- ***constantly increase the efficiency of the Group while using all possible synergies,***
- ***develop market and customer oriented model of arrangement,***
- ***increase transparency of units structure and distribution of specialized competencies,***
- ***finalize the process of unbundling.***

Approved organizational changes helped to maintain the employment rate and the number of work positions.

The significant changes are stated below:

- ***creation of corporate strategy and financing was transferred to direct subordination of the Chief Executive Officer,***
- ***responsibility for mid-term and short-term planning was centralized into one section,***
- ***efficient modifications of management and organization of electricity sales to B2C customer segment were implemented in the Commercial Unit,***
- ***optimization of number of sections and centralization of communication activities with ERÚ, OTE and other external entities on the energy market was executed in subsidiary PREdi,***
- ***PREm started, in accordance with strategic objectives of the Company, to build organizational structure which will enable to render services to external customers (direct services to PREdi end customers, i.e. services which will be provided as support for products traded by PRE – thermovision, maintenance of wholesale transformer stations, technology equipment, etc.)***

The PRE Group Management Chart (overview of controlling and controlled persons)

Electricité de France International SA (EdF) (up to 17.2.2011)
NECKARPRI GmbH (from 17.2.2011)

Capital City of Prague
51%

EnBW Energie Baden-Württemberg AG
49%

Pražská energetika Holding, a.s. (PRE-H)

Honor Invest, a.s. (up to 20.9.)
EnBW Energie Baden-Württemberg AG (from 20.9.)

Pražská energetika, a.s.

PRE-H	57.87%
EnBW Energie Baden-Württemberg AG (from 20.9.2010)	41.26%
Natural persons	0.69%
Legal entities	0.18%
Honor Invest, a.s. (up to 20.9.2010)	41.10%

General Meeting

Supervisory Board

Board of Directors

PRE Executive Management

PREdistribuce, a.s.

PREměření, a.s.

PREleas, a.s.

Zuzana Jůnová

READINGS IV

"Before the actual reading I process notices which I place in house post-boxes or next to the main door of high-rise flats and hope that customers will be at home when their reading is taken. I then process the self-readings."

The reading service takes readings from LV electricity meters in accordance with PREdi requirements, readings from gas meters and calorimeters, readings from the metering devices of special customers, control of consumption points, delivery of bills to special customers and settling complaints and claims associated with readings.

Line of Business

The line of business of the parent company consists of the following activities and spheres of activity:

– trading in electricity,
– provision of public communication networks and provision of electronic communication services in the scope of Certificate No. 1205 dated 16.5.2006, i.e. 18293/ 2006 – 631 issued by the Czech Telecommunication Office,
– assembly, repair, inspection and testing of pressure equipment and gas containers,
– assembly, repairs, revisions and testing of lifting equipment,
– road motor freight transport [1],
– road motor passenger transport [1],
– road motor transport [2],
– nationally operated vehicles with the greatest permitted weight below 3.5 tons inclusive,
– nationally operated vehicles with the greatest permitted weight above 3.5 tons,
– internationally operated vehicles with the greatest permitted weight below 3.5 tons inclusive,
– national casual personal transport,
– international casual personal transport,
– technical and organizational activity in the area of fire protection,
– provision of services in safety and protection of health at work,
– accounting consultants activities, bookkeeping, keeping tax records,
– production, installation, repair of electrical machinery and appliances, electronic and telecommunication equipment,
– production, trade and services not mentioned in Amendments 1 to 3 to the Trade Licensing Act,
– gas sales [3],

Fields:

– provision of software, consultancy in the sphere of information technologies, data processing, hosting and related activities, web portals,
– wholesale and retail,
– pawnshop activities and retail with used goods,
– lease and lending of movable items,
– accommodation services,
– real estate administration and maintenance,
– after-school training and education, organization of courses, trainings, including lectureship activities,
– administration services and organisational-economic services,
– trade and services mediation,
– advertising activity, marketing, media representation,
– advisory and consultancy services, execution of specialised studies and expert opinions,
– waste removal (except of dangerous),
– polygraphic production, bookbinding and copying services.

[1] It was cancelled at the extraordinary General Meeting
[2] It was newly included at the extraordinary General Meeting
[3] It was decided at the Board of Directors meeting on 12.11.

Report on Relations between connected Persons

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

A. Information on the Relation

Controlling person: Pražská energetika Holding, a.s., ID No.: 26428059, Registered office Prague 10, Na Hroudě 1492 (PRE-H)
Controlled person: Pražská energetika, a.s., ID No.: 60193913, Registered office Prague 10, Na Hroudě 1492/4 (PRE)

Controlling Person

Corporate name:	**Pražská energetika Holding, a.s.**
Registered office:	Prague 10, Na Hroudě 1492/4, PCN 100 05
ID No.:	26428059
Registered capital:	CZK 3,598,627,000
Equity:	CZK 7,158,880,000
Average number of employees:	–
Economic result after tax:	CZK 1,217,290,000
Line of business:	– administration of interests held in legal entities – activity of economic and organizational consultants
Information on main sphere of activity:	
Income from dividends:	CZK 1,216,003 000.
Data on revenues in the last accounting period:	–
Data on dependence of the issuer on patents, licences, if they have significant impact on the issuer's activity:	the Company is not dependant neither on patents nor licences
Data on judicial, administrative or arbitral proceedings in the current and two previous accounting periods:	no proceedings have been held
Numeric data on main investments made in the current accounting period:	CZK 0
Data on main future investments made in the current accounting period:	–
General data on trends in the issuer's activity and data on business prospects:	–

a) Origin and overview of important events

aa) Shareholders decided the following at PRE Extraordinary General Meeting held on 19 April 2000:

- consent was granted for the transfer of 1,001,751 PRE registered shares owned by the City of Prague, Mariánské náměstí 2, 110 00 Prague 1 (SIN: 770950000628) to PRE-H a.s. with Registered office at Na Hroudě 1492/4, 100 05 Prague 10,
- consent was granted for the transfer of 19,227 PRE registered shares owned by GESO AG, with registered office at Friedrich-Liszt-Platz 2, D-01069 Dresden, Germany (SIN: 770950000628) to PRE-H with registered office at Na Hroudě 1492/4, 100 05 Prague 10,
- consent was granted for the transfer 294,633 PRE registered shares owned by RWE Energie AG (from 23.1.2001 RWE Plus AG), Kruppstraße 5, D-45128 Essen, Germany (SIN: 770950000628) to PRE-H a.s. with registered office at Na Hroudě 1492/4, 100 05 Prague 10
- contract on the establishment of PRE-H was signed on 9.2.2000, the decision of the aforementioned extraordinary General Meeting came into effect on 17.1.2001 when PRE-H with registered office at Na Hroudě 1492/4, 100 05 Prague 10 was entered in the Commercial Register.

ab) Tender offer to owners of securities

PRE-H a.s. acquired (by investment contribution of the shares of its shareholders on 11 July 2001) by negotiations in agreement with GESO AG (its own direct share of 0.16% in PRE) a 50.92% share of voting rights, which arose in accordance with Section 183a (11) of the Commercial Code with the obligation of making a tender offer to all owners of PRE participating securities. As stated in this statement, the acquisition of shares and voting rights came about as a consequence of the investment contribution of part of PRE shares in the registered capital of PRE-H a.s. in the form of non-monetary investment contributions of the shares of three PRE shareholders. The decision to make the tender offer was in compliance with section 183b of the Commercial Code approved by the relevant bodies of PRE-H a.s. and PRE. A public tender offer was published in a legally prescribed manner on 23 August 2001.

ac) Memorandum on relations between PRE shareholders

On 27 December 2005 the Memorandum on Relations between PRE shareholders was concluded between PRE-H and the Company Honor Invest, a.s. (co-signed by representatives of the shareholders of these parties, that is to say the representatives of J&T FINANCE GROUP, a.s., GESO Beteiligungs– und Beratungs– Aktiengesellschaft and of the Capital City of Prague). The main topic of the Memorandum contains the terms and conditions of cooperation between the parties in the matter of changes to the PRE Articles of Association, particularly for the purpose of unbundling and cooperation in the running and development of PRE. The period of the force and effect is not expressly stipulated in the Memorandum.

ad) Transfer of shares between RWE Energie AG and GESO AG

The transfer of shares owned by the RWE Energie AG shareholder to the GESO AG shareholder was approved at the PRE-H General Meeting held on 28 December 2005.

ae) Tender offer to owners of securities

As a consequence of concerted conduct between PRE-H and the other shareholder PRE – Honor Invest, a.s., the legal obligation arose for both entities to make a tender offer to other PRE shareholders. The purchase price stated in the mandatory tender offer must have been adequate to the value of shares while the adequacy of the price was established by an expert opinion.

af) Result of the mandatory tender offer

On 27.4.2006 Honor Invest, a.s. published the result of the mandatory tender offer for the other PRE shareholders. No shareholder took up the tender offer during the period it was in force.

ag) Shareholder agreement between PRE-H and Honor Invest, a.s.

Extraordinary General Meeting of PRE-H held on 13 June 2006 approved the conclusion of the shareholder agreement between PRE-H and Honor Invest, a.s. which defines cooperation conditions of parties in the exercise of shareholders rights of both entities in PRE.

ah) On 9 September 2008 there was an increase in the share of voting rights of the shareholder PRE-H from the former 50.78% to 57.8744% (note: person acting in concerted conduct with PRE-H is the shareholder Honor Invest a.s. owning 41.0965%; share of both these entities in the Company's voting rights reached 98,9709%).

b) Contracts concluded between: shareholders of the controlling person (PRE-H) and controlling person (PRE-H) with controlled person (PRE) and shareholders of the controlling person (PRE-H) and controlled person by them with controlled person (PRE)

ba) Controlling and Controlled Person (PRE-H and PRE) have concluded the following contracts with one another:

"Contract on the Lease of Non-residential Premises". Under this contract the controlling person holds a lease for unlimited period at the market (usual price) in the headquarters building at (Na Hroudě 1492/5) of the controlled person for one room for administrative purposes.

"Contract on the Administration of Economic and Personnel Agenda" Under this contract the controlled person performs for the controlling person the following activities at market price:

- bookkeeping under Czech accounting regulations (apart from the system of payments and tax agenda) including the drawing up the financial statements (unconsolidated and consolidated),
- administration of the personnel agenda including the payroll and payment of insurance and social security contributions, ensuring organisational
- services while fulfilling information duties of PRE-H with regard to state administration authorities.

Note: PRE and SAP concluded a contract "Licence Contract on Provision of Right of Use for Software and its Maintenance"; (Amendment No. 11 to the Contract) in favour of PRE-H – provision of non-exclusive, untransferable rights for use of mySAP.com.

The abovementioned business contracts were concluded under the usual business customs without one or the other party gaining an advantage. No controlling contracts were concluded between the controlling and controlled entity and no benefits were provided or loss caused to either entity. PRE did not incur any property loss from the fulfilment of these contracts, neither was any consideration provided which would prove disadvantageous to PRE.

bb) Contracts concluded between the shareholders of the controlling person (PRE-H), i.e. the Capital City of Prague and EnBW AG (respectively among persons controlled by them) and PRE.

a) Capital City of Prague:
The Contracts are stated in amendments to Consolidated and Separate Financial Statements point 29 Transactions with related persons (Total overview of receivables and liabilities to related persons). Commercial transactions were carried out at usual prices. Based on deeds of gift approved by the Company Board of Directors, PRE donates gifts to some budgetary organisations of the Capital City in the education and healthcare sector (more information is presented in the chapter "Public Relations").

b) EnBW Energie Baden-Württemberg AG:
– Information on contracts between this shareholder of the controlling person are stated in this chapter under point C.

B. Information on the Relation

Controlling Person: Honor Invest, a.s., ID No.: 27145565, Prague 8, Pobřežní 297/14 (until 20.9.)
Controlled Person: Pražská energetika, a.s., ID No.: 60193913, Registered office Prague 10, Na Hroudě 1492/4 (PRE)

Controlling Person

Corporate name:	**Honor Invest, a.s.**
Registered office:	Prague 8, Pobřežní 297/14, PCN 180 00
ID No.:	27145565
Registered capital:	CZK 2,000,000
Average number of employees:	–
Line of business:	lease of real estate, flats and non-residential premises without providing other than standard services enabling proper operation of real estate property, flats and non residential premises

The controlling and the controlled person have not concluded any contracts and no legal acts or measures have been made in favour of these persons.

Contracts concluded between the shareholder of the controlling entity (Honor Invest, a.s.), i. e. J&T Finance Group, a.s. (between the controlled entities respectively) and PRE – the contracts are stated in the supplements to the consolidated and separate financial statements in point 29 Transactions with related persons (General Overview of Receivables and Payables to Related Persons). The sales transactions were made for standard prices.

PRE did not incur any property loss from the fulfilment of these contracts, neither was any consideration provided which would prove disadvantageous to PRE. It is for these reasons that it is not necessary to conclude between the above companies a contract on the payment of property loss and even such loss should not have been reimbursed by the end of 2010. The aforementioned contracts were concluded under standard business habits and customs without one party being placed at the advantage over the other.

C. Information on the Relation

Controlling Person: EnBW Energie Baden-Württemberg AG., Durlacher Allee 93, 76131 Karlsruhe, Germany (from 20.9.)
Controlled Person: Pražská energetika, a.s., ID No. 60193913, Registered office Prague 10, Na Hroudě 1492/4 (PRE)

Controlling Person

Corporate name:	**EnBW Energie Baden-Württemberg AG**, registered at the District Court in Mannheim, Germany, under number HRB 107956
Registered office:	Durlacher Allee 93, 76131 Karlsruhe, Germany
Registered capital:	640,015,872
Average number of employees:	20,914
Line of business:	generation, transmission, distribution and trading in electricity; import, storage, transmission and distribution of gas; environmental services

Contracts concluded between the controlling and controlled person – the contracts are stated in the supplements to the consolidated and separate financial statements in point 29 Transactions with related persons (General Overview of Receivables and Payables to Related Persons). The sales transactions were made for standard prices.

The abovementioned business contracts were concluded under the usual business customs without one or the other party gaining an advantage. No controlling contracts were concluded between the controlling and controlled entity and no benefits were provided or loss caused to either entity. PRE did not incur any property loss from the fulfilment of these contracts, neither was any consideration provided which would prove disadvantageous to PRE.

D. Relation between the Controlling Person (PRE) and the Controlled Persons (PREměření, a.s., PREleas, a.s. and PREdistribuce, a.s.)

a) Information on the Relation between the Controlling Person (PRE) and the Controlled Person (PREměření, a.s.)

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

“Contract on Lease” (C00241/06) (Prague 6, Africká 687/36) – in force as of 1.9.2006 for indefinite period
Amendment No. 1 (C00284/07) – in force as of 1.4.2007
Amendment No. 2 (C00314/08) – in force as of 1.1.2008
“Contract on Lease” (C00242/06) (Prague 8, Novovysočanská 696/3) – in force as of 1.9.2006 for indefinite period
Amendment No. 1 (C00283/07) – in force as of 1.4.2007
Amendment No. 2 (C00313/08) – in force as of 1.1.2008
Amendment No. 3 (C00390/09) – in force as of 1.10.2009
“Agreement on Assignment of a Receivable” (C00433/10) – in force as of 23.7.2010
“Contract on Lease of Garage Parking Lot 62/35300/07/Ni” (C00312/08) (Prague 10, Na Hroudě 4) – in force as of 1.1.2008 for indefinite period
“Contract on Lease” (C00310/08) (Prague 10, Na Hroudě 2149/19) – in force as of 1.1.2008 for indefinite period
Amendment No. 1 (C00388/09) – in force as of 1.9.2009
“Contract on Lease of a Part of Real Estate” (C00441/10), (Prague 9, Novovysočanská 696/3) – in force from 1.1.2010 to 31.12.2030
Amendment No. 1 (C00458/10) – in force as of 9.12.2010 to 31.12.2035
“Contract on Lease of a Part of Real Estate” (C00453/10), (Prague 10, Na Hroudě 2149/19) – in force from 1.11.2010 to 31.12.2030
Amendment No. 1 (C00459/10) – in force as of 8.12.2010 to 31.12.2035
“Contract on Short-term Loans” (C00186/05) – in force as of 30.11.2005 for indefinite period
“Contract on Use of Telephone Equipment and Charging the Costs related to the Use of Telephone Lines – No. 1226” (C00240/06) – in force as of 1.8.2006 for indefinite period
“Contract No. ZBA/2005/36 on Provision of factual Unidirectional Cash Pooling” (C00188/05) – in force as of 1.12.2005 for indefinite period
“Sublicence Contract” (C00263/06) (authorisation to use the PRE trade mark) – in force as of 31.3.2006 for indefinite period
Amendment No. 1 (C00264/06) – in force as of 11.4.2006
“Contract on Provision of Services” (C00267/06) (administration services, services delivery) – in force as of 1.1.2007 for indefinite period
Amendment No. 1 (C00306/07) – in force as of 1.1.2008
Amendment No. 2 (C00358/09) – in force as of 31.12.2008
Amendment No. 3 (C00406/10) – in force as of 1.1.2010
“Agreement on Take-over of Rights and Obligations arising from the Forwarding Contract dated 30.6.2000, No. P4212005/5” (C00311/08) – in force as of 1.1.2008 for indefinite period
“Purchase Contract” (C00412/10) – (sales of meters) – in force as of 19.3.2010
“Purchase Contract” (C00430/10) – (two paintings) – in force as of 21.6.2010
“General Contract on Assembly of Storage Heating Appliances” (C00384/09) – in force as of 3.9.2009 for indefinite period
“Contract on Personal Data Processing” (C00426/10) – in force as of 22.6.2010 for indefinite period

II. Contractual relations of PREměření, a.s. with other Persons Controlled by the same Controlling Person

All below stated contracts have been concluded with other controlled person PREdistribuce, a.s.
“Contract on Delivery of Metering Equipment” (C00405/9) – in force from 1.1.2010 to 31.12.2010
“Contract for Work No. P 20006/19” (C00203/06) (implementation of minor modifications and connections in LV network, engineering activities) – in force as of 1.3.2006 for indefinite period
Amendment No. 1 (C00339/08) – in force from of 2.1.2008
“Contract on Provision of Services No. S 252007/002” (C00270/07) – in force as of 1.1.2007 for indefinite period
Amendment No. 1 (C00305/07) – in force as of 1.1.2008
Amendment No. 2 (C00359/09) – in force as of 1.1.2009
Amendment No. 3 (C00408/10) – in force as of 1.1.2010
“Contracts on Supply of Malfunctioning Metering Equipment” (C00261/06) – in force as of 30.12.2006 for indefinite period
“Contracts on Supply of Used Metering Equipment” (C00260/06) (C00260/06) – in force as of 30.12.2006 for indefinite period
“Agreement on a Future Contract on Establishment of Easement No. VB/S21/0904426” (C00385/09) (TR Lhotka) – in force as of 21.9.2009 for indefinite period
“Agreement on a Future Contract on Establishment of Easement No. VB/S21/0904425” (C00386/09) (TR Jinonice) – in force as of 21.9.2009 for indefinite period
“Agreement on a Future Contract on Establishment of Easement No. VB/S21/0904423” (C00387/09) (TR Sever) – in force as of 21.9.2009 for indefinite period
“Contract on Lease of Land No. N21110/016” (C00417/10) – in force from 1.4.2010 to 31.12.2030
“Contract on Electricity Supply from Renewable Sources” (C00420/10) – in force as of 26.5.2010 for indefinite period
“Contract on Settlement of Regulated Payments for Electricity Generated from a Renewable Source No. 10126843/2010” (C00421/10) – in force as of 26.5.2010 for indefinite period

"Contract on Connection to the Distribution System on LV level No. 6149169/2010" (C00422/10) – in force as of 26.5.2010 for indefinite period
"Contract on Lease of Land No. N 21110/039" (C00436/10) – in force from 1.10.2010 to 31.12.2030
"Contract on Lease of Land No. NO 21110/004" (C00438/10) – in force from 1.9.2010 to 31.12.2030
Amendment No. 1 (C00460/10) – in force from 1.10.2010 to 31.12.2030
"Contract on Lease of a Part of Real Estate No. NO 21110/005" (C00439/10) – in force from 1.10.2010 to 31.12.2030
Amendment No. 1 (C00457/10) – in force from 9.12.2010 to 31.12.2035
"Contract on Connection to the Distribution System on LV level No. 6168552/2010" (C00442/10) – in force as of 4.8.2010 for indefinite period
"Contract on Settlement of Regulated Payments for Electricity Generated from a Renewable Source No. 25002110/133" (C00443/10) – in force from 13.09.2010 to 19.12.2010
"Contract on Electricity Supply from Renewable Sources" (C00445/10) – in force as of 1.10.2010 for indefinite period
"Contract on Settlement of Regulated Payments for Electricity Generated from a Renewable Source No. 65024896/2010" (C00462/10) in force as of 20.12.2010 for indefinite period
"Contract on Electricity Supply from Renewable Sources" (C00465/10) – in force as of 26.05.2010 for indefinite period
"Contract on Electricity Supply from Renewable Sources" (C00466/10) – in force as of 28.12.2010 for indefinite period
"Contract on Electricity Supply from Renewable Sources" (C00467/10) – in force as of 28.12.2010 for indefinite period
"Contract on Electricity Supply from Renewable Sources" (C00468/10) – in force as of 28.12.2010 for indefinite period
"Contract on Electricity Supply from Renewable Sources" (C00469/10) – in force as of 28.12.2010 for indefinite period

III. Commentary of the Statutory Body

Further to Section 66a (9) of the Commercial Code the aforementioned contracts were concluded or were already in force and affect between Pražská energetika, a.s. as the Controlling Person and PREměření, a.s. as the Controlled Person, and between PREměření, a .s. as the Controlled Connected Person and persons controlled and connected, companies PREdistribuce, a.s. and PREleas, a.s. The company PREměření, a.s. has not incurred any loss of assets and has not provided any consideration from performance of these contracts which would be disadvantageous from the point of view of PREměření, a.s. It is for these reasons that there is no need to conclude any contract between the companies for compensation of loss of assets and no such loss had to be compensated by the end of 2009 to companies Pražská energetika, a.s., PREdistribuce, a.s. and PREleas, a.s. The aforementioned business contracts were concluded under the usual business custom practice with no advantage to one or the other contractual party.

b) Information on the Relation between the Controlling Person (PRE) and the Controlled Person (PREleas, a.s.)

I. Purchase Type Transactions:

"Leasing Contracts No. 15 to 28/2000" – lease of long-term tangible fixed assets amounting to TCZK 66,520, in force as of 1.2.2000
"Leasing Contracts No. 1 to 10/2001" – and also Contracts No. 29 to 31/2001 – lease of long-term tangible fixed assets amounting to TCZK 62,605, in force as of 1.2.2001
"Leasing Contracts No. 14 to 18/2002" – lease of long-term tangible fixed assets amounting to TCZK 33,461, in force as of 1.2.2002
"Leasing Contracts No. 5 to 14/2003" – lease of long-term tangible fixed assets amounting to TCZK 119,144, in force as of 1.2.2003
"Leasing Contracts No. 1 to 6/2004" – lease of long-term tangible fixed assets amounting to TCZK 138,329, in force as of 1.2.2004
"Leasing Contracts No. 1 to 3/2005" – lease of long-term tangible fixed assets amounting to TCZK 165,653, in force as of 1.2.2005

II. List of obligations recorded in relation to connected persons

"Contract on the Provision of Leasing Services No. 1/2000" – in force as of 15.3.2000

III. Further contractual relations between the connected persons (services provided by Pražská energetika, a.s.)

"Contract No. ZBA/2005/36" on Provision of Factual Unidirectional Cash Pooling – in force as of 30.11.2005
"Contract on Loan No. 1/2009" – in force from 16.2.2009 to 15.2.2010
"Contract on Loan No. 1/2010" – in force from 15.2.2010 to 15.2.2011
Sublicence Contract (authorization to use the PRE trade mark) concluded on 28.3. 2006 and specified by Amendment No. 1 dated 11.4.2006; in force for indefinite period of time.

IV. Commentary of the Statutory Body

Further to Section 66a (9) of the Commercial Code the aforementioned contracts were concluded or were already in force and affect between Pražská energetika, a.s. as the Controlling Person and PREleas, a.s. as the Controlled Person. PREleas, a.s. has not incurred any loss of assets and has not provided any consideration from performance of these contracts which would be disadvantageous from the point of view of PREleas, a.s. It is for these reasons that there is no need to conclude any contract between the companies for compensation of loss of assets and no such loss had to be compensated by the end of 2009 by Pražská energetika, a.s.

The aforementioned business contracts were concluded under the usual business custom practice with no advantage to one or the other contractual party. The aforementioned leasing contracts were originally concluded with Pražská energetika, a.s. Within the transfer of a part of the company, rights and obligations related to the above mentioned contracts were transferred to a newly established legal PREdistribuce, a.s. No business contracts or any other legal acts in accordance with Section 66a (9) of the Commercial Code have been concluded with the other controlled persons by the company Pražská energetika, a.s., which would be inconsistent with the procedure usual for concluding business relations with Pražská energetika, a.s.

c) Information on the Relation between the Controlling person (PRE) and the Controlled person (PREdistribuce, a.s.)

I. Contractual Relations between the Controlled Person and the Controlling Person

“Contract on Provision of Services” No. P200006/01 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 28.12.2006
Amendment No. 2 – in force as of 31.12.2007
Amendment No. 3 – in force as of 31.12.2008
Amendment No. 4 – in force as of 1.4.2009
Amendment No. 5 – in force as of 15.12.2009

“Lease Contract” No. PS20000007/003 – in force as of 1.1.2007 for indefinite period
Amendment No. 1 – in force as of 1.1.2008
Amendment No. 2 – in force as of 1.3.2009

“Lease Contract” No. PS20000007/004 – in force as of 1.1.2007 for indefinite period
Amendment No. 1 – in force as of 1.1.2008
Amendment No. 2 – in force as of 1.3.2009

“Lease Contract” No. P200006/05 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 1.9.2006
Amendment No. 2 – in force as of 1.3.2008

“Lease Contract” No. P200006/06 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 1.9.2006
Amendment No. 2 – in force as of 1.4.2007
Amendment No. 3 – in force as of 31.12.2007

“Contract on the Lease of Non-residential Premises” No. P200006/09 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 1.12.2007
Amendment No. 2 – in force as of 1.9.2008
Amendment No. 3 – in force as of 1.4.2010

“Contract on the Lease of Garage Parking Lot” No. P200006/10 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 31.12.2007
Amendment No. 2 – in force as of 1.1.2010

“Contract on the Lease of Non-Residential Premises” No. P200006/11 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 1.11.2007
Amendment No. 2 – in force as of 1.1.2008
Amendment No. 3 – in force as of 1.4.2010

“Contract on the Lease of Garage Parking Lot” No. P200006/13 – in force as of 1.1.2006 for indefinite period

“Contract on Electricity Supplies to cover Losses in the Distribution System for the Distribution System Operator Own Needs” No. P200006/14 – in force as of 1.1.2006 for indefinite period

“General Contract on Electricity Distribution to Consumption Points connected to VHV and HV Levels” No. P200006/15 – in force as of 1.1.2006 for indefinite period

“General Contract on Electricity Distribution to Consumption Points connected to LV Level” No. P200006/16 – in force as of 1.1.2006 for indefinite period

“Contract on Provision Short-term Loans” No. P200006/22 – in force as of 30.11.2005 for indefinite period
Amendment No. 1 – in force as of 25.1.2006
Amendment No. 2 – in force as of 17.6.2008
Amendment No. 3 – in force as of 25.6.2008
Amendment No. 4 – in force as of 13.10.2008

“General Mandate Contract for Construction of Telecommunication Equipment” No. P200006/27 – in force as of 2.5.2006 for indefinite period

“Sub-licence Contract” No. PS20000006/033 – in force as of 21.3.2006 for indefinite period

“Lease Contract” No. NO21106/015 – in force as of 2.1.2006 for indefinite period
Amendment No. 1 – in force as of 31.12.2008
Amendment No. 2 – in force as of 9.12.2009

“Lease Contract – Plastic Billboards” No. NO21106/001 – in force as of 30.12.2005 for indefinite period
Amendment No. 1 – in force as of 1.1.2010

“Administration, Operation and Maintenance of Optical Networks” No. PS23400206/002 – in force as of 1.1.2007 for indefinite period

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

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

“Contract on Loan No. 1/2009” No. PS20000009/017 – in force from 6.6.2009 until 30.6.2012
Amendment No. 1 – in force as of 29.6.2009
Amendment No. 2 – in force as of 29.6.2010

“Contract on Loan No. 2/2008” No. PS20000008/018 – in force as of 30.10.2008
Amendment No. 1 – in force as of 27.11.2008

Amendment No. 2 – in force as of 27.11.2009
Amendment No. 3 – in force as of 29.11.2010
“Contract on Loan” No. NO21109/001 – in force from 1.3.2009 until 31.12.2015
“Contract on Loan” No. NO21109/006 – in force as of 1.4.2009 for indefinite period
“Contract on Creation of Easement” No. 33200/3236/07/3065 – in force as of 26.1.2007 for indefinite period
“Contract on Creation of Easement” No. 33200/3502/07/4849 – in force as of 26.1.2007 for indefinite period
“Contract on Creation of Easement” No. 33200/3665/07/4394 – in force as of 29.11.2007 for indefinite period
“Contract on Creation of Easement” No. 33200/3938/08/5562 – in force as of 2.4.2008 for indefinite period
“Contract on Creation of Easement” No. 33200/4067/07/6065 – in force as of 12.11.2007 for indefinite period
“Contract on Creation of Easement” No. 33200/4295/08 – in force as of 5.2.2008 for indefinite period
“Contract on Creation of Easement” No. 33200/4449/08/5877 – in force as of 13.10.2008 for indefinite period
“Contract on Creation of Easement” No. 33200/4457/08 – in force from 2.4.2008 until 2.4.2048
“Contract on Future Purchase Contract” No. 276/6069/08 – in force as of 16.5.2008
“Contract on Creation of Easement” No. 33200/4793/08/5678 – in force as of 19.1.2009 for indefinite period
“Contract on Creation of Easement” No. 33200/5001/08 – in force as of 12.12.2008 for indefinite period
“Contract on Future Contract on Creation of Easement” No. VB/S24/1010230 – in force as of 23.11.2010
“Purchase Contract“ No. KV/G33/06971/1009963 – in force as of 27.10.2010
“Contract on Creation of Easement“ No. VV/G33/06487/1006936 – in force as of 21.5.2010
“Purchase Contract“ No. KV/G33/07000/1010208 – in force as of 10.12.2010

II. Contractual Relations of PREdistribuce, a.s. with other Persons controlled by the same Controlling Person

PREměření, a.s.
“Contract on provision of Services” No. S252007/002, C00270/07 – in force as of 1.1.2007 for indefinite period
Amendment No. 1 – in force as of 1.1.2008
Amendment No. 2 – in force as of 1.1.2009
Amendment No. 3 – in force as of 1.1.2010
“Contract on Delivery of Malfunctioning Metering Equipment” No. S252007/003, C00261/06 – in force as of 30.12.2006 for indefinite period
“Contract on Delivery of used Metering Equipment” No. S252007/004, C00260/06 – in force as of 30.12.2006 for indefinite period
“Contract for Work” No. P20006/19, C00203/06 – in force as of 1.3.2006 for indefinite period
Amendment No. 1 – in force as of 2.1.2008
“Contract on Lease of Land“ No. N21110/016 – in force from 1.4.2010 until 31.12.2030
“Agreement on a Future Contract on Creation of Easement” No. VB/S21/0904425, C00386/09 – in force as of 21.9.2009
“Contract on Lease of Land“ No. NO21110/004 – in force from 1.9.2010 until 31.12.2030
“Agreement on a Future Contract on Creation of Easement” No. VB/S21/0904423, C00387/09 – in force as of 21.9.2009
Amendment No. 1 – in force as of 9.12.2010
“Contract on Lease of Land“ No. N21110/039 – in force from 1.10.2010 until 31.12.2035
“Contract on Lease of a Part of Real Property” No. NO21110/005 – in force from 1.10.2010 to 31.12.2035
Amendment No. 1 – in force as of 9.12.2010
“Contract on Delivery of Metering Equipment” No. C 00405/09, PS21000110/026 – in force from 1.1.2010 to 31.12.2010
“Contract on Settlement of Regulated Payments for Electricity Generated from Renewable Sources“ No. 65024896/2010 PS25002110/133, PS25002110/033, PS25002110/208, PS25002110/209, PS25002110/210, PS25002110/213, PS25002110/214 – in force as of 20.12.2010 for indefinite period
“Contract on Electricity Supply from Renewable Sources” (C00420/10) (FVE Jinonice) – in force as of 26.5.2010 for indefinite period
“Contract on Settlement of Regulated Payments for Electricity Generated from Renewable Sources“ No. 10126843/2010 (C00421/10) (FVE Jinonice) – in force from 26.5.2010 to 19.12.2010
“Contract on Connection to the Distribution System on LV Level“ No. 6149169/2010 (C00422/10) (FVE Jinonice) – in force as of 26.5.2010 for indefinite period
“Contract on Connection to the Distribution System on LV Level“ No. 6168552/2010 (C00442/10) (FVE Lhotka) – in force as of 4.8.2010 for indefinite period
“Contract on Settlement of Regulated Payments for Electricity Generated from Renewable Sources“ No. 25002110/133 (C00443/10) (FVE Lhotka) – in force from 13.9.2010 to 19.12.2010
“Contract on Electricity Supply from Renewable Sources” (C00445/10) (FVE Lhotka) – in force as of 1.10.2010 for indefinite period
“Contract on Electricity Supply from Renewable Sources” (C00465/10) (FVE Pražačka TO 03) – in force as of 26.5.2010 for indefinite period
“Contract on Electricity Supply from Renewable Sources” (C00466/10) (FVE Pražačka TO 02) – in force as of 28.12.2010 for indefinite period
“Contract on Electricity Supply from Renewable Sources” (C00467/10) (FVE Pražačka TO 04) – in force as of. 28.12.2010 for indefinite period
“Contract on Electricity Supply from Renewable Sources” (C00468/10) (FVE Sever) – in force as of 28.12.2010 for indefinite period
“Contract on Electricity Supply from Renewable Sources” (C00469/10) (FVE Hrouda) – in force as of 28.12.2010 for indefinite period

PREleas, a.s.
Leasing Contracts No. 9900014 to 9900016 – in force as of 1.2.1999
Leasing Contracts No. 0000015 to 0000028 – in force as of 1.2.2000
Leasing Contracts No. 0100001 to 0100010 – in force as of 1.2.2001

Leasing Contracts No. 0100029 to 0100031 – in force as of 1.2.2001
Leasing Contracts No. 0200014 to 0200018 – in force as of 1.2.2002
Leasing Contracts No. 0300001 to 0300014 – in force as of 1.2.2003
Leasing Contracts No. 0400001 to 0400006 – in force as of 1.2.2004
Leasing Contracts No. 0500001 to 0500003 – in force as of 1.2.2005

III. Commentary of the Statutory Body

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

PREdistribuce, a.s. has not incurred any loss of assets and has not provided any consideration from performance of these contracts which would be disadvantageous to PREdistribuce, a.s. It is for these reasons that there is no need to conclude any contract between the companies for compensation of loss of assets and no such loss had to be compensated by the end of 2008 to the companies Pražská energetika a.s., PREměření, a.s. and PREleas a.s. The aforementioned business contracts were concluded under the usual business custom practice with no advantage to one or the other.

In Prague on 31.3.2011

Information Required in accordance with Legislation in Force

(Act No. 256/2004 Coll. on Business Activities on the Capital Market as amended, Regulation of the Commission {EU} No. 809/2004 which enforces the European Parliament and the Council Directive 2003/71/ES as far as the contained data in prospectuses is concerned, amendment of prospectuses, stating data in the form of reference, publication of prospectuses and dissemination of adverts published in the EU Official Bulletin EU L 149/1).

Information on the Issuer of a Registered Security:

Basic information

– the business Company or the name of the issuer of the registered security, registered office, ID No. should it have been allocated
The information is found in the chapter "Address of the Joint Stock Company and its Workplaces".
– Registration court or other body authorised to keep a Commercial Register and number under which the issuer is entered at this court or other body
The information is found in chapter "Address of the Joint Stock Company and its Workplaces".

Line of Business

– the subject of the issuer's business as specified in the Company Memorandum of Association or Articles of Association with the reference to the relevant provisions of the. Memorandum of Association or Articles of Association
The information is found in chapter "Line of Business".

Issued securities

– type, form, nature, number of securities, nominal value of the security, total value of the issue and ISIN of the security, names of the markets at which the security was accepted for trading
The information is found in chapter "Shareholders".
– if this concerns an issuer of bonds then information is also stated under Section 5a-m of the MF 82/2001, Coll.
The Company is not an issuer of bonds.

Structure of the concern

– persons, which control the issuer or could control it, if they are known to the issuer, stating details of the level of the share, which authorises them to vote
The information is found in chapter "Shareholders" and "PRE Group Management Chart – overview if controlling and controlled persons".
– description of the structure of the concern should the issuer be part thereof, and the position, which the issuer holds in such a group (Section 66a of the Commercial Code)
The information is found in the "Report on the Relations between the Controlling and Controlled Persons and other Persons Controlled by the Same Controlling Person in accordance with Section 66a (9) of the Commercial Code" and in chapter "PRE Group Management Chart – overview of controlling and controlled persons". During the assessed period, the issuer did not gain shares or interim certificates of its controlling person.

Information on the activities of the issuer of a registered security:

Main areas of the issuer's business, new products and services

– information on the main sphere of the issuer's activities stating the main types of products and services; new important products and services are separately stated; above all a description of new activities, products and services
The information is found in chapters "Company Profile" and "Line of Business".

Issuer's revenues in the last three accounting periods by the type of activities

– the issuer of shares will state information on revenues in the last three accounting periods dividing the types of activities and markets in different geographical regions, only in case these types or markets indicate substantial differences in the manner of sale of the products or provision of services by the issuer; the issuer of bonds will state information on revenues in the last two accounting periods without stating the above difference
The information is found in chapter "Selected Financial, Trading and Technical Indicators".

Registered office of the organizational unit contributing at least 10% to the company turnover

– registered office of the organizational unit of the issuer's company contributing at least 10% to the Company total turnover or production or services that the issuer provides

The Company has an organizational unit in Slovakia but it contributes less than 10% to the Company total turnover.

General description of properties owned by the issuer

– general description of properties owned by the issuer, other important information concerning this area (e.g. property encumbered by the lien and so on)

The Group owns hundreds of buildings in the Capital City of Prague; a list of these properties is available at the Company registered office in case of need. Overview of important properties, buildings an equipment is stated in point 13 of the Appendices to the consolidated and separate financial statements.

Easement established by PRE in favour of a third party

PRE does not posses such easements. In case of consolidated data, contractual easement or easement by law were established on foreign property in order to operate the distribution system according to the Energy Act within the Group (namely in favour of PREdi)

– issuers active in the area of mining of minerals or oil will state the description of deposits, estimate of economically exploitable supplies, expected scope of work, duration and main terms and conditions of mining authorisation, and the terms and conditions of its economic use and state of the actual work procedure

The issuer is not active in the sphere of mining minerals.

Patents and licences

– information on the dependence of the issuer on patents or licences, industrial, commercial or financial contracts or new production processes if they are of fundamental importance for the issuer's business activity or profitability

The issuer is not dependent on any patents, licences, industrial, commercial or financial contracts or new production processes.

Judicial, administrative and arbitration proceedings

– information on judicial, administrative or arbitration proceedings conducted in the current accounting period which had or may have a significant effect on the issuer's financial situation

The issuer did not have any judicial, administrative or arbitration proceedings conducted in the current accounting period which would have a significant effect on the issuer's financial situation.

Information on investments

– numerical data on the main investments made in the current accounting period including financial investments particularly investments in shares and bonds of other issuers; information on investments with the exception of financial investments showing the geographical difference of their location (at home, abroad) and stating the method of their financing (own resources, external resources); information on major future investments with the exception of financial investments

The information is found in a separate chapter "Investments".

Research and development policy

– the issuer of shares will state information on research or development policy of new products or procedures in the current accounting period should these be significant

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

Main risk factors in the Company financial management

The necessary information is found in the chapter "Financial Report" and "Financial analysis".

Information on the interruption of business

– information on the interruption of the issuer's business, which may have or had an important effect on the issuer's financial situation in the current period

The issuer did not interrupt its business in 2010.

The tender offer realization

The issuer did not receive any tender offer.

Information on the average number of employees

– information on the average number of employees divided according to individual types of issuer's business activities

The information is found in the chapter "Human Resources".

Information on the participation of employees in issuer's capital

No agreement exists on employees´ participation in company capital.

Information on the transfer to IAS/IFRS accounting method

The Company has been drawing up the consolidated financial statements according to IAS/IFRS.

Information on trends

No significant negative change of issuer's prospects occurred since the last date of publishing the certified financial statements.

Significant change of the issuer's financial situation

No significant change of the issuer financial situation occurred since the last financial period.

Overview of litigations:

Company as the plaintiff

Year	Number	Amount (TCZK)
2000	1,407	5,217
2001	1,299	27,498
2002	1,266	39,486
2003	1,175	18,620
2004	1,318	27,930
2005	1,198	26,977
2006	1,747	31,267
2007	2,114	31,363
2008	1,984	27,272
2009	1,826	25,604
2010	**1,918**	**39,982**

Company as the defendant

Year	Number	Amount (TCZK)
2000	7	57,422
2001	16	7,835
2002	8	1,959
2003	5	1,131
2004	20	1,557
2005	18	4,667
2006	19	4,857
2007	12	1,826
2008	5	1,473
2009	3	552
2010	**5**	**958**

Other unsettled lawsuit in which the Company is defendant is:
– Středočeská energetická, a.s. (now ČEZ a.s.); total of TCZK 266,265.

The Company does not record any patents or licences, which it utilises or is dependant on. The Company did not interrupt its business in 2010.

Additional information on the statutory and supervisory bodies

– name and surname of the statutory bodies and members stating their office; should a legal person be the issuer's statutory body or its member or member of the issuer's supervisory body, its business Company or name, registered office and ID No. will be stated; should a change have occurred in the structure of the statutory body or supervisory bodies, the new member of the statutory body or supervisory body is presented as is the reason for the change
Information is found in the chapter "Company Statutory Bodies and Management".
– information on all monetary and incomes in kind and royalties received last year by members of the statutory bodies, Supervisory Board and senior executives from the issuer and also from persons controlled by the issuer and also about monetary relations between the issuer and these persons, collectively for each body
Information is found in the appendix to the Financial Statements.
– remuneration of members of statutory bodies
Remuneration of the members of the Board of Directors is approved by the Supervisory Board. Remuneration of members of the Supervisory Board is approved by the Company's General Meeting. The system of remuneration is determined in such a manner whereby the members of the Board of Directors and Supervisory Board are entitled to remuneration consisting only of a fixed monthly component.
– remuneration of persons having managerial competences
Executive directors
The remuneration of these senior executives consists of a fixed salary component paid out monthly and of a variable salary component applying to that position paid out once a year depending on the fulfilment of the economic results (above all depending on the level of created profit in the accounting period) and the specific business objectives. The variable salary component may reach 50% of the total annual guaranteed salary for the chief executive officer, division directors, director of the subsidiary PREdistribuce, a.s. and 25% of the total annual guaranteed salary for the director of the subsidiary PREměření, a.s. The applied method of remuneration was proposed and approved by the Company's Board of Directors which also decides about the level of the fixed and the variable component of the remuneration. The method of remuneration of the chief executive officer, the division directors of the parent Company was discussed with the Supervisory Board which also makes a final decision about the level of the fixed monthly remuneration and the paid out of the variable component. The issuer as the sole shareholder within the scope of powers of the General Meeting decides about the level of the fixed monthly remuneration and the level of the paid out variable salary component of the directors of the subsidiaries.
The issuer pays capital life insurance in favour of the chief executive officer, division directors and the director of PREdistribuce, a.s.
The management contract contains a competition clause to be observed 12 calendar months after the employment is terminated. This fact is compensated by the payment of a monetary settlement of an average monthly income for each month of the obligation fulfilment. The Company's management has no options in the Company to purchase Company shares. The Company has not provided its executive directors with any financial loans.
– data on the number of Company shares owned by members of the Board of Directors, Supervisory Board and managerial employees including persons related to these persons
The information is shown in an overview stated below.

Number of shares owned by:		Members of the Group statutory and supervisory bodies:	Related persons
Board of Directors	PREm – Zdeněk Smetana	1	–
Supervisory Board	PRE – Petr Hulinský	89	–
	PRE – Miroslav Poche	8	–
	PRE – Drahomír Ruta [1]	1	–
	PREdi – Karel Urban	5	–
Total as at 31.12.2010		104	–

[1] until 31.10. Chairman of the Board of Directors; from 1.11. member of the Supervisory Board

– possible conflicts of interest
The compilers of the Annual Report have no knowledge of any members of the administrative and managing bodies and top management being involved in a conflict of interest.
– total amount of hitherto unpaid credit or loans that the issuer provided and also sureties and other guarantees or allowances, which the issuer took on behalf of these persons
The issuer did not provide statutory bodies or their members, members of supervisory bodies and senior managers with any credit or loans nor did it take over any surety and other guarantee or allowance for these persons.
– overview of periods of statutory bodies members

Board of Directors

Name	Position	Position as at 31.12.	Term of office 1	
Pavel Elis [1]	Vice Chairman	**Chairman**	13.5.2004	13.5.2009
Alexander Sloboda [2]	Member	**Vice Chairman**	1.7.2010	1.7.2015
Milan Jančík [2]	Member	**Vice Chairman**	14.7.2003	18.6.2008
Drahomír Ruta	Chairman	–	1.1.1995	31.12.1999
Uwe Benkendorff	Member	–	14.7.2003	18.6.2008

Name	Term of office 2		Term of office 3		Term of office 4	
Pavel Elis [1]	13.5.2009	13.5.2014	–	–	–	–
Alexander Sloboda [2]	–	–	–	–	–	–
Milan Jančík [2]	18.6.2008	18.6.2013	–	–	–	–
Drahomír Ruta	1.1.2000	13.6.2001	13.6.2001	19.6.2006	19.6.2006	31.10.2010
Uwe Benkendorff	18.6.2008	30.6.2010	–	–	–	–

[1] from 1.11. Chairman
[2] from 1.11. Vice Chairman

Supervisory Board

Name	Position	Term of office as at 31.12.	Term of office 1	
Petr Hulinský	Chairman	**Chairman**	11.6.2003	11.6.2008
Hermann Lüschen	Vice Chairman	**Vice Chairman**	11.6.2003	11.6.2008
Hans–Peter Villis	Member	**Member**	15.10.2010	15.10.2015
Peter Krampf	Member	**Member**	15.10.2010	15.10.2015
Martin Konermann	Member	**Member**	14.7.2003	21.6.2007
Martin Langmajer	Member	**Member**	11.6.2003	11.6.2008
Miroslav Poche	Member	**Member**	11.6.2003	11.6.2008
Drahomír Ruta	Member	**Member**	1.11.2010	1.11.2015
Eva Čančíková	Member	**Member**	1.3.2006	1.3.2011
Diana Stuchlíková	Member	**Member**	5.9.2006	5.9.2011
Ondřej Běhal	Member	**Member**	2.1.2009	2.1.2014
Ivana Grafnetrová	Member	**Member**	2.1.2009	2.1.2014
Ladislav Vinický	Member	–	19.6.2006	28.5.2010
Daniel Křetínský	Member	–	19.6.2006	15.10.2010
František Čupr	Member	–	19.6.2006	15.10.2010
Alexander Sloboda	Member	–	21.6.2007	30.6.2010
Uwe Benkendorff	Member	–	1.7.2010	15.10.2010
Axel Limberg	Member	–	21.6.2010	15.10.2010

Name	Term of office 2		Term of office 3		Term of office 4	
Petr Hulinský	18.6.2008	18.6.2013	–	–	–	–
Hermann Lüschen	18.6.2008	18.6.2013	–	–	–	–
Hans–Peter Villis	–	–	–	–	–	–
Peter Krampf	–	–	–	–	–	–
Martin Konermann	15.10.2010	15.10.2015	–	–	–	–
Martin Langmajer	18.6.2008	18.6.2013	–	–	–	–
Miroslav Poche	18.6.2008	18.6.2013	–	–	–	–
Drahomír Ruta	–	–	–	–	–	–
Eva Čančíková	2.3.2011	2.3.2016	–	–	–	–
Diana Stuchlíková	–	–	–	–	–	–
Ondřej Běhal	–	–	–	–	–	–
Ivana Grafnetrová	–	–	–	–	–	–
Ladislav Vinický	–	–	–	–	–	–
Daniel Křetínský	–	–	–	–	–	–
František Čupr	–	–	–	–	–	–
Alexander Sloboda	–	–	–	–	–	–
Uwe Benkendorff	–	–	–	–	–	–
Axel Limberg	–	–	–	–	–	–

– information on employment or similar contracts concluded with the issuer or subsidiaries:
PRE Executive management
The management contract contains a competition clause to be observed 12 calendar months after employment is terminated. This fact is compensated by the payment of a monetary settlement of an average monthly income for each month of the fulfilment of the obligation.
PRE Board of Directors
Members of the Board of Directors conclude the Contract on the Terms and Conditions for the Exercise of Office for the period in office. Members are entitled to remuneration for exercising this office and its amount is approved annually by the General Meeting proportionately for the members of the Board of Directors and Supervisory Board. Besides the monthly remuneration for exercise of office, the members of the Board of Directors can make use of a contribution for above standard medical, rehabilitation and reconditioning care to the amount of CZK 20,000 per calendar year.
PRE Supervisory Board
Members of the Supervisory Board conclude the Contract on the Terms and Conditions for the Exercise of the Office for the period in office. Members of the Board of Directors and Supervisory Board are entitled to remuneration for exercising the office and its amount is approved annually by the General Meeting in an aggregate amount. Besides the monthly remuneration for exercise of the office, the members of the Supervisory Board can make use of contribution for above the standard medical, rehabilitation and reconditioning care to the amount of CZK 20,000 per calendar year. The four members of the Supervisory Board that are elected from the ranks of the employees also conclude a standard employment contract corresponding to their profession.
Subsidiaries
Members of the Board of Directors and Supervisory Boards of these subsidiaries conclude the Contract on the Terms and Conditions for the Exercise of office for the period in office. Members are entitled to remuneration for exercising this office and its amount is approved annually by the sole shareholder within the competence of the General Meeting.
Persons with managerial powers are allowed to use passenger cars for business and private purposes.
Executive directors, members of Board of Directors and Supervisory Bodies are considered as persons with managerial powers within the Group.
The list of members of managers in accordance with Section 2, (1), letter a) ZPKT in the bodies of the subsidiaries is found in the chapter "PRE Bodies and Management" of the Annual Report.

– data under point 14.1. Notes to the Regulation – information on convictions for fraudulent crimes, bankruptcy proceedings, administrations or liquidations with which these persons were connected, about any official public charges or sanctions against such persons by the statutory or regulatory bodies, whether these persons were legally relieved of their capacity to exercise the office of a member of administrative, management or supervisory bodies in the last 5 years and so on
The compilers of the Annual Report have no knowledge of any of the persons of administrative, management and supervisory bodies being convicted for fraudulent crime; these persons have not been connected with any bankruptcy proceedings, administration or liquidation. No official public charge has been made or sanctions imposed against any of the abovementioned persons by statutory and regulatory bodies and none of the abovementioned persons was legally relieved of the capacity to exercise the office of a member of administrative, management or supervisory bodies in the last 5 years.

Information on the financial situation of the issuer of a registered security:

Development of equity

– overview of changes in equity during the last three accounting periods in the form of a comparison table
The necessary information is found in the Financial Statements.

Economic result after tax from the issuer's usual activity per share in the last three periods

– the issuer of shares which only presents the financial statements in the Annual Report, will state the economic result (profit/loss) after tax from the issuer's usual activities per one share for the last three accounting periods; should the issuer of shares only present a consolidated financial statements in the Annual Report, it will only state the consolidated result per share in the last three accounting periods, the issuer of shares, which also states a non-consolidated financial statements, will also state its non-consolidated result per share in the last three accounting periods. Should changes arise in the number of shares in this information in the last three accounting periods, particularly due to a decrease or increase in registered capital or merger or split in shares, this information will be altered so a mutual comparison can be made; the method of alteration (recalculation formula) will be stated in the Annual Report
The information is found in the Appendix to the Financial Statements.

Level of dividends for the last three periods

– the issuer of shares will also state the level of dividends per share in the last three accounting periods
The information is found in the chapter "Shareholders".

Received and unpaid credit

– the issuer of bonds will provide the last information on the total level of hitherto unpaid credits received by the issuer divided into secured and unsecured credits and the method of securing it; information on the level of all loans received by the issuer and other obligations of the issuer divided into secured and unsecured loans and obligations and the method of securing these. Should the issuer be drawing up a consolidated financial statements, the obligations, as part of the consolidated unit, are not taken into account – it is explicitly stated in the Annual Report that the issuer did not receive any loans or credits or has no obligations
The information is found in the Financial Statements.

Persons (natural person/legal entity) in which the issuer has a direct or indirect share

– information on each person in which the issuer has a direct or indirect share, which constitutes at least 10 % of the issuer's equity or 10% of the issuer's net annual profit or loss. Should the issuer be part of a consolidated whole, in formation will be stated about each person in which the issuer has a direct or indirect share which constitutes at least 10% of the consolidated equity or at least 10% of the net consolidated profit or loss of the consolidated whole. The issuer will state the business company or name, registered office, ID No., line of business or other activities for each of these persons, as well as the level of subscribed registered capital and level of the issuer's share in the registered capital of such person
The information is found in chapter "Capital Interest".

Information on the expected economic and financial situation next year

– information on the expected economic and financial situation next year or in the next few years
The information is found in chapter "The Group estimated economic results in 2010–2014".

Remunerations paid to the auditing firm (CZK including VAT)

The information is found in the Financial Statements.

Information on persons responsible for the Annual Report

– name, surname and position of natural persons responsible for the Annual Report, in case of a person only responsible for part of Annual Report, only that part of the Annual Report need be stated for which the person is responsible
– affidavit and signatures of a person or persons responsible for the Annual Report confirming that the information presented in the Annual Report or part thereof is consistent with the facts and no substantial circumstances, which could affect the accurate and correct judgement of the issuer and the securities issued by him, have been omitted or distorted
The information is found in the chapter "Affidavit".

Regulation of the {EU} Commission No. 809/2004 published in the Official Bulletin EU L 149/1 (only the relevant requirements are stated)

– description of the item and purpose of the issuer's activities and where they can be found in the Deed of Association and Articles of Association.
The data are found on page 1 of the Articles of Association
– summary of all the provisions of the issuer's Deed of Association and Articles of Association regarding members of the administrative, managing and supervisory bodies
The data are found on page 9–17 of the Company's Articles of Association.
– description of rights, benefits and restrictions valid for each class of existing shares
The data is found on page 9–17 of the Company's Articles of Association.
– description of the procedure necessary for changing the rights of holders of shares and the case in which the terms and conditions are stricter than the law requires
The terms and conditions for procedure are not stricter than the law requires.
– description of the terms and conditions regulating the method of convening general meetings and extraordinary meetings of shareholders, including the terms and conditions of attendance
The data are found on page 9–17 of the Company Articles of Association.
– brief description of all provisions of the issuer's Deed of Association and Articles of Association which could cause delay, postponement of the change of a control over the issuer or could prevent it
The issuer's Articles of Association do not contain such provisions.
– any such provisions of the Deed of Association and Articles of Association regulating the limit of ownership and if exceeded the name of the shareholder must be published
Such provisions are not stated.
– description of terms and conditions laid down by the Deed of Association and Articles of Association for a change of capital, if these terms and conditions are stricter than the law requires
The terms and conditions are not stricter than the law requires (page 19–20 of the Articles of Association).
– data on capital interests, data on enterprises in which the issuer holds a share of the capital which would have a significant effect on the valuation of his own assets and liabilities, financial situation or profit or loss
The data are found in the chapter on capital interests.
– declaration on operating capital, declaration of the issuer that in his opinion operating capital is adequate for the issuer's current requirements, or in case it is not adequate, his proposal on how to secure the additional required operating capital
Operating capital is adequate for the current requirements of the issuer.
– data on offered/for trading received securities, description of the type and class of offered or for trading received securities including ISIN (international identification number of a security) or a different identification code
No securities were offered for trading.
– main shareholders, to the extent known to the issuer a statement of whether the issuer is directly or indirectly owned or controlled and by whom, and a description of the nature of this control and the adopted measures which are to be provided so that this control is not abused
Information is found in the chapter Shareholders.

Summarizing explanatory report according to Section 118, (4), letters b), c), e) and j) and (5) letters a) to l) Act on Business Activities on the Capital Market as amended.

Para. 4:

b) information about the principles and procedures of internal control and rules of procedure by the issuer and his consolidation unit regarding the risks to which the issuer and his consolidation unit is or may be exposed in relation to the process of accounting reporting
Information is found in the financial statements (Chapter 3 – Summary of Important Accounting Rules and Procedures).

c) description of the procedures of the decision-making and members of the statutory body, supervisory board or other executive or control body of the issuer and, if these are established, also its committees.
The supervisory board is elected by the general meeting; the statutory body and then the supervisory board.
The supervisory board of subsidiaries is elected in the form of a decision by the sole shareholder; statutory bodies by the supervisory board of the subsidiary. Statutory bodies and supervisory boards of the parent company and subsidiaries making decisions at their meetings at which they are governed by the rules of procedure of the board of directors and supervisory board. The issuer has no control body (the parent company has the internal audit department).

e) description of the procedures of the decision making and the basic scope of powers of the general meeting of the issuer or similar assembly of owners of securities representing a share in the issuer
The issuer convened ordinary and extraordinary general meetings (Article 13 of the Company's Articles of Association) in line with valid legislation and any requests made by shareholders; the scope of their powers is laid down by the company's Article of Association (Article 15 and 16 of the Company's Articles of Association). The proceedings of the General Meeting are governed by the rules of procedure approved by the General Meeting.

j) information about the codes of management and administration of the Company which are binding or which it voluntarily observes, and information about where the code can be examined; or information about the fact that it does not observe some provision of such a code, or the fact that it does not observe any code, including the reasons why it does not observe this provision or any code
"The Code of Ethics of the PRE Group" exists and is in force at the Group. It was drawn up in 2007. The Code states the objectives of the Group concerning ethical conduct, the values of the Group and defines the observance of ethical principles. The Code also considers any potential conflict of interests and defines the procedure to take in such a case. Each employee of the Group is made acquainted with the Code and confirms this by his signature (this being filed in each employee's employment contract). The Code of Ethics is available from the human resources departments and each employee receives a copy as mentioned above.
Another material that is binding for all PRE Group employees is the "Electricity Sales Quality Policy" which was drawn up by the sales division and a strategy which defines the duties and priorities of PRE employees in relation to the customers in the area of electricity sales (the Company holds the certified quality systems – CQS – and certified sales process management system – IQNet). The document "Electricity Sales Quality Policy" is available at the secretariat of the sales and strategy division director; at the head of the B2B section and at the sales workplaces.
All the provisions of both materials are observed.

Para. 5:

a) information about the structure of the issuer's equity, including securities which were not accepted for trading on the regulated market based in a European Union member country and possible definition of various classes of shares or similar securities representing a share in the issuer and a share in the registered capital of each class of share or similar securities representing a share in the issuer
The data is in the table. The registered capital is divided (from 15.10.) into 3,869,443 registered shares to the nominal value of CZK 1,000; until 15.10. the registered capital was divided to 2,553,831 bearer shares to the nominal value of CZK1,000 and 1,315,612 registered shares to the nominal value of CZK 1,000.

	Registered capital			Reserve fund		
	2010	2009	2008	**2010**	2009	2008
PRE Group	**3,869,443**	3,869,443	3,869,443	**1,172,377**	1,171,867	1,566,166
PRE	**3,869,443**	3,869,443	3,869,443	**1,172,377**	1,171,867	1,566,166

	Retained earnings			Equity		
	2010	2009	2008	**2010**	2009	2008
PRE Group	**6,478,232**	6,373,757	6,371,678	**11,520,052**	11,415,067	11,807,287
PRE	**4,364,784**	4,969,870	5,350,950	**9,406,604**	10,011,180	10,786,559

b) information restriction of securities transferability of securities
Shares are freely transferable.

c) information about significant direct and indirect shares in the issuer's voting rights
Direct shares in voting rights:
Pražská energetika Holding, a.s. – 57.87% share in the Company's registered capital,
Honor Invest, a.s. – 41.10% share in the Company's registered capital (until 20. 9.); EnBW Energie Baden-Württemberg AG – 41.26% (from 20.9.).

d) information about owners of securities with special rights, including a description of these rights
Shares with special rights are not issued.

e) information about the restriction of voting rights
The Company knows of no circumstances constituting a restriction in the exercise of voting rights related to the Company's shares at the date of the compilation of this report.

f) information about contracts concluded between shareholders or similar owners of securities representing a share in the issuer which may cause difficulties in the transferability of shares or similar securities representing a share in the issuer or voting rights provided these are known to the issuer
A shareholder agreement was concluded between the shareholder Pražská energetika Holding, a.s. and Honor Invest, a.s. (until 20.9.) regulating the pre-emption right to shares between the parties.
A shareholder agreement is concluded between the shareholder Pražská energetika Holding, a.s. and EnBW Energie Baden-Württemberg AG. regulating the pre-emption right to shares between the parties.

g) information about special rules determining the election and dismissal of members of the statutory body and change to Articles of Association or similar document of the issuer
There are no special rules in the Company determining the election and dismissal of members of the Board of Directors and change to the Company's Articles of Association.

h) information about special powers of members of the statutory body, especially about the authorisation under Section 161a and Section 210 of the Commercial Code
There are no special rules in the Company determining the election and dismissal of members of the board of directors and change to the Company's Articles of Association.

i) information about important contracts in which the issuer is the contractual party and will come into effect, be amended or end in the event of change to the issuer's control as a result of the tender offer, and about the effects of this tender offer, with the exception of such contracts which, if published, would prove seriously detrimental to the issuer; this does not restrict other duty to publish such information under this law or other legislation
There are no contracts in which the issuer were to be a contractual party and would be in effect, would be amended or would end in the event of a change to the issuer's control as a result of the tender offer, and about the effects of this tender offer, with the exception of such contracts which, if published, would prove seriously detrimental to the issuer.

j) information about contracts between the issuer and members of its statutory body or employees under which the issuer is bound to fulfil in the event of the termination of their office or employment in connection with the tender offer
The members of the PRE executive management have concluded an employment contract which contains a competition clause of 12 calendar months after the termination of the employment relationship. This fact is compensated by disbursement of a pay settlement of the average monthly salary for each month of the fulfilment of the obligation.

k) information about possible programmes based on which employees and members of the Company's statutory body are able to acquire subscriber securities, options to these securities or other rights to these securities under advantageous conditions, and the way the rights arising from these securities are exercised
The Company has not introduced any of these programmes.

l) information about payments made to the state for the right of extraction should the issuer's crucial activity be in the extraction industry
In view of the Company's line of business this information is not relevant.

Supervisory Board Report

In 2010 the Supervisory Board held six meetings (once per rollam). The meetings were focused on fundamental materials concerning strategic decisions, financial and investment plan for the year 2011.

Thereafter the Supervisory Board among others:
– discussed the financial plans of PRE and PREdistribuce, a.s. for the period 2011–2014,
– approved the financial plans of PRE and PREdistribuce, a.s. for 2011,
– discussed the preparation of the General Meetings held in 2010,
– discussed the text of the Annual Report for the year 2009,
– discussed the text of the report on risks and information concerning the PRE & EnBW cooperation project (MOST).

The Supervisory Board also discussed and reviewed the consolidated and regular (separate) financial statements for the year 2009 and became acquainted with the reports of the auditor concerning these statements.

The Supervisory Board also discussed and reviewed the proposal of profit division for the year 2009 and recommended the General Meeting to approve it, including the submitted drafts of the consolidated and (separate) financial statements.

The Supervisory Board discussed the Report on Relations between the Controlling and Controlled Person and on the Relations between the Controlled Person and other Persons Controlled by the same Controlling Person in accordance with Section 66a (9) of the Commercial Code.

At its meetings held in 2011, the Supervisory Board among others:
– discussed and reviewed the consolidated and regular (separate) financial statements for the year 2010 and became acquainted with the reports of the auditor concerning these statements,
– discussed and reviewed the proposal of profit division for the year 2010 and recommended the General Meeting to approve it, including the submitted drafts of the consolidated and (separate) financial statements.
– discussed the text of the Annual Report for the year 2010.

The Supervisory Board declares that the Company’s economic results in 2010 were very good and expresses its thanks to the members of the Company Board of Directors and employees.

In Prague 4.5.2011

Petr Hulinský
Chairman of the Supervisory Board

Auditor´s Report

Independent Auditor's Report to the Shareholders of Pražská energetika, a.s.

Having its registered office at: Na Hroudě 1492/4, Praha 10, 100 05, Czech Republic
Identification number: 60193913

Report on the Separate Financial Statements

Based upon our audit, we issued the following audit report dated 1 March 2011 on the financial statements which are included in this annual report on pages 140 to 167:

"We have audited the accompanying financial statements of Pražská energetika, a.s., which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Pražská energetika, a.s. as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 1 March 2011 on the consolidated financial statements which are included in this annual report on pages 105 to 132:

"We have audited the accompanying consolidated financial statements of Pražská energetika, a.s. and subsidiaries, which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and
a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pražská energetika, a.s. and subsidiaries as at 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of Pražská energetika, a.s. for the year ended 31 December 2010 which is included in this annual report on pages 81 to 88. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Pražská energetika, a.s. for the year ended 31 December 2010 contains material factual misstatements.

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

Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2010 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

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

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

In Prague on 15 April 2011

Audit firm:

Deloitte Audit s.r.o.
certificate no. 79

Deloitte

Statutory auditor:

Václav Loubek
certificate no. 2037

Consolidated financial statements – retrospective summary (2003–2010)

Consolidated Income Statements (CZK thousand)

	2010	2009	2008	2007	2006	2005	2004	2003
Revenues from electricity sold	**19,984,453**	20,366,222	18,879,115	16,532,912	13,947,381	12,140,558	11,008,703	10,024,809
Costs of electricity sold	**(14,401,384)**	(15,163,685)	(13,676,932)	(11,107,973)	(9,351,806)	(8,160,299)	(7,236,640)	(6,379,653)
Gross profit from electricity sold	**5,583,069**	**5,202,537**	**5,202,183**	**5,424,939**	**4,595,575**	**3,980,259**	**3,772,063**	**3,645,156**
Other operating income	**304,228**	394,364	182,787	195,154	210,258	126,516	179,118	317,315
Personnel expenses	**(1,048,783)**	(996,497)	(960,525)	(979,253)	(904,787)	(799,161)	(749,662)	(711,217)
Depreciation	**(861,721)**	(810,676)	(739,669)	(739,803)	(688,289)	(833,994)	(877,104)	(610,862)
Costs of services, material and energy	**(990,721)**	(925,999)	(994,289)	(899,904)	(861,115)	(830,360)	(835,239)	(1,023,132)
Financial costs (bearing interest)	**(89,765)**	(98,485)	(27,341)	(14,558)	(16,539)	(21,780)	(15,351)	
Other gains and losses	**(105,669)**	(82,918)	(66,585)	(8,554)	561	(34,995)	(186,518)	(347,542)
Profit from ordinary activity before tax	**2,790,638**	**2,682,326**	**2,729,731**	**2,978,021**	**2,335,664**	**1,586,485**	**1,287,307**	**1,269,718**
Income tax	**(544,975)**	(538,645)	(559,233)	(521,108)	(642,398)	(388,755)	(259,904)	(264,393)
Profit from ordinary activity after tax	**2,245,663**	**2,143,681**	**2,170,498**	**2,456,913**	**1,693,266**	**1,197,730**	**1,027,403**	**1,005,325**
Extraordinary expenses								(26,707)
Profit (loss) for accounting period	**2,245,663**	**2,143,681**	**2,170,498**	**2,456,913**	**1,693,266**	**1,197,730**	**1,027,403**	**978,618**
Profit per ordinary share [CZK]	**580**	554	561	635	438	304	254	242

Consolidated Balance Sheet (Consolidated Statement on Financial Position) (CZK thousand)

	2010	2009	2008	2007	2006	2005	2004	2003
ASSETS								
Property, plants and equipment	**15,805,631**	14,700,276	13,702,513	12,697,512	12,084,545	11,569,394	11,119,624	9,808,997
Intangible fixed assets	**215,742**	210,827	186,073	169,645	142,310	163,949	177,710	155,707
Trade receivables and other receivables	**21,335**	22,850	46,540	128,211	29,852	30,300	32,586	57,616
Non-current assets	**16,042,708**	**14,933,953**	**13,935,126**	**12,995,368**	**12,256,707**	**11,763,643**	**11,329,920**	**10,022,320**
Inventories	**41,002**	41,927	53,130	42,866	31,186	34,099	49,767	40,834
Tax receivables	**13,445**	152,190	79,363	5,483	23,038	75,337	53,703	41,733
Trade receivables and other receivables	**1,656,360**	2,618,911	3,594,018	1,949,385	650,971	586,882	429,916	307,017
Other financial assets	**49,025**	148,851	172,350	162,754	441,028	134,885	319,158	666,399
Cash and cash equivalents	**592,853**	1,545,586	461,910	66,443	276,986	40,241	50,831	129,948
Current assets	**2,352,685**	**4,507,465**	**4,360,771**	**2,226,931**	**1,423,209**	**871,444**	**903,375**	**1,185,931**
Total assets	**18,395,393**	**19,441,418**	**18,295,897**	**15,222,299**	**13,679,916**	**12,635,087**	**12,233,295**	**11,208,251**

LIABILITIES								
Share capital	**3,869,443**	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443
Funds from profit	**1,172,377**	1,171,867	1,566,166	1,048,453	1,156,387	1,155,605	1,156,255	1,154,527
Retained earnings	**6,478,232**	6,373,757	6,371,678	6,637,636	5,558,243	4,729,516	4,277,212	3,385,110
Equity	**11,520,052**	**11,415,067**	**11,807,287**	**11,555,532**	**10,584,073**	**9,754,564**	**9,302,910**	**8,409,080**
Loans	**1,210,670**	2,515,733	1,305,060	0	84,238	125,000	149,000	163,000
Trade payables and other payables	**311,738**	189,816	185,938	326,643	162,277	197,986	39,075	13,921
Provisions	**345,073**	333,988	331,855	325,760	321,705	364,808	578,604	423,512
Deferred tax liability	**1,291,241**	1,194,322	1,161,768	937,095	1,114,862	964,937	820,664	675,573
Long-term liabilities	**3,158,722**	**4,233,859**	**2,984,621**	**1,589,498**	**1,683,082**	**1,652,731**	**1,587,343**	**1,276,006**
Bank loans	**1,302,071**	974,169	655,132	221,224	197,905	416,000	457,000	28,000
Tax payables	**79,962**	101,725	116,305	331,959	153,343	14,383	12,278	35,991
Trade payables and other payables	**2,325,889**	2,711,748	2,729,229	1,461,534	1,014,348	705,533	863,311	1,453,780
Provisions	**8,697**	4,850	3,323	62,552	47,165	91,876	10,453	5,394
Short-term liabilities	**3,716,619**	**3,792,492**	**3,503,989**	**2,077,269**	**1,412,761**	**1,227,792**	**1,343,042**	**1,523,165**
Total liabilities	**18,395,393**	**19,441,418**	**18,295,897**	**15,222,299**	**13,679,916**	**12,635,087**	**12,233,295**	**11,208,251**

Consolidated financial statements in full version as at 31.12.2010

Consolidated Income Statement (CZK thousand)

	Note	**2010**	2009
Revenues from electricity sold		**19,984,453**	20,366,222
Costs of electricity sold		**(14,401,384)**	(15,163,685)
Gross profit from the sale of electricity	**(4)**	**5,583,069**	**5,202,537**
Other operating income	(4)	**304,228**	394,364
Personnel expenses	(6)	**(1,048,783)**	(996,497)
Amortisation and depreciation	(13, 14)	**(861,721)**	(810, 676)
Costs of services, material and energy	(7)	**(990,721)**	(925,999)
Borrowing costs	(8)	**(89,765)**	(98,485)
Other gains and losses	(9)	**(105,669)**	(82,918)
Profit from ordinary activity before tax		**(2,790,638)**	**(2,682,326)**
Income tax	(10)	**(544,975)**	(538,645)
Profit from ordinary activity after tax attributable to the parent company's shareholders		**2,245,663**	**2,143,681**
Basic and diluted earnings per share attributable to ordinary shares (CZK)	(12)	**580**	554

Consolidated Statement of Comprehensive Income (CZK thousand)

	2010	2009
Profit from ordinary activity after tax	**2,245,663**	**2,143,681**
Total other comprehensive income:		
Revaluation of other financial assets	**(437)**	(3 270)
Cash flow hedging	**947**	(391,029)
Total other comprehensive income after tax	**510**	**(394,299)**
Comprehensive income attributable to shareholders of the parent company	**2,246,173**	**1,749,382**

Consolidated Statement of Financial Position (Balance Sheet) (CZK thousand)

	Note	**2010**	2009
ASSETS			
Property, plant and equipment	(13)	**15,805,631**	14,700,276
Intangible assets	(14)	**215,742**	210,827
Trade receivables and other receivables	(16)	**21,335**	22,850
Non-current assets		**16,042,708**	**14,933,953**
Inventories	(17)	**41,002**	41,927
Tax receivables		**13,445**	152,190
Trade receivables and other receivables	(16)	**1,656,360**	2,618,911
Other financial assets	(18)	**49,025**	148,851
Cash and cash equivalents	(19)	**592,853**	1,545,586
Current assets		**2,352,685**	**4,507,465**
Total assets		**18,395,393**	**19,441,418**
LIABILITIES			
Share capital	(24)	**3,869,443**	3,869,443
Funds from profit	(25)	**1,172,377**	1,171,867
Retained earnings		**6,478,232**	6,373,757
Shareholder's equity attributable to the parent company's shareholders		**11,520,052**	**11,415,067**
Loans	(20)	**1,210,670**	2,515,733
Trade payables and other payables	(21)	**311,738**	189,816
Provisions	(23)	**345,073**	333,988
Deferred tax liability	(10)	**1,291,241**	1,194,322
Long-term payables		**3,158,722**	**4,233,859**
Loans	(20)	**1,302,071**	974,169
Tax payables		**79,962**	101,725
Trade payables and other payables	(21)	**2,325,889**	2,711,748
Provisions	(23)	**8,697**	4,850
Short-term payables		**3,716,619**	**3,792,492**
Total liabilities		**18,395,393**	**19,441,418**

Consolidated Statement of Changes in Equity(CZK thousand)

	Share capital	Funds from profit	Retained earnings	Shareholder's equity attributable to the parent company's shareholders
Balance at 31 Dec 2008	**3,869,443**	**1,566,166**	**6,371,678**	**11,807,287**
Dividends and director's fees paid	–	–	(2,141,602)	(2,141,602)
Other comprehensive income	–	(394,299)	–	(394,299)
Net profit for 2009	–	–	2,143,681	2,143,681
Balance at 31 Dec 2009	**3,869,443**	**1,171,867**	**6,373,757**	**11,415,067**
Dividends and director's fees paid	–	–	(2,141,188)	(2,141,188)
Other comprehensive income	–	510	–	510
Net profit for 2010	–	–	2,245,663	2,245,663
Balance at 31 Dec 2010	**3,869,443**	**1,172,377**	**6,478,232**	**11,520,052**

Consolidated Cash Flow Statement (CZK thousand)

	Note	**2010**	2009
Opening balance of cash and cash equivalents	(19)	**1,545,586**	461,910
Operating activity			
Accounting profit from ordinary activity before tax		**2,790,638**	**2,682,326**
Amortisation and depreciation	(13, 14)	**861,721**	810,676
Write-off of bad debts and other assets	(9)	**22,069**	45,875
Change in allowances, provisions and temporary accounts		**166,158**	(1,703)
Profits and losses from the sale and disposal of fixed assets	(9)	**(1,296)**	(18,155)
Interest on and income from securities held	(8, 9)	**80,855**	84,671
Foreign exchange rate gains and losses	(9)	**26,959**	26,318
Revaluation of financial instruments	(9)	**5,320**	(13,028)
Net cash flow from operating activity before changes in working capital		**3,952,424**	**3,616,980**
Change in trade receivables	(16)	**209,073**	(369,725)
Change in trade payables	(21)	**168,874**	815,669
Change in inventories	(17)	**6,691**	20,847
Net cash flow from operating activity before tax and interest		**4,337,062**	**4,083,771**
Interest paid		**(81,774)**	(83,109)
Interest received		**8,909**	14,131
Income tax paid		**(294,209)**	(493,648)
Net cash flow from operating activity		**3,969,988**	**3,521,145**
Investment activity			
Expenses related to the acquisition of fixed assets	(13, 14)	**(1,915,175)**	(1,921,580)
Income from the sale of fixed assets		**21,236**	72,132
Net cash flow from investment activity		**(1,893,939)**	**(1,849,448)**
Financial activity			
Change in financial payables	(20)	**(976,074)**	1,518,878
Change in other current financial assets	(18)	**97,186**	20,289
Dividends paid – majority interests	(11)	**(1,216,003)**	(1,216,003)
Dividends paid – minority interests	(11)	**(924,482)**	(924,793)
Net cash flow from financial activity		**(3,019,373)**	**(601,629)**
Impact of the change in foreign exchange rates		**(9,409)**	13,608
Change in cash and cash equivalents		**(943,324)**	1,070,068
Closing balance of cash and cash equivalents	**(19)**	**592,853**	**1,545,586**

Content of the Notes to the Financial Statements

(1) General Information

Pražská energetika, a.s. (hereinafter "PRE" or the "Company") was established as a joint-stock company in the Czech Republic and was entered in the Register of Companies held by the District Court of Prague 1 on 1 January 1994.
The Company's registered office is located at Na Hroudě 1492/4, Prague 10, 100 05, corporate ID: 60193913.

The principal activities of PRE and its subsidiaries (hereinafter the "Group") include the supply of electricity in the Czech Republic and distribution of electricity in the region of the City of Prague and Roztoky u Prahy, covering an area of approximately 505 km2. These activities generate a major part of the Group's income. Electricity is distributed in public interest and rights and obligations relating to this activity, as well as trading with, and supplies of, electricity, except for general legal regulations, are stipulated in Energy Act No. 458/2000 Coll. as amended, and the related implementation guidance. More information on the major areas of the operations of the Group is disclosed in the Note Segment Reporting.

PRE's principal shareholders	**2010**	2009
Pražská energetika Holding a.s.	**57.87%**	57.87%
Honor Invest, a.s.	**–**	41.10%
Energie Baden – Württemberg AG	**41.26%**	0.16%
Other	**0.87%**	0.87%
Total	**100.00%**	**100.00%**

On 20 September 2010, the shares of Pražská energetika, a.s., with its registered office at Na Hroudě 1492/4, 100 05 Prague 10, were transferred from Honor Invest to EnBW pursuant to the Contract for the Exchange of Shares concluded between EnBW Energie Baden – Wurttemberg AG, with its registered office at Durlacher Allee 93, D – 76131 Karlsruhe, Germany ("EnBW"), Honor Invest , a.s., with its registered office at Pobřežní 297/14, 180 00 Prague 8, Czech Republic ("Honor Invest") and Energetický a průmyslový holding, a.s., with its registered office at Příkop 843/4, 602 00 Brno.

The Capital City of Prague owns 51 percent of Pražská energetika Holding and Energie Baden – Württemberg AG holds 49 percent. Honor Invest a.s. is part of the EPH group.

(2) Adoption of New and Revised International Financial Reporting Standards

Standards and Interpretations Effective in the Current Period

The following amendments to the current standards and interpretations issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- IFRS 1 (revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010);
- IFRS 3 (revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS"– Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009);
- IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009); and
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

Standards and Interpretations Issued by the IASB and Adopted by the EU but not yet Effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IFRS 1 "First-time Adoption of IFRS"– Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010);
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011); and
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

Standards and Interpretations issued by the IASB but not yet Adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 "First-time Adoption of IFRS"– Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures"– Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012); and
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

(3) Significant Accounting Policies

Statement of Compliance

The financial statements are prepared and presented in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis of the Preparation of Financial Statements

The financial statements have been prepared on the historical cost basis except for certain financial instruments. The principal accounting policies are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The Company exercises control over its subsidiaries and it is the Company's intention to exercise it in the following year. The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue Recognition

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable if significant risks and rewards arising from the ownership of the relevant goods have been transferred to the buyer. Revenues arising from contracts for the provision of services are recognised by reference to the stage of completion. Revenues from electricity and distribution are recognised in the period when the electricity is consumed by customers. Revenues from other provided services are recognised when the services are rendered. Revenue from leasing (primarily fibre-optics) are recognised evenly over the lease period. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever all the substantial risks and rewards of ownership of the relevant assets transfer to the lessee. All other leases are classified as operating leases. Assets acquired under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.
Lease payables are included in "Trade payables and other payables" within short-term and long-term payables.

Foreign Currency Translation

The financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Czech crowns are the functional currency of all Group entities and the presentation currency for the consolidated financial statements. During the year, transactions in currencies other than Czech crowns are recorded at the rates of exchange announced by the Czech National Bank and prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates announced by the Czech National Bank prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange rate gains and losses are recognised in profit or loss in the period in which they arise except for exchange rate differences arising from cash flow hedges where changes in fair value are posted directly to equity.

Borrowing Costs

The Company capitalises borrowing costs using the capitalisation rate in line with IAS 23. Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income Tax

Income tax expense reported in the income statement represents the sum of the tax currently payable and a change in the deferred tax balance. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current tax payable also includes tax overpayments or additional tax charges from previous periods. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised and are recognised in profit or loss except when associated with items charged directly to equity in which case it is also dealt with in equity.

Property, Plant and Equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost reduced by accumulated depreciation and recognised impairment loss. Cost includes the purchase price and costs associated with acquisition and is presented net of investment contributions (see below). Property, plant and equipment with a cost over CZK 40 thousand are reported on the face of the balance sheet. Customers pay part of the cost incurred reasonably by the Group upon being connected to the required power supply. The customers' obligation to pay this charge is stipulated in Act No. 458/2000 Coll. and Regulation 51/2006, as subsequently amended. The Group recognises investment contributions as income for the period. The cost of internally produced tangible and intangible assets includes direct and indirect costs directly related to the production of the asset. Depreciation on plant and equipment is charged to profit or loss. Properties in the course of construction for production or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. The cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land and properties under construction, over their estimated useful lives, using the straight-line method:

Asset category	Depreciation in years
Buildings, halls	15, 50
Cable tunnels, cable and overhead lines	40
Fibre-optics	30
Power structures	25, 30
Working machinery and equipment	4, 5, 10, 12, 15 and 20
Telecommunication equipment	15
Machinery and special technology equipment, communication cables	5, 10
Vehicles	4, 8
Electricity meters	10, 12 and 16
Furniture and fixtures	8
Hardware	3, 4

Assets acquired under finance leases are depreciated in the same manner as the assets owned by the Group over their estimated useful lives or their lease period depending on which of them is shorter. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Tangible assets costing between CZK 2 thousand and CZK 40 thousand with an individual useful life exceeding one year are classified as low value tangible assets. The acquisition costs of these assets are charged to expenses and their physical balances are maintained in the off-balance sheet records, the only exception being electricity meters that are recognised and depreciated as tangible fixed assets.

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.
An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated):
– the technical feasibility of completing the intangible asset so that it will be available for use or sale;
– the intention to complete the intangible asset and use or sell it;
– the ability to use or sell the intangible asset;
– how the intangible asset will generate probable future economic benefits;
– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Asset category	Depreciation period in years
Software	3–4
Other intangible assets	according to the contract

Intangible assets costing between CZK 2 thousand and CZK 60 thousand with an individual useful life exceeding one year are classified as low value intangible assets. The acquisition costs of these assets are charged to expenses and their physical balances are maintained in the off-balance sheet records.

Impairment of Tangible and Intangible Assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In circumstances where the relevant asset does not generate cash inflows separately, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost determined using the weighted arithmetic average and net realisable value. The cost includes the purchase price of the material, customs duties and in-transit storage and freight costs incurred to deliver the inventories. The net realisable value represents the estimated selling price for inventories less all estimated costs of marketing, sales and distribution.

Provisions

Provisions are recognised in the balance sheet when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial Assets

Financial assets are recognised and derecognised in the Group's balance sheet on the date of transaction where the purchase or sale of an asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), investments held-to-maturity, financial assets available-for-sale (AFS) and trade receivables and other receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial Assets and Fair Value through Profit or Loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. Financial assets are classified as held for trading if (i) they were acquired principally for the purpose of selling in the near future; or (ii) are a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Investments Held to Maturity

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest rate method less any impairment.

Financial Assets Available for Sale

Unlisted shares and listed redeemable notes held by the Group that are traded on an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange rate gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period. The foreign exchange rate gain or loss, if any, on financial assets available for sale denominated in foreign currencies is reported as part of the fair value change.

Trade Receivables and Other Receivables

Trade receivables are initially measured at fair value and subsequently revalued at amortised cost using the effective interest rate method. Reasonable allowances for estimated irrecoverable losses are recognised in profit or loss if impairment evidence exists. The recognised allowance is determined as the difference between the amortised cost of the relevant asset and the present value of the estimated future cash flows discounted at the effective interest rate calculated upon initial recognition. Other receivables with determined or determinable payments which are not quoted on an active market are classified as other financial assets and measured at the amortised cost using the effective interest rate method and reflecting any impairment loss. Interest income is reported using the effective interest rate method.

Financial Liabilities

Financial liabilities, including borrowings, are initially measured at fair value, increased by transaction costs and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial Derivatives

The Group hedges its future transactions and cash flows using currency and interest rate derivatives (forwards and swaps). The Group enters into commodity derivative instruments for purchases and sales of electricity in the Prague Power Exchange. The Group assumes that the majority of these derivatives will be settled in the form of a physical supply of electricity to be consumed or sold within the ordinary course of the Company's operation. Such contracts do not fall within the scope of IAS 39. As part of its trading portfolio, the Group also enters into commodity derivatives on OTC markets. Financial derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges). The fair value of hedging derivatives is classified as other non-current financial assets and long-term liability if the residual maturity of the hedging relationship exceeds 12 months, or as other non-current financial assets and short-term liability if the residual maturity of the hedging relationship is below 12 months. The derivatives which are not designated as effective hedge instruments are classified as other non-current financial assets and short-term liabilities, as appropriate.

Hedge Accounting

The Group designates certain hedging instruments, which include derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

Cash Flow Hedge

The effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts reported in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. An adjustment of the carrying value of the hedged item arising from the hedged risk is realised into profit or loss from the date of the relevant adjustment.

Employee Benefits Expense

The Group makes contributions to the health insurance and pension insurance schemes and the state employment policy scheme at the level required by law and effective in the relevant year by reference to the employees' gross salary. The insurance and social security expenses are charged to profit or loss in the same period as the relating payroll costs. The Group also makes contributions to its employees' retirement benefit plans. These contributions are expensed in the period in which employees are entitled to receive contributions based on the services that they provide to the Group. The Group provides other bonuses under the Collective Agreement (the defined benefit plan, refer to the note "Trade Payables and Other Payables"). The relevant payables are measured at the present value of anticipated future payments using actuarial estimates.

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 Group 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 Group considers the determination of the unbilled electricity amount the key area which is subject to the use of estimates. The increase in unbilled electricity 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.

Internal Audit Principles and Methods

The PRE Group prepares its financial statements so that these statements are correct, reliable and relevant and give a true and fair view of the Company's financial position and financial performance. The Company has internal regulations in place to determine the binding accounting principles and control mechanisms. These predominantly include the following: Circulation and Signing of Accounting Documents, Valuation of Assets and Liabilities, Stock Count of Assets and Liabilities, and Accounting Treatment for Transactions Related to Electricity Trading and Currency Risk Hedges. These internal regulations define the methods of processing and accounting for all usual transactions, including the rules for the prevention of fraudulent activities. The compliance with internal regulations is overseen by the Company's Internal Audit which follows the following norms of the Company: Internal Audit Statute, Risk Management, Internal Audit Planning and Performance.

(4) Revenues (CZK thousand)

Electricity income and expenses	**2010**	2009
Large customers consumption		
Sales of electricity	**7,121,953**	6,613,406
Sales of distribution and system services	**3,430,806**	2,922,053
Total	**10,552,759**	**9,535,459**
Small customers consumption		
Sales of electricity	**4,116,574**	6,030,092
Sales of distribution and system services	**5,086,335**	4,586,249
Total	**9,202,909**	**10,616,341**
Other income*)	**205,432**	164,881
Income from trading	**23,353**	49,541
Total income from sold electricity	**19,984,453**	**20,366,222**
Costs of purchases of sold electricity	**(10,620,837)**	(12,333,792)
Costs of purchases of distribution and system services	**(3,780,547)**	(2,829,893)
Total costs of sold electricity	**(14,401,384)**	**(15,163,685)**
Gross profit from the sale of electricity	**5,583,069**	**5,202,537**

*) Including proceeds from the sale of power products to distributors and electricity dealers.

Other operating income	**2010**	2009
Income from provided services*)	**120,397**	131,103
Received investment contributions	**143,528**	221,547
Change in work-in-progress and internal investments	**4,940**	4,752
Compensation for unauthorised consumption	**26,205**	25,223
Other	**9,158**	11,739
Total	**304,228**	**394,364**

*) The income includes revenues from the lease of land, real estate and other operating equipment, freight transport and IT support.

(5) Segment Reporting

The Group's operation is structured into three business segments: Trade, Distribution and Internal Services (industry segments). Accounting records are kept as if the activities were run by separate companies in order to avoid discrimination and mutual in-flows of funds. Segment information is presented reflecting the primary business activity of the Group. The primary reporting format is based on management and internal information about the Group.

Trade Segment – Electricity Supply and Trading

The Trade segment is in charge of the purchase and sale of electricity, including related activities. The segment revenue is generated either only by the electricity sold or by the electricity sold plus the distribution services rendered depending on the type of business relationship (see below). Customers have the right to choose their supplier of electricity. If they choose a supplier who does not supply the territory in which it will be consumed only the cost of the electricity provided is paid to this supplier. The cost of distribution and system services (hereinafter the "services"), which relates to the electricity supplied, are payable to the supplier who operates on the territory where the electricity is consumed. Customers can enter into a comprehensive service contract with the supplier, in which case the supplier also provides for the distribution services. The price of electricity is contractually agreed (i.e. not regulated) while the price for services is regulated. The price for distribution services is regulated by the Energy Regulatory Office.

Distribution Segment

The Distribution segment is in charge of the actual transportation of the required quantity and quality of electricity from suppliers to customers. The principal income of this segment is internal income from the Trade segment for the transported quantity of electricity in different voltage levels or revenues from external customers with whom the segment is in a direct business relationship.

Internal Services Segment

The Internal Services segment provides the Trade segment and other companies within the Group with operating services, primarily logistics (transportation and supplying services), lease of office buildings, operation of information technologies and systems and services for staff (provision of flats, leisure activities) and administrative activities. The income of Internal Services consists of revenues from provided services.

Note: The capacity of staff involved in the Trade segment is partially used for the provision of administrative and support services to the Group entities. Related costs are transferred internally to the Internal Services segment where they are included in the total segment expenses.

Rules for Inter-Segment Transaction Accounting

Directly attributable expenses and income are recognised under the relevant segment. Internal services are valued at a planned rate which is calculated based on the budget of internal costs. The segment revenue is the internal settlement made with the recipient of the service based on a rate and the quantity of the service rendered. Expenses are allocated using the ABC (Activity Based Costing) method.

	Trade		Distribution		Services	
	2010	2009	**2010**	2009	**2010**	2009
Electricity/Distribution						
External income	**18,787,817**	19,442,705	**1,196,636**	923,517	**–**	–
Inter-segment income	**641,174**	934,029	**6,547,957**	5,932,203	**–**	–
External expenses	**(11,418,613)**	(13,002,694)	**(2,979,157)**	(2,160,894)	**–**	–
Inter-segment expenses	**(6,540,491)**	(5,925,903)	**–**	–	**–**	–
Gross profit	**1,469,887**	**1,448,137**	**4,765,436**	**4,694,826**	**–**	**–**
Other external operating income	**10,062**	7,619	**192,422**	277,115	**94,628**	100,114
Other inter-segment operating income	**208,965**	202,158	**11,457**	8,308	**1,280,548**	1,285,410
Personnel expenses	**(204,056)**	(196,524)	**(403,013)**	(390,487)	**(441,714)**	(409,486)
Depreciation and amortisation of fixed assets	**(6,729)**	(3,157)	**(662,456)**	(622,157)	**(193,150)**	(185,780)
Other operating expenses	**(452,469)**	(428,635)	**(2,055,299)**	(2,256,556)	**(611,555)**	(652,359)
Other gains and losses net of received interest	**(63,089)**	(60,652)	**(32,028)**	(20,726)	**(10,568)**	2,671
Profit before borrowing costs and income tax	**962,571**	**968,946**	**1,816,519**	**1,690,323**	**118,189**	**140,570**
Received interest	**–**	–	**1**	–	**96,360**	115,167
Borrowings costs	**–**	–	**(70,301)**	(92,947)	**(115,825)**	(120,704)
Income tax	**(77)**	–	**(331,434)**	(306,044)	**–**	–
Income tax (unallocated)	**–**	–	**–**	–	**–**	–
Segment profit or loss	**962,494**	**968,946**	**1,414,785**	**1,291,332**	**98,724**	**135,033**
Other information						
Property, plant and equipment	**11,991**	14,257	**13,758,472**	12,775,919	**2,035,168**	1,910,100
Intangible assets	**–**	–	**17,777**	16,352	**197,965**	194,475
Receivables	**1,454,230**	2,208,676	**2,436,320**	2,300,347	**3,050,919**	3,302,647
Other assets	**–**	–	**1,863**	120,763	**694,462**	1,767,791
Total assets	**1,466,221**	**2,222,933**	**16,214,432**	**15,213,381**	**5,978,514**	**7,175,013**
Payables	**4,531,040**	4,490,483	**4,562,702**	4,264,736	**3,045,373**	4,441,042
Expenses related to the acquisition of fixed assets	**–**	–	**(1,637,334)**	(1,618,911)	**(277,841)**	(302,669)
Non-cash expenses other than write-offs	**78,048**	28,116	**(88,043)**	7,945	**54,416**	21,401

	Eliminations		Total	
	2010	2009	**2010**	2009
Electricity/Distribution				
External income	**–**	–	**19,984,453**	20,366,222
Inter-segment income	**(7,189,131)**	(6,866,232)	**–**	–
External expenses	**(3,614)**	(97)	**(14,401,384)**	(15,163,685)
Inter-segment expenses	**6,540,491**	5,925,903	**–**	–
Gross profit	**(652,254)**	**(940,426)**	**5,583,069**	**5,202,537**
Other external operating income	**7,116**	9,516	**304,228**	394,364
Other inter-segment operating income	**(1,500,970)**	(1,495,876)	**–**	–
Personnel expenses	**–**	–	**(1,048,783)**	(996,497)
Depreciation and amortisation of fixed assets	**614**	418	**(861,721)**	(810,676)
Other operating expenses	**2,128,602**	2,411,551	**(990,721)**	(925,999)
Other gains and losses net of received interest	**16**	(4,211)	**(105,669)**	(82,918)
Profit before borrowing costs and income tax	**(16,876)**	**(19,028)**	**2,880,403**	**2,780,811**
Received interest	**(96,361)**	(115,167)	**–**	–
Borrowings costs	**96,361**	115,166	**(89,765)**	(98,485)
Income tax	**1,153**	1,096	**(330,358)**	(304,948)
Income tax (unallocated)	**–**	–	**(214,617)**	(233,697)
Segment profit or loss	**(15,723)**	**(17,933)**	**2,245,663**	**2,143,681**
Other information				
Property, plant and equipment	**–**	–	**15,805,631**	14,700,276
Intangible assets	**–**	–	**215,742**	210,827
Receivables	**(5,263,774)**	(5,169,909)	**1,677,695**	2,641,761
Other assets	**–**	–	**696,325**	1,888,554
Total assets	**(5,263,774)**	**(5,169,909)**	**18,395,393**	**19,441,418**
Payables	**(5,263,774)**	(5,169,910)	**6,875,341**	8,026,351
Expenses related to the acquisition of fixed assets	**–**	–	**(1,915,175)**	(1,921,580)
Non-cash expenses other than write-offs	**–**	–	**220,507**	57,462

(6) Personnel Expenses (CZK thousand)

	2010	2009
	Staff including management	Staff including management
Average headcount	**1,314**	1,332
Payroll costs	**597,586**	600,590
Salaries paid depending on the fulfilment of the plan	**54,495**	60,018
Insurance	**235,987**	228,310
Remuneration to the members of the Company's statutory bodies	**12,433**	12,372
Other social costs*)	**148,282**	95,207
Total	**1,048,783**	**996,497**

*) Primarily costs of severance pays and employee benefits defined by the Collective Agreement, specifically catering contributions, bonuses paid to employees in relation to work or life anniversaries, retirement, contributions to additional pension insurance and electricity discounts for employees. The increase in costs has related to the increased claims for the use of employee benefits according to the Collective Agreement since 2010 and the increase in the present value of a long-term provision for these benefits (due to the decline in interest rates).

(7) Costs of Services, Material and Energy (CZK thousand)

	2010	2009
Material and consumed energy	**105,715**	107,332
Repairs of tangible fixed assets	**273,881**	229,960
Consulting services	**28,149**	35,253
Rental charges	**167,543**	160,249
Postage and telecommunication fees	**45,383**	47,025
IT support	**123,300**	128,154
Marketing	**93,971**	75,554
Training and conferences	**6,509**	12,515
Other*)	**146,270**	129,957
Total	**990,721**	**925,999**

*) Including primarily costs of cleaning services, security guard services and storage fees.

(8) Borrowing Costs (CZK thousand)

	2010	2009
Interest on loan	**82,448**	88,968
Interest expense on employee benefits	**4,758**	5,234
Interest on leases	**2,555**	4,283
Other	**4**	–
Total	**89,765**	**98,485**

(9) Other Gains and Losses (CZK thousand)

	2010	2009
Write-offs of doubtful debt and creation of allowances	**(60,884)**	(50,104)
Taxes and charges	**(13,167)**	(11,499)
Insurance premium	**(6,903)**	(8,358)
Gain/(loss) from the sale and disposal of fixed assets and inventories	**1,411**	15,572
Change in provisions	**(19,783)**	(1,423)
Foreign exchange rate gains (losses)	**946**	(22,738)
Proceeds from securities held	**3,787**	10,093
Revaluation of interest rate swaps	**6,097**	(13,525)
Other	**(17,173)**	(936)
Total	**(105,669)**	**(82,918)**

(10) Income Tax (CZK thousand)

The current income tax payable is calculated at 19 percent of the estimated taxable profit for the year ended 31 December 2010 (2009: 20 percent). Deferred tax is calculated only in respect of significant items, using the income tax rates effective in future periods, i.e. 19 percent (2009: 19 percent).

	2010	2009
Current tax payable	**448,278**	407,897
Deferred tax	**96,697**	130,748
Total income tax	**544,975**	**538,645**

Effective tax rate	**2010**		2009	
Profit before tax	**2,790,638**		**2,682,326**	
Income tax using the effective income tax rate	**530,221**	**19.00%**	536,465	20.00%
Impact of items that are never tax-deductible	**11,668**	**0.42%**	4,850	0.18%
Corrections of tax estimates from prior periods	**3,086**	**0.11%**	(2,670)	(0.10%)
Total income tax/effective tax rate	**544,975**	**19.53%**	**538,645**	**20.08%**

Deferred tax assets (-) and liabilities (+) recorded in the balance sheet relate to the following items:

	31 Dec 2010	Recorded in profit or loss	Recorded in equity	31 Dec 2009	Recorded in profit or loss	Recorded in equity	31 Dec 2008
Fixed assets	**1,399,192**	108,814	–	1,290,378	140,575	–	1,149,803
Provisions and allowances against receivables	**(74,184)**	(2,665)	–	(71,519)	(3,282)	–	(68,237)
Inventories	**(441)**	1,096	–	(1,537)	1,832	–	(3,369)
Obligation under the Collective Agreement	**(40,187)**	(11,104)	–	(29,083)	(8,991)	–	(20,092)
Cash flow hedge	**6,861**	–	222	6,639	–	(98,194)	104,833
Other	**–**	556	–	(556)	614	–	(1,170)
Total deferred tax liability	**1,291,241**	**96,697**	**222**	**1,194,322**	**130,748**	**(98,194)**	**1,161,768**

(11) Dividends (CZK thousand)

The following amounts were recognised as distribution of profit to shareholders in the relevant period:

	2010	2009
Final dividend for 2009 of CZK 543 (2008: CZK 543) per share	**2,101,108**	2,101,108

The proposed final dividend for 2010 must be approved by shareholders at the General Meeting. It has not been included in liabilities in these financial statements.

(12) Earnings per Share (CZK thousand)

Earnings per share are calculated from the net profit for distribution of CZK 2,245,663 thousand (2009: CZK 2,143,681 thousand) attributable to 3,869,443 shares, i.e. the earnings per share amount to CZK 580 (2009: CZK 554). The Group has issued no instruments that would dilute the basic earnings per share.

(13) Property, Plant and Equipment (CZK million)

	Land	Power structures	Cables and overhead lines	Telecommunication technologies and IT	Administrative buildings	Leases	Electricity metres	Other	Assets under construction	**Total**
Cost										
Balance at 31 Dec 2008	**508.0**	**7,675.5**	**8,100.7**	**1,872.2**	**1,518.6**	**92.8**	**1,864.0**	**479.2**	**318.1**	**22,429.1**
Additions	18.7	410.0	696.5	109.9	91.8	20.0	70.7	39.9	330.8	**1,788.3**
Disposals	(5.3)	(46.5)	(52.5)	(45.6)	(41.7)	(17.0)	(70.1)	(13.7)	–	**(292.4)**
Reclassification	0.8	16.0	145.7	24.1	12.0	–	7.4	4.3	(210.3)	**–**
Balance at 31 Dec 2009	**522.2**	**8,055.0**	**8,890.4**	**1,960.6**	**1,580.7**	**95.8**	**1,872.0**	**509.7**	**438.6**	**23,925.0**
Accumulated depreciation										
Balance at 31 Dec 2008	**(1.8)**	**(3,029.9)**	**(2,887.1)**	**(1,206.2)**	**(271.5)**	**(29.2)**	**(1,028.1)**	**(272.8)**	**–**	**(8,726.6)**
Depreciation	–	(200.1)	(179.5)	(136.9)	(31.3)	(13.1)	(147.6)	(29.5)	–	**(738.0)**
Accumulated depreciation on disposals	–	41.3	51.0	44.0	13.7	10.0	67.0	12.9	–	**239.9**
Reclassification	–	–	(0.1)	(2.8)	–	–	–	2.9	–	**–**
Balance at 31 Dec 2009	**(1.8)**	**(3,188.7)**	**(3,015.7)**	**(1,301.9)**	**(289.1)**	**(32.3)**	**(1,108.7)**	**(286.5)**	**–**	**(9,224.7)**
Net book value – 2008	**506.2**	**4,645.6**	**5,213.6**	**666.0**	**1,247.1**	**63.6**	**835.9**	**206.4**	**318.1**	**13,702.5**
Net book value – 2009	**520.4**	**4,866.3**	**5,874.7**	**658.7**	**1,291.6**	**63.5**	**763.3**	**223.2**	**438.6**	**14,700.3**

	Land	Power structures	Cables and overhead lines	Telecommunication technologies and IT	Administrative buildings	Leases	Electricity metres	Other	Assets under construction	**Total**
Cost										
Balance at 31 Dec 2009	**522.2**	**8,055.0**	**8,890.4**	**1,960.6**	**1,580.7**	**95.8**	**1,872.0**	**509.7**	**438.6**	**23,925.0**
Additions	25.7	374.6	835.8	60.0	21.6	18.6	44.4	97.3	434.6	**1,912.6**
Disposals	(12.0)	(33.4)	(50.1)	(90.2)	(7.3)	(18.0)	(102.5)	(32.4)	–	**(345.9)**
Reclassification	1.2	166.5	104.0	36.2	11.8	–	6.8	2.4	(328.9)	**–**
Balance at 31 Dec 2010	**537.1**	**8,562.7**	**9,780.1**	**1,966.6**	**1,606.8**	**96.4**	**1,820.7**	**577.0**	**544.3**	**25,491.7**
Accumulated depreciation										
Balance at 31 Dec 2009	**(1.8)**	**(3,188.7)**	**(3,015.7)**	**(1,301.9)**	**(289.1)**	**(32.3)**	**(1,108.7)**	**(286.5)**	**–**	**(9,224.7)**
Depreciation	–	(214.0)	(200.4)	(133.5)	(32.9)	(14.2)	(156.3)	(31.9)	–	**(783.2)**
Accumulated depreciation on disposals	–	29.7	49.3	89.0	6.6	13.3	102.4	31.5	–	**321.8**
Reclassification	–	–	–	–	–	–	–	–	–	**–**
Balance at 31 Dec 2010	**(1.8)**	**(3,373.0)**	**(3,166.8)**	**(1,346.4)**	**(315.4)**	**(33.2)**	**(1,162.6)**	**(286.9)**	**–**	**(9,686.1)**
Net book value – 2009	**520.4**	**4,866.3**	**5,874.7**	**658.7**	**1,291.6**	**63.5**	**763.3**	**223.2**	**438.6**	**14,700.3**
Net book value – 2010	**535.3**	**5,189.7**	**6,613.3**	**620.2**	**1,291.4**	**63.2**	**658.1**	**290.1**	**544.3**	**15,805.6**

As of 31 December 2010, the Group owns the following significant tangible assets (property, machinery, equipment:

Power production and distribution structures		Net book value	
Type of the building or equipment	Land register	**2010**	2009
Distribution plants	Prague	**2,621,395**	2,557,231
Cable tunnels	Prague	**1,587,911**	1,465,809
Distribution transformer stations	Prague	**1,104,044**	1,086,037
Circuit breaker stations	Prague	**551,553**	517,593
Ultra-high voltage cable and aerial line	Prague	**1,481,418**	1,283,778
High voltage cable and aerial line	Prague	**2,905,636**	2,494,513
Low voltage cable and aerial line	Prague	**2,699,293**	2,616,794

Administrative buildings			Net book value	
Location	Land register	Use	**2010**	2009
Na Hroudě 4	Prague – Vršovice	offices	**478,425**	470,167
Svornosti	Prague – Smíchov	offices	**154,969**	151,465
Na Hroudě 19	Prague – Vršovice	offices	**142,340**	145,278
Novovysočanská	Prague – Libeň	offices, workshops, laboratory	**84,017**	86,075
Sokolská	Prague – Nové Město	offices	**95,468**	97,612
Nitranská	Prague – Vinohrady	offices, control room of distribution equipment	**88,583**	90,665

Land		Cost	
Location	Land register	**2010**	2009
Land surrounding administrative buildings	Prague	**170,948**	161,523
Land surrounding power buildings	Prague	**364,342**	358,877

(14) Intangible Assets (CZK million)

Cost	Software	Other	Assets under construction	**Total**
Balance at 31 Dec 2008	**606.8**	**17.6**	**41.2**	**665.6**
Additions	62.4	6.2	28.9	**97.5**
Disposals	(10.9)	–	–	**(10.9)**
Reclassification	30.1	3.0	(33.1)	**–**
Balance at 31 Dec 2009	**688.4**	**26.8**	**37.0**	**752.2**
Accumulated amortisation				
Balance at 31 Dec 2008	**(466.2)**	**(13.3)**	**–**	**(479.5)**
Amortisation	(69.5)	(3.2)	–	**(72.7)**
Accumulated amortisation on disposals	10.8	–	–	**10.8**
Balance at 31 Dec 2009	**(524.9)**	**(16.5)**	**–**	**(541.4)**
Net book value – 2008	**140.6**	**4.3**	**41.2**	**186.1**
Net book value – 2009	**163.5**	**10.3**	**37.0**	**210.8**

	Software	Other	Assets under construction	**Total**
Cost				
Balance at 31 Dec 2009	**688.4**	**26.8**	**37.0**	**752.2**
Additions	26.2	1.0	56.0	**83.2**
Disposals	(84.4)	(7.6)	–	**(92.0)**
Reclassification	16.0	2.2	(18.2)	**–**
Balance at 31 Dec 2010	**646.2**	**22.4**	**74.8**	**743.4**
Accumulated amortisation				
Balance at 31 Dec 2009	**(524.9)**	**(16.5)**	**–**	**(541.4)**
Amortisation	(73.9)	(4.6)	–	**(78.5)**
Accumulated amortisation on disposals	84.4	7.8	–	**92.2**
Reclassification	(0.1)	0.1	–	**–**
Balance at 31 Dec 2010	**(514.5)**	**(13.2)**	**–**	**(527.7)**
Net book value – 2009	**163.5**	**10.3**	**37.0**	**210.8**
Net book value – 2010	**131.7**	**9.2**	**74.8**	**215.7**

"Depreciation" in the notes "Property, plant and equipment" and "Intangible assets" also includes an impairment loss as follows:

	2010	2009
Depreciation	**(861.7)**	(810.7)
Impairment loss	**–**	0.9
Total	**(861.7)**	**(809.8)**

In accordance with accounting policies, low value assets are recognised in expenses upon acquisition. The following table shows the purchase price of these assets that are in use as of the balance sheet date:

Low value fixed assets	**2010**	2009
Low value tangible assets	**267,875**	261,652
Low value intangible assets	**37,437**	34,397
Total	**305,312**	**296,049**

None of the Group's assets are pledged or used as collateral. The Group anticipates incurring aggregate capital expenditure of CZK 2,000,000 thousand in 2011. Approximately CZK 0.8 billion of the planned expenditure was contracted as of the balance sheet date.

(15) Subsidiaries (CZK thousand)

Company	Principal activity	Country of origin	Ownership percentage	Share in voting rights
PREdistribuce, a.s.	Distribution	Czech Republic	100%	100%
PREleas, a.s.	Intragroup leases	Czech Republic	100%	100%
PREměření, a.s.	Calibration of electricity meters	Czech Republic	100%	100%

The Company exercises control over its subsidiaries. i. e. it has the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements.

(16) Trade Receivables and Other Receivables (CZK thousand)

Trade receivables and other long-term receivables	**2010**	2009
Principal amounts paid	**13,173**	13,433
Receivables from sold flats*)	**8,032**	9,247
Other	**130**	170
Total	**21,335**	**22,850**

*) Of the stated receivables, the maturity of receivables totalling CZK 759 thousand exceeds five years (2009: CZK 2,861 thousand).

Long-term receivables are carried at their amortised cost which corresponds to their fair value.

Trade receivables and other short-term receivables	**2010**	2009
Receivables from electricity supplies*)	**1,162,976**	1,137,046
Margin deposit with power exchanges	**127,555**	239,244
Receivables from the revaluation of commodity contracts (own-use portfolio)	**28,674**	179,729
Receivables from the revaluation of commodity contracts (trading portfolio)	**188,305**	868,424
Receivables from cash flow hedges	**36,112**	34,943
Other assets*)	**112,738**	159,525
Total	**1,656,360**	**2,618,911**

*) This line resulted from the merged lines "Other financial assets" and "Other assets" also for the comparative period.

Of the stated short-term trade receivables, receivables past their due date totalled CZK 433,343 thousand (2009: CZK 450,684 thousand). Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

Balance at 31 Dec 2008	**181,880**
Charge and drawing in the current year	4,228
Balance at 31 Dec 2009	**186,108**
Charge and drawing in the current year	38,815
Balance at 31 Dec 2010	**224,923**

In considering the recoverability of receivables, the Group takes into account any changes in the recoverability of trade receivables from the date of their origination through the balance sheet date. The carrying amount of trade receivables and other receivables corresponds to their fair value.

(17) Inventories (CZK thousand)

Inventories	**2010**	2009
Material	**32,285**	31,827
Goods	**8,717**	10,100
Total	**41,002**	**41,927**

"Purchased material, services and energy" and "Other gains and losses" in the income statement include costs of sold and consumed material of CZK 135,960 thousand (2009: CZK 151,613 thousand).

Given the limited use, inventories were written down to their net realisable value as follows:

Balance at 31 Dec 2008	**17,732**
Charge and drawing in the current year	(9,644)
Balance at 31 Dec 2009	**8,088**
Charge and drawing in the current year	(5,767)
Balance at 31 Dec 2010	**2,321**

The write-down to the net realisable value is reported in "Other gains and losses" in the income statement.

(18) Other Financial Assets (CZK thousand)

	Carrying value	
	2010	2009
Equity securities available for sale	**8,051**	8,285
Bonds available for sale	**40,974**	140,566
Total	**49,025**	**148,851**

(19) Cash and Cash Equivalents (CZK thousand)

Cash and cash equivalents include, cash on hand, deposits repayable on demand and other highly liquid financial assets that can be reliably valued and bear an immaterial risk of change in the value.

Cash and Cash Equivalents	**2010**	2009
Depository bills	**147,218**	1,285,964
Current bank accounts	**440,776**	255,165
Cash on hand	**3,118**	2,765
Stamps and vouchers	**1,741**	1,692
Total	**592,853**	**1,545,586**

(20) Loans (CZK thousand)

	2010			2009		
	Amount	Interest rate	Maturity date	Amount	Interest rate	Maturity date
Loan # 1	**1,302,071**	**PRIBOR + 0.29%**	**30 Nov 2011**	1,302,575	PRIBOR + 0.29%	30 Nov 2011
Loan # 2	**600,059**	**PRIBOR + 2.00%**	**30 June 2012**	600,064	PRIBOR + 2.00%	30 June 2012
Loan # 3	**610,611**	**PRIBOR + 1.95%**	**30 June 2012**	613,094	PRIBOR + 1.95%	30 June 2012
Loan # 4	**–**	**Fix 1.790%**	**7 Jan 2010**	750,037	Fix 1.790%	7 Jan 2010
Loan # 5	**–**	**Fix 1.550%**	**4 Jan 2010**	150,006	Fix 1.550%	4 Jan 2010
Loan # 6	**–**	**Fix 1.245%**	**6 Jan 2010**	74,126	Fix 1.245%	6 Jan 2010
Total	**2,512,741**			**3,489,902**		
Long-term loans	**1,210,670**			2,515,733		
Short-term loans	**1,302,071**			974,169		

The Group uses interest rate swaps to hedge the interest rate from long-term loans. The banks do not require loan collateral with regard to the Group's rating. Undrawn bank loans amounted to CZK 3,902 million as of 31 December 2010 (2009: CZK 3,479 million).
Loans are carried at their amortised cost which does not significantly differ from their fair value. Since 2009, the Group has capitalised borrowing costs using the capitalisation rate in accordance with IAS 23.

(21) Trade Payables and Other Payables (CZK thousand)

Trade payables and other long-term payables	**2010**	2009
Payables to employees*)	**191,893**	136,468
Payables from distribution services (correction factor according to the Energy Regulatory Office)	**70,676**	–
Other financial payables	**49,169**	53,348
Total	**311,738**	**189,816**

*) Includes payables under the Collective Agreement (involving bonuses paid to employees in connection with their retirement, work and life anniversaries and electricity reduction for employees upon their retirement).

Trade payables and other short-term payables	**2010**	2009
Trade payables*)	**1,930,438**	1,652,816
Payables from the revaluation of commodity contracts (trading portfolio)	**146,868**	815,569
Payables from revaluation of interest rate derivatives	**35,763**	41,859
Payables to employees**)	**66,852**	81,737
Payables from social security and health insurance	**21,434**	23,926
Other payables***)	**124,534**	95,841
Total	**2,325,889**	**2,711,748**

*) In 2010, trade payables include an estimated payable for the supplied but not yet billed electricity reported together with received electricity prepayments of CZK 775,243 thousand (2009: CZK 449,440 thousand).
**) Includes unpaid December salaries and payables to employees under the Collective Agreement in the amount of CZK 32,787 thousand (2009: CZK 35,815 thousand).
***) Of which CZK 14,351 thousand represent payables arising from finance leases (2009: CZK 12,143 thousand).

The Group reports overdue trade payables in the amount of CZK 413 thousand (2009: CZK 393 thousand). All overdue payables were settled during January 2010.
The Group's payables are carried at amortised cost which corresponds to their fair value.

(22) Finance Lease Payables (CZK thousand)

Lease payables	Minimum lease payables		Present value of minimum lease payments	
	2010	2009	**2010**	2009
Lease payments due within 1 year	**14,670**	15,106	**14,351**	12,143
Lease payments due from 1 to 5 years	**50,298**	59,364	**47,960**	51,630
Lease payments due in over 5 years	**1,410**	1,779	**1,176**	1,686
Total lease payments	**66,378**	**76,249**	**63,487**	**65,459**
Future lease payments	**(2,891)**	(10,790)		
Present value of minimum lease payments	**63,487**	**65,459**	**63,487**	**65,459**
Trade payables and other payables				
Long-term			**49,136**	53,316
Short-term			**14,351**	12,143
Total			**63,487**	**65,459**
Tangible fixed assets				
Carrying amount of assets held under finance leases			**63,487**	63,691

The Group holds cars under finance lease contracts. All contracts have a fixed payment schedule and the Group did not enter into any contracts on contingent lease payments.
All lease payables are denominated in Czech crowns. The fair value of lease payables corresponds to their carrying value.

(23) Provisions (CZK thousand)

	Business risks	Severance pay	Other	**Total**
Balance at 31 Dec 2008	**331,181**	**2,613**	**1,384**	**335,178**
Creation of provisions in the current year	10,647	4,850	308	**15,805**
Use of provisions in the current year	(9,097)	(2,613)	(435)	**(12,145)**
Balance at 31 Dec 2009	**332,731**	**4,850**	**1,257**	**338,838**
Creation of provisions in the current year	23,222	–	208	**23,430**
Use of provisions in the current year	(2,943)	(4,850)	(705)	**(8,498)**
Balance at 31 Dec 2010	**353,010**	**–**	**760**	**353,770**
Long-term payables – provisions	344,313	–	760	**345,073**
Short-term payables – provisions	8,697	–	–	**8,697**
Total	**353,010**	**–**	**760**	**353,770**

Provisions have been established for business risks including as follows:
– A lawsuit filed by Středočeská energetická a.s. ("STE a.s.") claiming CZK 171,719 thousand and penalty interest relating to services in the area of capacity reservation and electricity transmission in 2001. The Energy Regulation Office has expressed its opinion in favour of STE a.s. The legal proceedings are still under way. The provision amounted to CZK 266,265 thousand (CZK 255,619 thousand as of 31 December 2009).
– A provision for risks arising from the operation of fixed assets totalling CZK 72,378 thousand (CZK 75,321 thousand as of 31 December 2009).

(24) Share Capital (CZK thousand)

Share Capital

Registered as of 31 December 2010	**2010**	2009
Bearer stock with a nominal value of CZK 1,000 per share	**–**	2,553,831
Registered stock with a nominal value of CZK 1,000 per share	**3,869,443**	1,315,612
Total	**3,869,443**	**3,869,443**

At the extraordinary General Meeting held on 15 October 2010, the shareholders approved the change in the form of 2,553,831 ordinary bearer shares in the book-entry form to registered shares. These shares carry full voting rights and are transferrable with the agreement of the General Meeting. The shares carry no right for the regular payment of dividends.
The Company's share capital has been paid in full.

(25) Funds from Profit (CZK thousand)

	2010	2009
Statutory reserve fund	**773,889**	773,889
Fund from the revaluation of current other financial assets	**(13,474)**	(13,037)
Cash flow hedge*)	**29,251**	28,304
Other funds from profit	**382,711**	382,711
Total	**1,172,377**	**1,171,867**

Other funds from profit represent part of the capital of the former state enterprise, the legal predecessor of the Company. As a result of the privatisation project, the state enterprise's capital was divided into share capital, reserve fund and capital funds as of the date of incorporation of the joint stock company (1 January 1994). As of that date, the balance of the capital funds was CZK 390,390 thousand. The use of capital funds to settle losses is subject to the decision of the Board of Directors pursuant to the prior opinion of the Supervisory Board. A different use of capital funds is subject to the decision of a General Meeting at the suggestion of the Board of Directors and after the examination of the Supervisory Board. Using the capital funds to pay out dividends is not allowable. The Group's reserve fund has been created in the amount of 20 percent (CZK 773,889 thousand) of the share capital and no further increase is to be made. The Board of Directors decides on the use of the reserve fund. In accordance with the conditions specified in the Company's Articles of Association, the reserve fund can only be used to offset a loss. The fund from the revaluation of other financial assets is used to record gains and losses from the revaluation of securities available for sale.

(26) Contingent Liabilities and Contingent Assets (CZK thousand)

The Group issued a payment bank guarantee of CZK 30,000 thousand in favour of Operátor trhu s elektřinou a.s. (CZK 30,000 thousand as of 31 December 2009), a bank guarantee in the amount of EUR 200 thousand to Slovenská elektrizačná prenosová sústava, a.s. (2009: EUR 200 thousand), and EUR 3.3 million to Centrální depozitář cenných papírů, a.s. (2009: EUR 5 million) and CZK 30 million for the public contract of the Prague School of Economics. In the year ended 31 December 2006, ČEZ, a.s. filed an appellate review in respect of the judgement in favour of the Company for the settlement of CZK 50,953 thousand for the alleged failure to meet its contractual obligation in supplying electricity in 1996. In 2010, the court confirmed the ruling from 2006. ČEZ, a.s. appealed the ruling. Given the recent development of the proceedings, the result cannot be determined with a reasonable degree of certainty.

(27) Financial Instruments (CZK thousand)

Categories of Financial Instruments

	2010	2009
(a) Financial assets at fair value through profit or loss (revaluation of commodity contracts)	**188,305**	868,424
(b) Financial derivatives under hedge accounting	**36,112**	34,943
(c) Loans and receivables (including cash and cash equivalents)	**1,927,221**	2,975,434
(d) Financial assets available for sale	**49,025**	148,851

The loans and receivables predominantly include receivables from electricity supplies.

	2010	2009
(e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts)	**146,868**	815,569
(f) Financial liabilities at fair value through profit or loss (revaluation of interest rate swaps)	**35,763**	41,859
(h) Financial liabilities at amortised cost	**4,193,233**	5,176,124

Financial liabilities at amortised cost predominantly include bank loans and payables from electricity supplies.
Financial assets and liabilities (a, d, e) were valued at amounts quoted on active markets. Financial assets and liabilities (b, f) were valued by valuation models using market data.

Gains or losses on financial instruments reported in the period		**2010**	2009
Gain from revaluation of commodity derivatives in the trading portfolio (included in "Profit from trading")	(a, e)	**23,353**	49,541
Profit/loss from the revaluation of interest rate swaps	(f)	**6,097**	(13,525)
Gain from securities held	(c, d)	**3,787**	10,093
Borrowing costs (except for the interest on employee benefits)	(g)	**(85,007)**	(93,251)
Other	(c, g)	**(74,700)**	(47,972)

Hedge accounting*)		**2010**	2009
Creation of the equity fund from the cash flow hedge	(b)	**36,112**	34,943
Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased")	(b)	**(34,943)**	(524,167)

*) Except for the items where the creation and reversal were performed in the same period.

Capital Risk

The Group manages its capital to ensure an optimal financial position from the long-term perspective while maximising the return to stakeholders. The Group monitors its debt via the net debt/equity indicator.

	2010	2009
Total assets	**18,395,393**	19,441,418
Shareholders' equity	**11,520,052**	11,415,067
Shareholders' equity/total assets	**63%**	59%

Market Risk

In view of its activities, the Group is predominantly exposed to the currency risk, interest rate risk and the risk of changes in the prices of electricity. For the hedging of market risks, the Group uses financial instruments with derivative characteristics including the following:
– Currency forwards for the currency risk hedge related to the acquisition of electricity in EUR;

– Interest rate swaps to hedge the risk of increasing interest rates; and
– Commodity futures and forwards to hedge the risk related to the development of electricity prices.

The Group uses the VaR methodology (Value at Risk) and its modifications CFaR (Cash Flow at Risk), which is complemented with the sensitivity analysis in measuring exposure to market risks. The Group's exposure to market risks and its approach to managing and measuring these risks have not significantly changed as compared to the prior period.
There is no concentration of market risks in the Group.

Currency Risk
The Group purchases a significant part of the electricity supply for its customers in foreign currency (EUR).
The Group hedges a substantial part of its future planned cash flows (in EUR) for the purchase of electricity against the foreign exchange rate risk using currency derivatives and applies hedge accounting (cash flow hedges). The Group uses the Cash Flow at Risk method (CFaR) to determine the value up to which the future planned cash flows will be hedged. The Group monitors the hedge effectiveness as part of its hedge accounting. Hedging has been highly effective to date. The ineffective part of the hedge was immaterial.

Sensitivity to Foreign Exchange Rate Changes
The Group uses the Cash Flow at Risk (CFaR) method to determine the value up to which the future planned cash flows will be hedged, and determines the limit of the maximum loss. The Group uses the VaR method for operational management of the foreign currency risk and measures the potential loss in pre-taxation profit over a given holding period for a specified confidence level.

The selected VaR indicator measures a potential loss over one day with a 95 percent confidence level. The calculated VaR is determined on the basis of historical data where the exchange rate volatility is estimated by reference to the historical data regarding the exchange rate volatility published by the Czech National Bank. The open exposure is determined on the basis of the annual plan for foreign currency requirements. The Group takes a significant foreign currency exposure only in EUR with a view to settling stock exchange or OTC transactions pursued to make transactions associated with procuring electricity for the Group's customers. As such, the one-day loss in terms of the market value change will not exceed the reported VaR with a confidence level of 95 percent. The Company monitors the aggregate potential loss which is calculated as the market value of the open exposure plus VaR.

The carrying value of foreign currency assets and liabilities:

	Assets (CZK thousand)*		Liabilities (CZK thousand)*	
	2010	2009	**2010**	2009
Currency derivatives for the purchase of EUR	**36,112**	34,943	**6,861**	6,639
Other assets and liabilities	**645,275**	1,649,559	**731,360**	1,446,509
Total EUR	**681,387**	1,684,502	**738,221**	1,453,148
Other currencies	**187**	201	**–**	125
Total	**681,574**	**1,684,703**	**738,221**	**1,453,273**

*) These include cash and cash equivalents, bank loans, margin deposits and price variances connected with trading on power stock exchanges, receivables and payables from foreign currency invoices, and receivables and payables arising from cash flow hedges.

Currency derivatives open at the balance sheet date:

	Average exchange rate CZK/EUR		Value in EUR thousand		Value in CZK thousand		Fair value in CZK thousand	
EUR purchased	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Up to 1 month	**24.72**	26.01	**20,000**	20,000	**494,400**	520,250	**6,828**	9,212
1–3 months	**24.80**	25.64	**30,000**	30,000	**744,060**	769,200	**7,982**	25,731
3–12 months	**24.70**	–	**55,000**	–	**1,358,435**	–	**21,302**	–
Total	**24.73**	**25.79**	**105,000**	**50,000**	**2,596,895**	**1,289,450**	**36,112**	**34,943**

Currency Risk – Sensitivity Analysis
The Group performed a sensitivity analysis to identify the dependence of the level of profit and equity on a change in the carrying value of these assets and liabilities resulting from an increase in the CZK/EUR exchange rate of 1 percent.

Sensitivity to the foreign exchange rate change (CZK thousand):

	2010	2009
Profit (+) or loss (-)	**(859)**	2,031
Shareholders' equity	**21,250**	10,712

Interest Rate Risk

The Group is exposed to a risk of an interest rate change which predominantly relates to the received loans with a floating interest rate. In order to reduce the risk related to the increase in interest rates, the Group established a hedge against the interest rate risks using interest rate swaps.

Interest derivatives open at the balance sheet date:

Cash flow hedge	Average fixed interest rate		Agreed principal in CZK thousand		Fair value in CZK thousand	
	2010	2009	**2010**	2009	**2010**	2009
Interest rate swaps	**3.08%**	3.19%	**2,500,000**	2,300,000	**(35,763)**	(41,859)

The contracts will mature in 2011 and 2012. Pursuant to concluded interest rate swaps contracts, the Group undertakes to exchange the potential difference between the variable interest rates and the agreed fixed interest rate on a six month basis.

The carrying amount of assets and liabilities which is dependent on the interest rate:

	Assets (CZK thousand)*		Liabilities (CZK thousand)*	
	2010	2009	**2010**	2009
Interest rate swaps	**–**	–	**35,763**	41,859
Other assets and liabilities	**46,045**	45,906	**6,861**	1,196,541
Total	**46,045**	**45,906**	**42,624**	**1,238,400**

*) These involve assets and liabilities relating to hedged future cash flow and loans.

Interest Rate Risk – Sensitivity Analysis

The Group performed a sensitivity analysis to identify the dependence of the level of profit and equity on a change in the carrying value of these assets and liabilities resulting from an increase in the CZK/EUR exchange rate of 1 percent.

Sensitivity to the interest rate change (CZK thousand):

	2010	2009
Profit (+) or loss (-)	**(296)**	(514)
Shareholders' equity	**(109)**	(37)

Price Risk

The Group makes every effort to eliminate the pricing risk associated with current financial asset transactions by actively participating in financial markets. The Group is exposed to the risk related to the development of electricity prices. Following the introduction of electricity trading at the Prague Power Exchange, variations in electricity prices increased significantly, thus exposing the Group to a greater price risk. The Group attempts to eliminate this risk mainly by seeking to minimise the open exposure which could lead to potential losses for the Group. This principle has been consequently observed in the area of the Group's principal activities, i.e. the electricity supplies to end customers, as well as in the area of commodity trading transactions.

Price Risk Related to Trading Transactions

A maximum loss limit is determined with regard to trading transactions. This limit is determined as the market value of the carried out transactions, the open positions and VaR. The limit of the potential loss was not exceeded in the reporting period.

Credit Risk

The standard practice of the Group is not to require collateral for trade receivables. Management of the Group has introduced the principles of risk management and the risk is monitored on a regular basis. Financial solvency of all customers is checked if they exceed a certain limit of credit exposure. In electricity supplies and distribution which is the Group's principal activity, the Group applies the following principles to minimise the failure to collect receivables.

The reading of industrial customers' electricity meters and invoicing takes place on a monthly basis. Customers pay monthly or ten-day advance payments, based on their expected consumption, to cover electricity consumed but not yet invoiced, taking into account previous years' consumption, season and other factors. The method of determining the amount of the advance payments is specified in the contract. Reminders are sent to customers who fail to pay on time. If a customer fails to settle the debt within an additional time period, the electricity supply is suspended. Certain industrial customers cover their future payables by making prepayments in advance or by paying deposits.

The standard reading of small businesses and household electricity meters and invoicing takes place on an annual basis. For supplied but unbilled electricity, advance payments are determined to reflect the volume and nature of the consumption. The determination of the price and the payment method are specified in the contracts with customers. There is no concentration of credit risk.

Liquidity Risk

The Group manages liquidity risk by maintaining an average amount of cash and cash equivalents, banking facilities and borrowing facilities, by continuously monitoring forecast and actual cash flows and seeking to match the maturity profiles of financial assets and liabilities. Included in

the note "Loans" is a listing of additional undrawn loan facilities that the Group has at its disposal to further reduce liquidity risk. The Group is not exposed to any significant liquidity risk and does not suffer from any solvency issues.
Following the initiation of commodity stock exchange trading, the issues related to the daily revaluation of commodity futures traded on the Prague commodity stock exchange and the related daily financial settlement of gains and losses represents a potential risk in liquidity terms. The Group's response to such risk is the intention to predict cash flows related to the revaluation of commodity futures and the adjustment of credit lines.
There is no concentration of liquidity risk.

Liquidity Risk – Tables
The following tables represent the residual maturity of the Group's undiscounted non-derivative financial receivables and payables. The table including the financial payables reflects the earliest dates on which the Company may be asked to fulfil its liabilities. The table of financial receivables reflects the customers' payment discipline.

Receivables – 2010	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade balances	(16)	1,079,576	73,851	9,549	–	**1,162,976**
Margin deposits, principals paid	(16)	97,739	6,248	17,741	19,140	**140,868**
Other receivables including receivables from sold apartments	(16)	17,468	693	1,959	11,718	**31,838**
Total		**1,194,783**	**80,792**	**29,249**	**30,858**	**1,335,682**

Receivables – 2009	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade balances	(16)	709,872	418,273	8,901	–	**1,137,046**
Margin deposits, principals paid	(16)	179,302	14,680	31,318	27,437	**252,737**
Other receivables including receivables from sold apartments	(16)	25,553	668	1,882	14,044	**42,147**
Total		**914,727**	**433,621**	**42,101**	**41,481**	**1,431,930**

Payables – 2010	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade payables	(22)	1,083,298	14,069	57,829	–	**1,155,196**
Other financial payables	(22)	97,830	4,929	33,578	6,825	**143,162**
Bank loans	(21)	10,611	–	1,355,051	1,239,592	**2,605,254**
Provisions	(24)	2,119	2,119	6,578	345,073	**355,889**
Total		**1,193,858**	**21,117**	**1,453,036**	**1,591,490**	**4,259,501**

Payables – 2009	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade payables	(22)	1,108,434	22,456	72,486	–	**1,203,376**
Other financial payables	(22)	77,542	4,072	28,223	43,602	**153,439**
Bank loans	(21)	987,575	–	79,529	2,604,062	**3,671,166**
Provisions	(24)	–	–	–	333,988	**333,988**
Total		**2,173,551**	**26,528**	**180,238**	**2 ,981,652**	**5,361,969**

Payables from leases – refer to the Note "Finance Lease Payables."

(28) Operating Leases (CZK thousand)

The minimum operating lease payments expensed in the current period:

Rental charges	**2010**	2009
Non-residential premises	**51,853**	45,345
Cable conduits	**89,774**	87,647
Cars	**6,585**	7,655
Other rented assets of all types	**8,663**	8,684
Total	**156,875**	**149,331**

The Group holds cable conduits for ultra-high voltage and high voltage lines and non-residential premises for high– and low-voltage transformers under operating leases. The contracts have been concluded for an indefinite period of time. Management expects the costs of leases to remain at the current level in the future, i.e. in the amount of approximately CZK 157,000 thousand per year for contracts concluded as of 31 December 2010.

(29) Related Party Transactions (CZK thousand)

Related parties include the owners of the Group that hold individually or by acting in concert more than 40 percent of voting rights (Pražská energetika Holding a.s., and Energie Baden – Württemberg AG) and companies controlled by them, their owners, members of bodies and executive management of the Group.

Movements in receivables and payables of related parties:

	Sales to related parties		Purchases from related parties	
Company	**2010**	2009	**2010**	2009
Pražská energetika Holding, a.s.*)	**326**	326	**–**	–
EnBW Trading GmbH**)	**479,300**	637,237	**538,730**	1,134,699
Capital City of Prague*)	**45,065**	46,082	**27,835**	41,309
Dopravní podniky hl.m. Prahy, a.s.**)	**1,027,977**	937,437	**20,728**	2,539
Pražská teplárenská, a.s.**)	**175,258**	177,573	**312,541**	399 ,072
Kolektory Praha, a.s.**)	**6,689**	6,634	**89,511**	87,384
Energotrans a.s.**)	**6,742**	98	**1,926,677**	2,409,311
Kongresové centrum Praha, a.s.**)	**56,780**	55,553	**–**	–
Pražské služby, a.s.**)	**31,530**	44,032	**1,486**	275
Pražská vodohospodářská společnost a.s.**)	**9,740**	4,154	**60,824**	39,873
Total	**1,839,407**	**1,909,126**	**2,978,332**	**4,114,462**

Total receivables from and payables to related parties:

	Sales to related parties		Purchases from related parties	
Company	**2010**	2009	**2010**	2009
Pražská energetika Holding, a.s.*)	**25**	25	**–**	–
EnBW Trading GmbH**)	**–**	–	**8,040**	22,050
Capital City of Prague*)	**376**	276	**17,831**	18,831
Dopravní podniky hl.m. Prahy, a.s.**)	**63,393**	41,310	**12,791**	12,582
Pražská teplárenská, a.s.**)	**8,978**	11,985	**33,813**	42,475
Kolektory Praha, a.s.**)	**–**	50	**2,616**	2,262
Energotrans a.s.**)	**–**	1	**70,901**	201,135
Kongresové centrum Praha, a.s.**)	**–**	43	**131**	–
Pražské služby, a.s.**)	**729**	904	**75**	12
Pražská vodohospodářská společnost a.s.**)	**1,071**	327	**6,660**	3,925
Total	**74,572**	**54,921**	**152,858**	**303,272**

*) relations with the parent company
**) relations with a fellow subsidiary

Business transactions were conducted on an arm's length basis. Outstanding amounts were not collateralised and were settled at the beginning of the following year.

Dividends Paid

	2010	2009
Pražská energetika Holding a.s.	**1,216,003**	1,216,003
Energie Baden –Württemberg AG	**2 ,844**	2,844

The Group's executive management holds 104 shares of the Company in aggregate.

Remuneration for executive management	**2010**			2009		
	Executive directors	BoD	Supervisory Board	Executive directors	BoD	Supervisory Board
Number	**5**	**14**	**24**	6	15	24
Amounts received from the issuer*):						
– arising from employment**)	**17,423**	**2,884**	**2,807**	20,811	3,012	2,730
– arising from the membership in stat./ supervisory bodies of the issuer***)	**–**	**10,837**	**20,373**	–	10,692	20,314
Amounts received from entities controlled by the issuer:						
– arising from employment	**9,301**	**2,353**	**4,115**	9,850	2,706	6,779
– arising from the membership in statutory/supervisory bodies of the Group	**–**	**11,406**	**10,872**	–	10,165	9,976
Company cars for private purposes (taxable income)	**877**	**318**	**651**	892	302	444

*) The issuer is the Company
**) Paid salaries and life insurance contributions
***) These include remuneration of the members of the statutory bodies, director's fees paid and the health care contributions.

Executive management includes the Company's executive directors (i.e. the CEO and the divisional managers) before 30 October, or the Director of the Company's section since 1 November, and the members of the Boards of Directors of all companies in the Group. The management contract contains a non-competition clause extending to 12 calendar months after the termination of employment. This fact is offset by cash compensation in the amount of the average monthly salary for each month of the obligation's performance.
Members of the Boards of Directors and Supervisory Boards of the companies in the Group entered into the Contract for the Terms and Conditions of the Job Performance for the period of the performance of their position. Remuneration is paid for the position's performance as approved annually by the General Meeting for members of the Board of Directors and the Supervisory Board. In addition to the monthly remuneration, the Contract provides for a contribution for non-standard medical, rehabilitation and convalescence services up to CZK 20 thousand per year. Members of the Supervisory Board elected from among the Company's staff also enter into a standard employment contract adequate to their job.
Members of executive management can use company cars for private purposes.

Receivables from Executive Management

As of 31 December 2010, the Group reported receivables from the members of executive management in the total amount of CZK 535 thousand (CZK 601 thousand as of 31 December 2009). These receivables are reported in "Trade receivables and other receivables" and were collected during January 2011.

(30) Fees Paid to the Statutory Auditor (CZK thousand)

Service type	PRE-H	PRE	PREdi	PREm	PREleas	**Total**
Audit	384	1,277	727	187	18	**2,593**
Consulting services	–	988	–	–	36	**1,024**
Total at 31 Dec 2010	**384**	**2,265**	**727**	**187**	**54**	**3,617**
Audit	381	1,486	1,000	250	18	**3,135**
Total at 31 Dec 2009	**381**	**1,486**	**1,000**	**250**	**18**	**3,135**

The statutory auditor of PRE, PREdistribuce, a.s. and PREměření, a.s. is Deloitte Audit, s.r.o. PREleas, a.s. is audited by SLAK, s.r.o.

(31) Post Balance Sheet Events (CZK thousand)

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

Regular (separate) financial statements according to CAS – retrospective summary for the years 1998–2004

Note: data in balance sheet and income statement for the period 1998–2004 are not compatible with data stated from 2005. They are mentioned here only to inform the reader about the economic development of the Company in this period.

Balance Sheet as at 31.12. CAS (Consolidated Statement on Financial Position) (TCZK)

	2004	2003	2002	2001	2000	1999	1998
TOTAL ASSETS	**13,549,645**	**13,219,372**	**12,724,548**	**12,717,784**	**11,832,249**	**11,240,415**	**10,893,496**
Fixed assets	**11,286,865**	**10,889,055**	**10,621,806**	**10,426,208**	**10,102,796**	**9,493,676**	**8,870,742**
Intangible fixed assets	172,804	152,004	98,377	101,427	142,782	188,794	227,444
Research and development	1,072	2,707	3,041	4,094	5,591	316	465
Software	116,596	146,283	92,226	97,051	134,398	188,023	226,028
Licences	719						
Other intangible fixed assets							
Intangible fixed assets under construction	54,417	3,014	2,260	282	2,793	455	897
Advance payments for intangible fixed assets			850				54
Tangible fixed assets	11,053,494	10,674,389	10,394,272	10,198,025	9,827,635	9,168,042	8,473,251
Land	487,429	462,724	419,643	417,972	426,898	394,822	367,672
Buildings, halls and structures	7,115,479	6,847,576	6,706,449	6,591,954	6,208,430	5,839,729	4,966,714
Property, plant and equipment	2,964,852	2,908,097	2,649,890	2,719,241	2,591,290	2,346,104	1,898,760
Other tangible fixed assets	5,339	4,492	4,468	4,433	2,113	1,853	1,288
Tangible fixed assets under construction	451,749	350,397	508,983	369,519	493,801	529,438	889,667
Advance payments for tangible fixed assets	28,646	101,103	104,839	94,906	105,103	56,096	349,150
Long-term financial assets	60,567	62,662	129,157	126,756	132,379	136,840	170,047
Shares in subsidiaries	58,265	58,264	124,693	124,693	124,693	124,693	119,693
Shares in associates							
Other securities and ownership interests	2,302	4,398	3,809	2,063	7,686	12,147	50,354
Other long-term financial assets							
Other long-term financial assets (provision value)			655				

	2004	2003	2002	2001	2000	1999	1998
Current assets	**2,197,061**	**2,252,669**	**2,026,849**	**2,205,361**	**1,644,340**	**1,746,739**	**2,022,754**
Inventories	36,313	27,869	42,404	57,301	83,694	59,647	46,998
Raw material	36,313	27,801	41,796	56,718	83,125	5,300	46,658
Advance payments for inventories		68	608	583	569	347	340
Long-term receivables	270,151	230,966	230,693	74,676	4,854	11,272	1,770
Trade receivables	5,350	22,309	8,215	40,752	1,254	1,272	1,770
Long-term advance payments	1,026	1,020	1,200	2,400	3,600	10,000	
Other receivables	23,841	30,317	32,615	31,524			
Deferred tax asset	239,934	178,340	188,663				
Current receivables	1,566,876	1,264,717	1,280,246	1,505,789	1,264,701	1,312,105	967,794
Trade receivables	373,983	283,568	319,261	574,134	322,990	299,679	362,185
Receivables from subsidiaries		272,314	1,200	1,200	9,200		
Receivables from partners and participants in association							
Due from state – tax receivables	53,703	41,733	34	40	111,535	118,102	
Short-term advance payments	14,351	11,254					
Estimated receivables	1,110,397	927,595	940,635	915,203	807,540	869,741	543,878
Other receivables	14,442	11,821	19,116	15,212	13,436	24,583	61,731
Current financial assets	323,721	729,117	473,506	567,595	291,091	363,715	1,006,192
Cash	5,526	3,767	4,306	4,049	5,057	5,215	3,711
Bank accounts	5,036	64,651	98,906	136,959	45,099	18,880	30,014
Other current financial assets	313,159	660,699	370,294	426,587	240,935	339,620	972,467
Accruals	**65,719**	**77,648**	**75,893**	**86,215**	**85,113**	**0**	**0**
Deferred expenses	65,603	77,593	75,712	72,444	7,591		
Accrued revenues	116	55	181	13,771	11,522		

	2004	2003	2002	2001	2000	1999	1998
TOTAL LIABILITIES AND EQUITY	**13,549,645**	**13,219,372**	**12,724,548**	**12,717,784**	**11,832,249**	**11,240,415**	**10,893,496**
Equity	**8,473,624**	**8,250,599**	**7,888,384**	**7,485,004**	**7,001,349**	**6,866,671**	**6,712,804**
Registered capital	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443
Capital funds	343,791	357,025	376,527	513,104	513,104	513,104	513,104
Other capital funds	513,104	513,104	513,104	513,104	513,104	513,104	513,104
Net gains and losses recognised directly in equity	(160,313)	(156,079)	(136,577)				
Capital reserves	808,808	807,514	667,193	620,716	590,657	562,548	528,422
Legal reserve fund	773,889	773,889	632,656	588,745	562,344	537,482	506,518
Statutory and other reserves	34,919	33,625	34,537	31,971	28,313	25,066	21,904
Retained earnings	2,487,311	2,147,104	1,978,903	1,603,537	1,500,118	1,424,333	1,182,551
Profit (loss) of the current period	964,271	1,069,513	996,318	878,204	528,027	497,243	619,284
Liabilities	**3,638,091**	**3,558,036**	**3,432,806**	**3,867,158**	**3,606,004**	**3,334,792**	**3,369,393**
Provisions	584,900	428,906	416,732	275,946	92,409	72,879	179,082
Income tax provision			129,404			600	26
Other provisions	584,900	428,906	287,328	275,946	92,409	72,279	179,056
Long-term payables	822,608	796,129	768,043	568,405	495,383	344,69	32
Trade payables							
Other payables	32	32	32	32	32	32	32
Deferred tax liability	822,576	796,097	768,011	568,373	495,351	344,237	
Current payables	1,830,583	2,333,001	2,118,031	2,242,807	1,908,212	1,917,644	1,740,279
Trade payables	428,577	550,038	501,625	533,226	563,000	601,681	452,588
Payables to subsidiaries	25,200						
Payables to associates							
Payables to partners and participants in association	1,339	79,579	612	573	1,194	112,487	50,812
Payables to employees	25,165	32,489	31,090	28,064	28,137	28,220	31,681
Payables to social security	19,423	23,336	21,748	16,950	17,361	15,319	18,253
Due to state – taxes and subsidies	8,416	27,015	15,116	243,280	6,746	5,107	114,250
Current advance payments received	1,291,856	1,596,447	1,524,477	1,313,663	1,202,254	1,061,173	988,999
Estimated payables	28,962	24,097	23,363	107,050	89,265	93,646	83,708
Other payables	1,645			1	255	11	-12
Bank loans	400,000	0	130,000	780,000	1,110,000	1,000,000	1,450,000
Long-term bank loans				700,000	700,000		1,450,000
Current bank loans	400,000		130,000	80,000	410,000	1,000,000	
Accruals	**1,437,930**	**1,410,737**	**1,403,358**	**1,365,622**	**1,224,896**	**1,038,952**	**811,299**
Accrued expenses	1,588		56	11,207	12,095	13,288	23,719
Deferred revenues	1,436,342	1,410,737	1,403,302	1,354,415	1,212, 801	1,025,664	787,580

Profit and Loss Account as at 31.12. CAS (TCZK)

	2004	2003	2002	2001	2000	1999	1998
Sales	11,397,538	10,344,747	10,242,851	9,666,119	9,028,942	8,887,353	8,135,586
Revenues from distribution and supply of electricity	11,191,794	10,166,534	10,068,438	9,481,931	8,781,313	8,752,327	8,015,904
Other revenues	80,491	77,479	88,547	76,115	102,766	90,642	70,293
Capitalisation	125,253	100,734	85,866	108,073	144,863	44,384	49,389
Cost of sale	8,833,989	7,819,426	7,473,221	6,840,884	6,956,924	6,575,010	6,111,950
Cost of purchase electricity	5,450,880	4,915,825	4,764,864	6,018,185	5,979,429	5,705,879	5,557,447
Materials and energy consumption	504,234	409,917	396,304	200,109	257,404	158,895	140,644
Services related to purchases of electricity	1,989,172	1,642,466	1,523,252				
Other services	889,703	851,207	788,801	622,590	720,091	710,236	413,859
Added value	**2,563,549**	**2,525,321**	**2,769,630**	**2,825,235**	**2,072,018**	**2,312,343**	**2,023,636**
Personnel expenses	680,975	646,256	614,652	550,101	527,619	500,306	479,769
Wages and salaries	462,486	439,158	420,276	381,367	363,228	344,593	330,501
Remuneration to boards members	3,789	3,289	2,925	3,246	3,003	2,704	2,368
Social security expenses	167,156	160,431	153,737	138,165	132,144	128,332	119,450
Social expenses	47,544	43,378	37,714	27,323	29,244	24,677	27,450
Taxes and charges	11,150	9,670	6,201	10,909	4,789	6,132	5,325
Depreciation of intangible and tangible fixed assets	715,749	727,007	674,221	815,817	857,394	771,929	647,311
Proceeds from disposal of fixed assets and material.	154,567	164,027	150,382	298,430	299,657	224,657	225,020
Net book value of fixed assets and material sold	143,061	120,125	172,231	257,089	267,208	209,497	196,353
Change in balance of operating provisions and allowances in operating area	66,652	(6,217)	152,648	250,300	(5,408)	(70,244)	116,668
Other operating revenues	164,136	144,151	149,993	121,695	130,630	71,378	67,389
Other operating expenses	79,851	53,943	59,137	47,991	50,959	36,912	34,064
Operating profit	**1,184,814**	**1,282,715**	**1,390,915**	**1,313,153**	**799,744**	**1,153,846**	**836,555**
Proceeds from sales of securities and ownership interests	206,229	901,558	736,430	174,585	238,950	3,638,689	7,111,895
Securities and ownership interests sold	206,382	804,431	734,460	172,656	238,523	3,627,526	7,112,213
Revenues from long–term financial assets	4,824	2,737	7,688	9,718	8,513	7,518	15,183
Revenues from current financial assets	13,753	17,470	23,808	29,988	26,774	8,144	176,805
Financial assets expenses	47	74					
Change in balance of provisions and allowances in financing area				45,729	(29,796)	30,380	7,658
Interest revenue	4,896	7,704	13,457	3,764	4,507	13,021	28,953
Interest expense	3,134	350	29,198	50,583	52,694	146,091	167,772
Other financial revenues	2,377	209	131	813	515	1,848	6,082
Other financial expenses	9,240	8,117	7,602	6,003	5,086	153,739	10,035

	2004	2003	2002	2001	2000	1999	1998
Profit (loss) from financial operations	**13,276**	**116,706**	**10,254**	**(56,103)**	**(46,840)**	**(216,516)**	**41,240**
Income tax on ordinary income	233,819	303,279	340,105	380,494	201,966	224,662	243,957
– due	269,481	268,224	307,922	307,471	73,747	97,634	243,957
– deferred	(35,662)	35,055	32,183	73,023	128,219	127,028	
Profit (loss) from ordinary operations after taxation	**964,271**	**1,096,142**	**1,061,064**	**876,556**	**550,938**	**712,668**	**633,838**
Extraordinary revenues		129	138,193	3,688	3,032	3,832	3,917
Extraordinary expenses		26,758	160,879	1,299	25,003	219,257	18,471
Income tax on extraordinary income			42,060	741	940	0	0
– due				741	940		
– deferred			42,060				
Extraordinary profit (loss)		**(26,629)**	**(64,746)**	**1,648**	**(22,911)**	**(215,425)**	**(14,554)**
Profit (loss) of current accounting	**964,271**	**1,069,513**	**996,318**	**878,204**	**528,027**	**497,243**	**619,284**

Note: changes in accounting were caused by the change in trading with electricity commencing in 2002.
Increase of the total services costs between 2001 and 2002 resulted from the change in accounting methodology applied to electricity trading. In 2002 cost of services incorporated also costs of services related to obtaining electricity, whereas in 2001 these costs were reported together with costs of electricity purchase.

Regular (separate) financial statements – retrospective summary for the years 2005–2008

Income Statement (CZK thousand)

	2008	2007	2006	2005
Revenues from electricity	20,376,734	16,663,941	14,196,511	12,140,558
Costs of electricity sold	(17,745,377)	(15,215,735)	(13,226,934)	(8,160,299)
Gross profit	**1,309,665**	**1,448,206**	**969,577**	**3,980,259**
Other operating income	829,918	811,927	756,254	100,892
Personnel expenses	(462,181)	(469,497)	(425,008)	(732,827)
Depreciation – tangible fixed assets	(165,294)	(111,271)	(105,627)	(760,738)
Depreciation – intangible fixed assets		(66,168)	(65,738)	(65,829)
Costs of services, material and energy	(543,443)	(478,469)	(457,567)	(864,630)
Other operating costs		(37,937)	(34,503)	(83,388)
Other expenses (income)		16,975	58,597	42,776
Dividends received	1,616,769	630,627	24,000	10,840
Other financial income		108,542	24,111	14,231
Other financial expenses	133,605	(83,366)	(17,104)	(55,379)
Profit from ordinary activity before tax	**2,686,513**	**1,759,569**	**726,992**	**1,586,207**
Income tax	(231,412)	(275,763)	715,289	(372,216)
Profit from ordinary activity after tax	**2,455,101**	**1,483,806**	**1,442,281**	**1,213,991**
Earnings per share attributable to ordinary share [CZK]	634	383	378	309

Balance Sheet (Consolidated Statement on Financial Position) (CZK thousand)

	Note	2008	2007	2006	2005	2005	2005
Assets					**PRE total**	**PREdi**	**PRE***
Property, plant and equipment (tangible fixed assets)	(13)	1,907,117	1,827,285	1,830,397	11,570,301	9,800,406	1,769,895
Intangible fixed assets	(14)	179,658	159,193	134,062	158,795	2,733	156,062
Non-current financial assets	(15)	9,566,801	9,571,801	9,571,801	60,623	–	60,623
Long-term receivables	(16)	46,408	128,086	29,828	29,899	24	29,875
Long-term receivables	(10)	1,504,060	–	–	156,787	–	156,787
Non-current assets		**13,204,044**	**11,686,365**	**11,566,088**	**11,976,405**	**9,803,163**	**2,173,242**
Current financial assets	(19)	46,132	162,754	441,028	129,185	–	129,185
Inventories	(18)	–	36,815	26,520	29,558	–	29,558
State – tax receivables		3,531,615	11	139,814	70,117	–	70,117
Trade receivables	(16)	959,310	1,135,555	558,176	532,080	5,757	526,323
Other receivables	(16)	172,350	783,401	94,766	53,701	3,986	49,715
Cash and cash equivalents	(20)	458,500	64,117	274,406	35,821	1,116	34,705
Current assets		**5,167,907**	**2,182,653**	**1,534,710**	**850,462**	**10,859**	**839,603**
Total assets		**18,371,951**	**13,869,018**	**13,100,798**	**12,826,867**	**9,814,022**	**3,012,845**
Liabilities							
Share capital	(25)	3,869,443	3,869,443	3,869,443	3,869,443	–	3,869,443
Capital funds	(26)		274,564	382,498	381,716	–	381,716
Funds from profit	(26)		773,889	773,889	773,889	–	773,889
Retained earnings		5,350,950	5,316,905	5,210,621	4,629,879	–	4,629,879
Equity	**(18)**	**10,786,559**	**10,234,801**	**10,236,451**	**9,654,927**	**–**	**9,654,927**
Other long-term liabilities	(22)	108,879	250,664	89,341	421,192	307,397	113,795
Provisions	(24)	247,135	237,223	228,689	364,808	96,448	268,360
Deferred tax liability	(10)	145,051	6,258	34,800	1,117,583		1,117,583
Long-term liabilities		**1,806,125**	**494,145**	**352,830**	**1,903,583**	**403,845**	**1,499,738**
Interest bearing loans	(21)	713,102	555,723	519,324	310,000	–	310,000
State – tax payables		81,287	71,169	12,645	11,704	–	11,704
Trade payables	(22)		2,234,657	1,864,363	593,246	104,966	488,280
Other short-term liabilities	(22)	4,984,168	239,493	87,817	262,207	115,976	146,231
Provisions	(24)	710	39,030	27,368	91,200	3,000	88,200
Short-term liabilities		**5,779,267**	**3,140,072**	**2,511,517**	**1,268,357**	**223,942**	**1,044,415**
Total liabilities		**18,371,951**	**13,869,018**	**13,100,798**	**12,826,867**	**627,787**	**12,199,080**

Note: The balance sheet is modified to provide sufficient information on the distribution part of the Company split-off which was carried out on 1.1.2006. The column "PRE sum" show the sum of PRE* and PREdistribuce, a.s. The column "PREdi" show the part of the Company prepared for the split-off to PREdistribuce, a.s. The column "PRE" show the remaining part of the Company after PREdistribuce, a.s. split-off.

Regular (separate) financial statements in full version as at 31.12.2010

Income Statement (CZK thousand)

	Note	**2010**	2009
Revenues from electricity sold		**19,428,991**	20,376,734
Costs of electricity sold		**(17,959,105)**	(18,928,597)
Gross profit from the sale of electricity	**(4)**	**1,469,886**	**1,448,137**
Other operating income	(4)	**907,813**	877,189
Personnel expenses	(6)	**(521,172)**	(487,443)
Depreciation	(13,14)	**(198,259)**	(186,941)
Costs of services, material and energy	(7)	**(522,720)**	(515,344)
Borrowing costs	(8)	**(114,391)**	(117,727)
Dividends received		**680,800**	891,000
Other gains and losses	(9)	**26,201**	59,567
Profit from ordinary activity before tax		**1,728,158**	**1,968,438**
Income tax	(10)	**(208,458)**	(224,210)
Profit from ordinary activity after tax		**1,519,700**	**1,744,228**
Basic and diluted earnings per share attributable to ordinary shares (CZK)	(12)	**393**	451

Statement of Comprehensive Income (CZK thousand)

	2010	2009
Profit from ordinary activity after tax	**1,519,700**	**1,744,228**
Revaluation of other financial assets	**(437)**	(3,270)
Cash flow hedging	**947**	(391,029)
Total other comprehensive income after tax	**510**	**(394,299)**
Comprehensive income attributable to shareholders of the parent company	**1,520,210**	**1,349,929**

Statement of Financial Position (Balance Sheet) (CZK thousand)

	Note	2010	2009
Assets			
Property, plant and equipment	(13)	**1,999,227**	1,922,251
Intangible assets	(14)	**197,965**	193,811
Equity investments	(15)	**9,566,801**	9,566,801
Trade receivables and other receivables	(16)	**21,203**	22,719
Loans	(17)	**1,122,939**	2,626,232
Non-current assets		**12,908,135**	**14,331,814**
Inventories	(18)	**33,846**	33,603
Tax receivables		**9,280**	30,606
Trade receivables and other receivables	(16)	**1,549,690**	2,547,189
Loans	(17)	**1,790,330**	240,563
Other financial assets	(19)	**49,025**	148,851
Cash and cash equivalents	(20)	**589,834**	1,542,619
Current assets		**4,022,005**	**4,543,431**
Total assets		**16,930,140**	**18,875,245**
Liabilities			
Share capital	(25)	**3,869,443**	3,869,443
Funds from profit	(26)	**1,172,377**	1,171,867
Retained earnings		**4,364,784**	4,969,870
Shareholders' equity		**9,406,604**	**10,011,180**
Loans	(21)	**1,210,670**	2,515,733
Trade payables and other payables	(22)	**127,899**	107,703
Provisions	(24)	**268,194**	257,377
Deferred tax liability	(10)	**41,162**	45,778
Long-term payables		**1,647,925**	**2,926,591**
Loans	(21)	**1,327,319**	1,046,532
Tax payables		**58,670**	65,887
Trade payables and other payables	(22)	**4,480,925**	4,822,795
Provisions	(24)	**8,697**	2,260
Short-term payables		**5,875,611**	**5,937,474**
Total liabilities		**16,930,140**	**18,875,245**

Statement of Changes in Equity (CZK thousand)

	Share capital	Funds from profit	Retained earnings	Shareholder's equity attributable to the parent company's shareholders
Balance at 31 Dec 2008	**3,869,443**	**1,566,166**	**5,350,950**	**10,786,559**
Dividends and director's fees paid	–	–	(2,125,308)	(2,125,308)
Other comprehensive income	–	(394,299)	–	(394,299)
Net profit for 2008	–	–	1,744,228	1,744,228
Balance at 31 Dec 2009	**3,869,443**	**1,171,867**	**4,969,870**	**10,011,180**
Dividends and director's fees paid	–	–	(2,124,786)	(2,124,786)
Other comprehensive income	–	510	–	510
Net profit for 2009	–	–	1,519,700	1,519,700
Balance at 31 Dec 2010	**3,869,443**	**1,172,377**	**4,364,784**	**9,406,604**

Cash Flow Statement (CZK thousand)

	Note	**2010**	2009
Opening balance of cash and cash equivalents		**1,542,619**	458,500
Operating activity			
Accounting profit from ordinary activity before tax		**1,728,158**	**1,968,438**
Depreciation	(13,14)	**198,259**	186,941
Write-off of bad debts and other assets	(9)	**21,313**	44,704
Change in allowances, provisions and temporary accounts		**73,151**	(9,610)
Profit (loss) from the sale and disposal of fixed assets	(9)	**(3,599)**	(23,780)
Income from dividends		**(680,800)**	(891,000)
Interest on and income from securities held	(9)	**9,341**	(10,396)
Foreign exchange rate gains (losses)		**26,959**	26,318
Revaluation of financial instruments		**5,320**	(13,028)
Net cash flow from operating activity before changes in working capital		**1,378,102**	**1,278,587**
Change in trade receivables	(16)	**243,137**	(334,898)
Change in short-term trade payables	(22)	**263,885**	663,533
Change in inventory	(18)	**5,599**	22,056
Net cash flow from operating activity before tax and interest		**1,890,723**	**1,629,278**
Interest paid		**(108,628)**	(102,992)
Interest received		**106,702**	109,467
Income tax paid		**(191,971)**	(264,816)
Net cash flow from operating activity		**1,696,826**	**1,370,937**
Investment activity			
Expenses related to the acquisition of fixed assets	(13,14)	**(230,899)**	(300,770)
Income from the sale of fixed assets		**8,082**	64,769
Dividends received		**680,800**	891,000
Net cash flow from investment activity		**457,983**	**654,999**
Financial activity			
Change in intercompany financial receivables and payables	(17,21)	**(95,212)**	(370,091)
Change in financial payables to other than Group companies	(21,23)	**(976,074)**	1,518,878
Change in other current financial assets	(19)	**97,186**	20,289
Dividends paid	(11)	**(2,124,085)**	(2,124,501)
Net cash flow from financial activity		**(3,098,185)**	**(955,425)**
Impact of the change in foreign exchange rates		**(9,409)**	13,608
Change in cash and cash equivalents		**(943,376)**	1,070,511
Closing balance of cash and cash equivalents	**(20)**	**589,834**	**1,542,619**

Notes to the Financial Statements

Content of the Notes to the Financial Statements

(1) General Information

Pražská energetika, a.s. (hereinafter "PRE" or the "Company") was established as a joint-stock company in the Czech Republic and was entered in the Register of Companies held by the District Court of Prague 1 on 1 January 1994.
The Company's registered office is located at Na Hroudě 1492/4, Prague 10, 100 05, corporate ID: 60193913.
The Company is primarily engaged in supplying electricity to customers in the Czech Republic and this activity accounts for a significant part of the Company's revenues. More information on the major areas of the Company's operations is disclosed in the Note Segment Reporting.

PRE's principal shareholders	**2010**	2009
Pražská energetika Holding a.s.	**57.87%**	57.87%
Honor Invest, a.s.	**0.0%**	41.10%
Energie Baden – Württemberg AG	**41.26%**	0.16%
Other	**0.87%**	0.87%
Total	**100.00%**	**100.00%**

On 20 September 2010, the shares of Pražská energetika, a.s., with its registered office at Na Hroudě 1492/4, 100 05 Prague 10, were transferred from Honor Invest to EnBW pursuant to the Contract for the Exchange of Shares concluded between EnBW Energie Baden – Wurttemberg AG, with its registered office at Durlacher Allee 93, D – 76131 Karlsruhe, Germany ("EnBW"), Honor Invest , a.s., with its registered office at Pobřežní 297/14, 180 00 Prague 8, Czech Republic ("Honor Invest") and Energetický a průmyslový holding, a.s., with its registered office at Příkop 843/4, 602 00 Brno.

The Capital City of Prague owns 51% of Pražská energetika Holding a.s. and Energie Baden – Württemberg AG holds 49%. Honor Invest a.s. is part of the EPH group.

(2) Adoption of New and Revised International Financial Reporting Standards

Standards and Interpretations Effective in the Current Period

The following amendments to the current standards and interpretations issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- IFRS 1 (revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010);
- IFRS 3 (revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS"– Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009);
- IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009); and
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

Standards and Interpretations Issued by the IASB and Adopted by the EU but not yet Effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IFRS 1 "First-time Adoption of IFRS"– Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010);

– Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011); and
– IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

Standards and Interpretations issued by the IASB but not yet Adopted by the EU
– IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013);
– Amendments to IFRS 1 "First-time Adoption of IFRS"– Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
– Amendments to IFRS 7 "Financial Instruments: Disclosures"– Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011);
– Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012); and
– Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

(3) Significant Accounting Policies

Statement of Compliance
The financial statements are prepared and presented in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis of the Preparation of Financial Statements
The financial statements have been prepared on the historical cost basis except for certain financial instruments. The principal accounting policies are set out below.

Basis of the Preparation of Consolidated Financial Statements
Apart from the unconsolidated financial statements, the Company prepares and publishes consolidated financial statements of the parent company PRE and its subsidiaries (hereinafter the "PRE" Group) in compliance with IFRS always as of 31 December. The consolidated and unconsolidated financial statements are published as of the same date.

Revenue Recognition
Revenue from the sales of goods is measured at the fair value of the consideration received or receivable if significant risk and rewards arising from the ownership of the relevant goods have been transferred to the buyer. Revenues arising from contracts for the provision of services are reported including the information regarding the status of the contract completion. Revenues from electricity and distribution are recognised in the period when the electricity is consumed by customers. Revenues from other provided services are recognised when the services are rendered. Revenues from leasing (primarily fibre-optics) are recognised evenly over the lease period. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases
Leases are classified as finance leases whenever all the substantial risks and rewards of ownership of the relevant assets transfer to the lessee. All other leases are classified as operating leases. Assets held under finance leases are initially recognised as assets of the Company at their fair value at the date of their acquisition or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease payables are included in "Trade payables and other payables" within short-term and long-term payables.

Foreign Currency Translation
The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). Czech crowns are the functional currency of the Company and the presentation currency for the financial statements. During the year, transactions in currencies other than Czech crowns are recorded at the rates of exchange announced by the Czech National Bank and prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates announced by the Czech National Bank prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange rate gains and losses are recognised in profit or loss in the period in which they arise except for exchange rate differences arising from cash flow hedges where changes in fair value are posted directly to equity.

Borrowing Costs
The Company capitalises borrowing costs using the capitalisation rate in line with IAS 23. Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income Tax

Income tax expense reported in the income statement represents the sum of the tax currently payable and a change in the deferred tax balance. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current tax payable also includes tax overpayments or additional tax charges from previous periods. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax is determined at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised and are recognised in profit or loss except when associated with items charged directly to equity in which case it is also dealt with in equity.

Property, Plant and Equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost reduced by accumulated depreciation and recognised impairment loss. Cost includes the purchase price and costs associated with acquisition. Property, plant and equipment with a cost over CZK 40 thousand are reported on the face of the balance sheet. The cost of internally produced tangible and intangible assets includes direct and indirect costs directly related to the production of the asset. Depreciation of plant and equipment is charged to profit or loss. Properties in the course of construction for production or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. The cost includes professional services fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land and properties under construction, over their estimated useful lives, using the straight-line method:

Asset category	Depreciation period in years
Buildings and halls	15, 50
Fibre-optics	30
Working machinery and equipment, telecommunication equipment	4, 10, 12, 15, 20
Machinery and special technology equipment	10
Vehicles	4, 8
Furniture and fixtures	8
Hardware	3, 4

Assets acquired under finance leases are depreciated in the same manner as the assets owned by the Company over the lower of their estimated useful lives and their lease period. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Tangible assets costing between CZK 2 thousand and CZK 40 thousand with an individual useful life exceeding one year are classified as low value tangible assets. 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.

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.
An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:
– the technical feasibility of completing the intangible asset so that it will be available for use or sale;
– the intention to complete the intangible asset and use or sell it;
– the ability to use or sell the intangible asset;
– how the intangible asset will generate probable future economic benefits;
– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Asset category	Depreciation period in years
Software	4
Other intangible assets	according to the contract

Intangible assets costing between CZK 2 thousand and CZK 60 thousand with an individual useful life exceeding one year are 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.

Impairment of Tangible and Intangible Assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In circumstances where the relevant asset does not generate cash inflows separately, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventory

Inventory is stated at the lower of cost determined using the weighted arithmetic average and the net realisable value. The cost includes the purchase price of the material, customs duties and in-transit storage and freight costs incurred to deliver the inventory. The net realisable value represents the estimated selling price for inventories less all estimated costs of marketing, sale and distribution.

Provisions

Provisions are recognised in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is equal to the present value of those cash flows.

Financial Assets

Financial assets are recognised and derecognised in the balance sheet on the date of transaction where the purchase or sale of an asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), investments held-to-maturity, financial assets available-for-sale (AFS) and trade receivables and other receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial Assets and Fair Value through Profit or Loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.
Financial assets are classified as held for trading if (i) they were acquired principally for the purpose of selling in the near future; or (ii) are a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Investments Held to Maturity

Bills of exchange and bonds with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment.

Equity Investments

Equity investments include the Company's share in other companies' share capital. By reference to this share, the Company may exercise controlling influence by holding the majority of voting rights, or substantial influence represented by 20 to 50% of voting rights held. A share in the registered capital below 20% represents minority influence. Proceeds from equity investments flow to the Company in the form of dividends.

Financial Assets Available for Sale

Unlisted shares and listed redeemable notes held by the Company that are traded on an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange rate gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period. The foreign exchange rate gain or loss, if any, on financial assets available for sale denominated in foreign currencies is reported as part of the fair value change.

Trade Receivables and Other Receivables

Trade receivables are initially measured at fair value and subsequently revalued at amortised cost using the effective interest method. Reasonable allowances for estimated irrecoverable losses are recognised in profit or loss if impairment evidence exists. The recognised allowance is determined as the difference between the amortised cost of the relevant asset and the present value of the estimated future cash flows discounted at the effective interest rate calculated upon initial recognition. Other receivables with determined or determinable payments which are not quoted on an active market are classified as other financial assets and measured at the amortised cost using the effective interest method and reflecting any impairment loss. Interest income is reported using the effective interest method.

Financial Liabilities

Financial liabilities, including borrowings, are initially measured at fair value, increased by transaction costs and subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial Derivatives

The Company hedges its future transactions and cash flows using currency and interest rate derivatives (forwards and swaps). The Company enters into commodity derivative instruments for purchases and sales of electricity on the Prague Power Exchange. The Company assumes that the majority of these derivatives will be settled in the form of a physical supply of electricity to be consumed or sold within the ordinary course of the Company's operation. Such contracts therefore do not fall within the scope of IAS 39. As part of its trading portfolio, the Company also enters into commodity derivatives on OTC markets. Financial derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as a hedging instrument as part of hedge accounting. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges). The fair value of hedging derivatives is classified as other non-current financial assets/long-term payable if the residual maturity of the hedging relationship exceeds 12 months, or as other current financial assets and short-term payable if the residual maturity of the hedging relationship is below 12 months. The derivatives which are not designated as effective hedge instruments are classified as other current financial assets and short-term payables, as appropriate.

Hedge Accounting

The Company designates certain hedging instruments, which include derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts reported in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. An adjustment of the carrying value of the hedged item arising from the hedged risk is realised into profit or loss from the date of the relevant adjustment.

Employee Benefits Expense

The Company makes contributions to the health insurance and pension insurance schemes and the state employment policy scheme at the level required by law and effective in the relevant year by reference to the employees' gross salary. The insurance and social security expenses are charged to profit or loss in the same period as the relating payroll costs. The Company also makes contributions to its employees' retirement benefit plans. These contributions are expensed in the period in which employees are entitled to receive contributions based on the services that they provide to the Company. The Company provides other bonuses under the Collective Agreement (the defined benefit plan, refer to the note "Trade Payables and Other Payables"). The relevant payables are measured at the present value of anticipated future payments using actuarial estimates.

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 electricity amount the key area which is subject to the use of estimates. The increase in unbilled electricity 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.

Internal Audit Principles and Methods

The PRE Group prepares its financial statements so that these statements are correct, reliable and relevant and give a true and fair view of the Company's financial position and financial performance. The Company has internal regulations in place to determine the binding accounting principles and control mechanisms. These predominantly include the following: Circulation and Signing of Accounting Documents, Valuation of Assets and Liabilities, Stock Count of Assets and Liabilities, and Accounting Treatment for Transactions Related to Electricity Trading and Currency Risk Hedges. These internal regulations define the methods of processing and accounting for all usual transactions, including the rules for the prevention of fraudulent activities.
The compliance with internal regulations is overseen by the Company's Internal Audit which follows the following norms of the Company: Internal Audit Statute, Risk Management, Internal Audit Planning and Performance.

(4) Revenues (CZK thousand)

Electricity income and expenses	**2010**	2009
Large customers consumption		
Sales of electricity	**7,121,954**	6,613,406
Sales of distribution and system services	**2,595,214**	2,232,688
Total	**9,717,168**	**8,846,094**
Small customers consumption		
Sales of electricity	**4,116,574**	6,030,092
Sales of distribution and system services	**4,746,666**	4,362,215
Total	**8,863,240**	**10,392,307**
Other income		
Other income*)	**825,230**	1,088,792
Gain from trading	**23,353**	49,541
Total income	**19,428,991**	**20,376,734**
Costs of purchases of sold electricity	**(10,617,223)**	(12,333,695)
Costs of purchases of distribution and system services	**(7,341,882)**	(6,594,902)
Total costs	**(17,959,105)**	**(18,928,597)**
Gross profit from the sale of electricity	**1,469,886**	**1,448,137**

*) Including proceeds from the sale of power products to distributors and electricity dealers.

Other operating income	**2010**	2009
Income from provided services*)	**902,040**	871,192
Other	**5,773**	5,997
Total	**907,813**	**877,189**

*) The income includes services rendered within the PRE Group based on management contracts, revenues from the sale of land, real estate and other operating equipment, freight transport and IT support.

(5) Segment Reporting (CZK thousand)

The Company's operations are structured into two business segments: Trade and Internal Services (industry segments). The accounting records are kept as if the activities were run by separate companies in order to avoid discrimination and mutual in-flows of funds. Segment information is presented reflecting the primary business activity of the Company. The primary reporting format is based on management and internal information about the Company.

Trade Segment – Electricity Supply and Trading

The Trade segment is in charge of the purchase and sale of electricity, including related activities. The segment revenue is generated either only by the electricity sold or by the electricity sold plus the distribution services rendered depending on the type of business relationship (see below). Customers have the right to choose their supplier of electricity. If they choose a supplier who does not supply the territory in which it will be consumed only the cost of the electricity provided is paid to this supplier. The cost of distribution and system services (hereinafter the "services"), which relates to the electricity supplied, are payable to the supplier who operates on the territory where the electricity is consumed. Customers can enter into a comprehensive service contract with the supplier, in which case the supplier also provides for the distribution services. The price of electricity is contractually agreed (i.e. not regulated) while the price for services is regulated. The price for distribution services is regulated by the Energy Regulatory Office.

Internal Services Segment

The Internal Services segment provides the Trade segment and other companies within the Group with operating services, primarily logistics (transportation and supplying services), lease of office buildings, operation of information technologies and systems, services for staff (provision of flats, leisure activities) and administrative services. The income of Internal Services consists of revenues from provided services.

Note: The capacity of staff involved in the Trade segment is partially used for the provision of administrative and support services to the Group entities. Related costs are transferred internally to the Internal Services segment where they are included in the total segment expenses.

Rules for Inter-Segment Transaction Accounting

Directly attributable expenses and income are recognised under the relevant segment. Internal services are valued at a planned rate which is calculated based on the budget of internal costs. The segment revenue is the internal settlement made with the recipient of the service based on a rate and the quantity of the service rendered. Expenses are allocated using the ABC (Activity Based Costing) method.

	Trade		Internal services		Eliminations		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Electricity/Distribution								
External income	**19,428,991**	20,376,734	**–**	–	**–**	–	**19,428,991**	20,376,734
External expenses	**(17,959,105)**	(18,928,59)	**–**	–	**–**	–	**(17,959,105)**	(18,928,597)
Gross profit	**1,469,886**	**1,448,137**	**–**	**–**	**–**	**–**	**1,469,886**	**1,448,137**
Other external operating income	**10,062**	7,619	**897,751**	869,570	**–**	–	**907,813**	877,189
Other inter-segment operating income	**208,965**	202,158	**236,846**	271,079	**(445,811)**	(473,237)	**–**	–
Personnel expenses	**(204,056)**	(196,524)	**(317,116)**	(290,919)	**–**	–	**(521,172)**	(487,443)
Depreciation and amortisation of fixed assets	**(6,729)**	(3,157)	**(191,530)**	(183,784)	**–**	–	**(198,259)**	(186,941)
Other operating expenses	**(452,469)**	(428,635)	**(516,063)**	(559,946)	**445,811**	473,237	**(522,721)**	(515,344)
Other gains and losses net of received interest	**(63,089)**	(60,652)	**(6,849)**	5,908	**–**	–	**(69,938)**	(54,744)
Profit before borrowing costs and income tax	**962,570**	**968,946**	**103,039**	**111,908**	**–**	**–**	**1,065,609**	**1,080,854**
Received dividends (not allocated)	**–**	–	**–**	–	**–**	–	**680,800**	891,000
Received interest	**–**	–	**96,140**	114,311	**–**	–	**96,140**	114,311
Financial expenses	**–**	–	**(114,391)**	(117,727)	**–**	–	**(114,391)**	(117,727)
Income tax	**(77)**	–	**–**	–	**–**	–	**(77)**	–
Income tax (not allocated)	**–**	–	**–**	–	**–**	–	**(208,381)**	(224,210)
Segment profit or loss	**962,493**	**968,946**	**84,788**	**108,492**	**–**	**–**	**1,519,700**	**1,744,228**
Other information								
Property, plant and equipment	**11,991**	14,257	**1,987,236**	1,907,994	**–**	–	**1,999,227**	1,922,251
Intangible assets	**–**	–	**197,965**	193,811	**–**	–	**197,965**	193,811
Receivables	**1,454,230**	2,208,676	**3,029,932**	3,228,027	**–**	–	**4,484,162**	5,436,703
Other assets	**–**	–	**681,985**	1,755,679	**–**	–	**681,985**	1,755,679
Other assets (not allocated)	**–**	–	**–**	–	**–**	–	**9,566,801**	9,566,801
Total assets	**1,466,221**	**2,222,933**	**5,897,118**	**7,085,511**	**–**	**–**	**16,930,140**	**18,875,245**
Payables	**4,531,040**	4,490,483	**2,992,496**	4,373,582	**–**	–	**7,523,536**	8,864,065
Expenses related to the acquisition of fixed assets	**–**	–	**(230,899)**	(300,770)	**–**	–	**(230,899)**	(300,770)
Non-cash expenses other than write-offs	**78,048**	28,116	**48,696**	20,268	**–**	–	**126,744**	48,384

(6) Personnel Expenses (CZK thousand)

	2010	2009
	Staff including management	Staff including management
Average headcount	**615**	617

Payroll costs	**296,420**	297,214
Salaries paid depending on the fulfilment of the plan	**27,517**	29,576
Insurance	**115,137**	109,679
Remuneration to the members of the Company's statutory bodies	**6,609**	6,588
Other social costs*)	**75,489**	44,386
Total	**521,172**	**487,443**

*) Primarily costs of severance pays and employee benefits defined by the Collective Agreement, specifically catering contributions, bonuses paid to employees in relation to work or life anniversaries, retirement, contributions to additional pension insurance and electricity discounts for employees. The increase in costs has related to the increased claims for the use of employee benefits according to the Collective Agreement since 2010 and the increase in the present value of a long-term provision for these benefits (due to the decline in interest rates).

(7) Costs of Services, Material and Energy (CZK thousand)

	2010	2009
Material and consumed energy	**64,124**	62,144
Repairs of tangible fixed assets	**28,605**	26,428
Consulting services	**21,859**	27,778
Rental charges	**38,357**	39,074
Postage and telecommunication fees	**45,253**	46,880
IT support	**118,554**	123,301
Marketing	**93,971**	75,554
Other*)	**111,997**	114,185
Total	**522,720**	**515,344**

*) Including primarily costs of material and services associated with advertising and promotion, cleaning services, security guard services and storage fees.

(8) Borrowing Costs (CZK thousand)

	2010	2009
Interest on cash pooling	**221**	857
Interest on loan	**109,457**	110,248
Interest expense on employee benefits	**2,158**	2,339
Interest on leases	**2,555**	4,283
Total	**114,391**	**117,727**

(9) Other Gains and Losses (CZK thousand)

	2010	2009
Write-offs of doubtful debt and creation of allowances	**(55,812)**	(44,427)
Gain/(loss) from the sale and disposal of fixed assets and inventory	**8,437**	25,589
Change in provisions	**(19,514)**	(9,532)
Foreign exchange rate gains (losses)	**1,006**	(22,671)
Proceeds from securities held	**3,787**	10,093
Interest received in the Group	**96,140**	114,309
Revaluation of interest rate swaps	**6,097**	(13,525)
Other	**(13,940)**	(269)
Total	**26,201**	**59,567**

(10) Income Tax (CZK thousand)

The current income tax payable is calculated at 19 percent of the estimated taxable profit for the year ended 31 December 2010 (2009: 20 percent). Deferred tax is calculated only in respect of significant items, using the income tax rates effective in future periods, i.e. 19 percent (2009: 19 percent).

	2010	2009
Current tax payable	**213,296**	225,289
Deferred tax	**(4,838)**	(1,079)
Total income tax	**208,458**	**224,210**

	2010		2009	
Profit before tax	**1,728,159**		**1,968,438**	
Income tax using the effective income tax rate	**328,350**	**19.00%**	393,688	20.00%
Impact of tax non-deductible dividends received	**(129,352)**	**(7.48%)**	(178,200)	(9.05%)
Impact of other items that are never tax-deductible	**9,460**	**0.55%**	8,722	0.44%
Total income tax/effective tax rate	**208,458**	**12.06%**	**224,210**	**11.39%**

Deferred tax assets (-) and liabilities (+) recorded in the balance sheet relate to the following items:

	31 Dec 2010	Recorded in profit or loss	Recorded in equity	31 Dec 2009	Recorded in profit or loss	Recorded in equity	31 Dec 2008
Fixed assets	114,581	1,406	–	113,175	3,598	–	109,577
Provisions	(52,609)	(3,278)	–	(49,331)	(2,375)	–	(46,956)
Receivables	(10,901)	419	–	(11,320)	(1,121)	–	(10,199)
Inventory	(396)	1,110	–	(1,506)	1,810	–	(3,316)
Obligation under the Collective agreement	(16,374)	(5,051)	–	(11,323)	(3,605)	–	(7,718)
Cash flow hedge	6,861	–	222	6,639	–	(98,194)	104,833
Other	–	556	–	(556)	614	–	(1,170)
Total deferred tax liability	**41,162**	**(4,838)**	**222**	**45,778**	**(1,079)**	**(98,194)**	**145,051**

(11) Dividends (CZK thousand)

The following amounts were recognised as distribution of profit to shareholders in the relevant period:

	2010	2009
Final dividend for 2009 of CZK 543 (2008: CZK 543) per share	**2,101,108**	2,101,108

The proposed final dividend for 2010 must be approved by the General Meeting. It has not been included in liabilities in these financial statements.

(12) Earnings per Share (CZK thousand)

Earnings per share are calculated from the net profit for distribution of CZK 1,519,700 thousand (2009: CZK 1,744,228 thousand) attributable to 3,869,443 shares, i.e. the earnings per share amount to CZK 393 (2009: CZK 451).

(13) Property, Plant and Equipment (CZK million)

	Land	Telecommunication technologies and IT	Administrative buildings	Leases of vehicles	Other	Assets under construction	**Total**
Cost							
Balance at 31 Dec 2008	160.6	807.0	1 517.2	92.9	231.2	45.2	**2,854.1**
Additions	7.0	17.5	92.0	20.0	19.2	15.8	**171.5**
Disposals	(4.2)	(41.3)	(40.5)	(17.0)	(7.7)	–	**(110.7)**
Reclassification	–	21.0	12.0	–	7.8	(40.8)	**–**
Balance at 31 Dec 2009	**163.4**	**804.2**	**1,580.7**	**95.9**	**250.5**	**20.2**	**2,914.9**
Accumulated depreciation							
Balance at 31 Dec 2008	(1.8)	(520.8)	(270.4)	(29.3)	(124.7)	–	**(947.0)**
Depreciation	–	(57.1)	(31.2)	(13.1)	(14.6)	–	**(116.0)**
Accumulated depreciation on disposals	–	41.3	12.5	10.0	6.6	–	**70.4**
Reclassification	–	–	–	–	–	–	**–**
Net book value – 2008	158.8	286.2	1,246.8	63.6	106.5	45.2	**1,907.1**
Net book value – 2009	**161.6**	**267.6**	**1,291.6**	**63.5**	**117.8**	**20.2**	**1,922.3**

	Land	Telecommunication technologies and IT	Administrative buildings	Leases of vehicles	Other	Assets under construction	**Total**
Cost							
Balance at 31 Dec 2009	163.4	804.2	1,580.7	95.9	250.5	20.2	**2,914.9**
dditions	11.7	10.7	21.5	18.6	40.3	105.7	**208.5**
Disposals	(2.3)	(72.5)	(7.3)	(17.9)	(10.5)	–	**(110.5)**
Reclassification	–	2.3	11.8	–	2.1	(16.2)	**–**
Balance at 31 Dec 2010	**172.8**	**744.7**	**1,606.7**	**96.6**	**282.4**	**109.7**	**3,012.9**
Accumulated depreciation							
Balance at 31 Dec 2009	(1.8)	(536.6)	(289.1)	(32.4)	(132.7)	–	**(992.6)**
Depreciation	–	(58.0)	(32.9)	(14.2)	(17.9)	–	**(123.0)**
Accumulated depreciation on disposals	–	72.5	6.6	13.3	9.5	–	**101.9**
Balance at 31 Dec 2010	**(1.8)**	**(522.1)**	**(315.4)**	**(33.3)**	**(141.1)**	**–**	**(1,013.7)**
Net book value -2009	161.6	267.6	1,291.6	63.5	117.8	20.2	**1,922.3**
Net book value – 2010	**171.0**	**222.6**	**1,291.3**	**63.3**	**141.3**	**109.7**	**1,999.2**

As of 31 December 2010, the Company owns the following significant tangible assets (property, machinery, equipment:

Administrative buildings			Net book value	
Location	Land register	Use	**2010**	2009
Na Hroudě 4	Prague – Vršovice	offices	**478,425**	470,167
Svornosti	Prague – Smíchov	offices	**154,969**	151,465
Na Hroudě 19	Prague – Vršovice	offices	**142,340**	145,278
Novovysočanská	Prague – Libeň	offices, workshops, laboratory	**84,017**	86,075
Sokolská	Prague – Nové Město	offices	**95,468**	97,612
Nitranská	Prague – Vinohrady	offices, control room of distribution equipment	**88,583**	90,665

The anticipated useful lives of energy buildings, equipment and administrative buildings are disclosed in the Note "Significant Accounting Policies".

(14) Intangible Assets (CZK million)

	Software	Other	Assets under construction	**Total**
Cost				
Balance at 31 Dec 2008	598.4	13.7	37.8	**649.9**
Additions	62.4	0.8	21.2	**84.4**
Disposals	(6.7)	–	–	**(6.7)**
Reclassification	30.0	0.8	(30.8)	**–**
Balance at 31 Dec 2009	**684.1**	**15.3**	**28.2**	**727.6**
Accumulated amortisation				
Balance at 31 Dec 2008	(459.5)	(10.7)	–	**(470.2)**
Amortisation	(68.6)	(1.8)	–	**(70.4)**
Accumulated amortisation on disposals	6.8	–	–	**6.8**
Balance at 31 Dec 2009	**(521.3)**	**(12.5)**	**–**	**(533.8)**
Net book value – 2008	138.9	3.0	37.8	**179.7**
Net book value – 2009	**162.8**	**2.8**	**28.2**	**193.8**

	Software	Other	Assets under construction	**Total**
Cost				
Balance at 31 Dec 2009	684.1	15.3	28.2	**727.6**
Additions	26.3	1.0	52.1	**79.4**
Disposals	(83.9)	(7.6)	–	**(91.5)**
Reclassification	16.0	1.7	(17.7)	**–**
Balance at 31 Dec 2010	642.5	10.4	62.6	**715.5**
Accumulated amortisation				
Balance at 31 Dec 2009	**(521.3)**	**(12.5)**	**–**	**(533.8)**
Amortisation	**(73.2)**	**(2.0)**	**–**	**(75.2)**
Accumulated amortisation on disposals	83.9	7.6	–	**91.5**
Balance at 31 Dec 2010	**(510.6)**	**(6.9)**	**–**	**(517.5)**
Net book value – 2009	162.8	2.8	28.2	**193.8**
Net book value – 2010	**131.9**	**3.5**	**62.6**	**198.0**

"Depreciation" in the notes "Property, plant and equipment" and "Intangible assets" also includes an impairment loss as follows:

	2010	2009
Amortisation and depreciation	**(198.2)**	(186.9)
Impairment loss	**–**	0,5
Total	**(198.2)**	**(186.4)**

None of the Company's assets are pledged or used as collateral.
The Company anticipates incurring total capital expenditure of CZK 251 million in 2011. Approximately one fifth of all planned expenditure was contracted as of the balance sheet date.
Low value fixed assets are charged to expenses in compliance with the accounting policies (see Significant Accounting Policies). The below table shows the purchase price of those assets that have been put into use as of the balance sheet date:

Low value fixed assets (CZK thousand)	**2010**	2009
Low value tangible assets	**186,380**	180,921
Low value intangible assets	**36,556**	33,760
Total	**222,936**	**214,681**

(15) Equity Investments (CZK thousand)

	Note	Investment	**2010**	2009
PREměření, a.s.	Non-marketable	100%	**43,264**	43,264
PREleas, a.s.	Non-marketable	100%	**10,000**	10,000
PREdistribuce, a.s.	Non-marketable	100%	**9,513,537**	9,513,537
Total			**9,566,801**	**9,566,801**

Additional Information on Subsidiaries

Information on the subsidiaries was derived from individual statutory financial statements of these companies prepared in compliance with Czech Accounting Standards.

Business entity: PREměření, a.s.

The company was established in 1998. Its principal business activities are the assembly, repair and maintenance of meters, and, since 2008, inspections of sealing and reading of electrical meters, gas meters, water meters and heat meters. The company gradually diversifies its activities and also trades in other goods, such as bulk remote controls, measuring devices and equipment, detectors, testers, etc, and provides advisory services. During 2010, the Company completed the construction of photovoltaic power stations and started to sell electricity from renewable sources.

	2010	2009
Registered office: Prague 10, Na Hroudě 2149/19		
Corporate ID: 25677063		
Average headcount:	**193**	199
Economic data (in CZK thousand)		
Share capital	**35,000**	35,000
Shareholders' equity	**56,408**	67,940
Profit after tax	**14,368**	25,903
Sales of goods and services	**314,985**	335,870

Business entity: PREleas a.s.

The leasing company was established in 1996. The company's business plan is to co-fund the assets of the parent company through lease-back transactions within the PRE Group.

	2010	2009
Registered office: Prague 10, Limuzská 2110/8		
Corporate ID: 25054040		
Average headcount:	**2**	2
Economic data (in CZK thousand)		
Share capital	**10,000**	10,000
Shareholders' equity	**48,815**	62,172
Profit after tax	**7,743**	9,850
Sales of goods and services	**46,531**	63,757

Business entity: PREdistribuce a.s.

The company distributes electricity.

	2010	2009
Registered office: Prague 5, Svornosti 3199 – 19a		
Corporate ID: 27376516		
Average headcount:	**504**	514
Economic data (in CZK thousand)		
Share capital	**17,707,934**	17,707,934
Shareholders' equity	**18,933,237**	18,673,197
Profit (loss) after tax	**910,240**	684,569
Sales of goods and services	**7,767,212**	6,883,384

(16) Trade Receivables and Other Receivables (CZK thousand)

Trade receivables and other long-term receivables	**2010**	2009
Principal amounts paid	**13,155**	13,415
Receivables from sold flats*)	**8,032**	9,247
Other	**16**	57
Total	**21,203**	**22,719**

*) Of the stated receivables, the maturity of receivables totalling CZK 759 thousand exceeds five years (2009: CZK 2,861 thousand).

Long-term receivables are carried at their amortised cost which corresponds to their fair value.

Trade receivables and other short-term receivables	**2010**	2009
Receivables from electricity supplies*)	**1,081,612**	1,062,242
Margin deposit with the power exchanges	**127,555**	239,244
Receivables from the revaluation of commodity contracts (own-use portfolio)	**28,674**	179,729
Receivables from the revaluation of commodity contracts (trading portfolio)	**188,305**	868,424
Receivables from cash flow hedges	**36,112**	34,943
Other assets*)	**87,432**	162,607
Total	**1,549,690**	**2,547,189**

*) This line resulted from the merged lines "Other financial assets" and "Other assets" also for the comparative period

Of the above stated short-term trade receivables, gross receivables past their due date totalled CZK 394,419 thousand (2009: CZK 419,535 thousand). Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

Balance at 31 Dec 2008	**172,551**
Charge and drawing in the current year	(277)
Balance at 31 Dec 2009	**172,274**
Charge and drawing in the current year	34,499
Balance at 31 Dec 2010	**206,773**

In considering the recoverability of receivables, the Company takes into account any changes in the recoverability of trade receivables from the date of their origination through the balance sheet date.
The carrying amount of trade receivables and other receivables corresponds to their fair value.

(17) Loans Granted (CZK thousand)

	At 31 Dec 2010			At 31 Dec 2009		
	Amount	Interest rate p.a.	Maturity date	Amount	Interest rate p.a.	Maturity date
Loan granted in Group 1	**1,502,700**	**PRIBOR+0.3%**	**30 Nov 2011**	1,503,371	PRIBOR+0.3%	30 Nov 2011
Loan granted in Group 2	**1,122,939**	**PRIBOR+2.3%**	**30 June 2012**	1,122,861	Fix 4.89%	30 June 2012
Loan granted in Group 3	**–**	**–**	**–**	47,831	Fix 4.49%	15 Feb 2010
Loan granted in Group 4	**32,869**	**Fix 3.05%**	**14 Feb 2011**	–	–	–
Intercompany receivables from cash pooling	**254,761**	**PRIBOR+0.5%**	**–**	192,732	PRIBOR+0.5%	–
Long-term	**1,122,939**			2,626,232		
Short-term	**1,790,330**			240,563		
Total	**2,913,269**			**2,866,795**		

The carrying amount of the granted loans does not significantly differ from their fair value.

(18) Inventories (CZK thousand)

Inventories	**2010**	2009
Material	**32,141**	31,660
Goods	**1,705**	1,943
Total	**33,846**	**33,603**

“Purchased material, services and energy” and “Other gains and losses” in the income statement include costs of sold and consumed inventories of CZK 261,580 thousand (2009: CZK 331,930 thousand).

Given the limited use, inventories were written down to their net realisable value as follows:

Balance at 31 Dec 2008	**17,452**
Charge in the current year	–
Drawing in the current year	(9,527)
Balance at 31 Dec 2009	**7,925**
Charge in the current year	–
Drawing in the current year	(5,843)
Balance at 31 Dec 2010	**2,082**

The change in the write-down to the net realisable value is reported in “Other gains and losses” in the income statement.

(19) Other Financial Assets (CZK thousand)

	Carrying value	
	2010	2009
Equity securities available for sale	**8,051**	8,285
Bonds available for sale	**40,974**	140,566
Total	**49,025**	**148,851**

(20) Cash and Cash Equivalents (CZK thousand)

Cash and cash equivalents include cash at hand, deposits payable upon request and other highly liquid financial assets that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

	2010	2009
Bills of exchange	**147,218**	1,285,964
Term bank accounts	**–**	–
Current bank accounts	**440,776**	255,165
Cash on hand	**1,290**	993
Stamps and vouchers	**550**	497
Total	**589,834**	**1,542,619**

(21) Loans Received (CZK thousand)

This note summarises the information about the contractual conditions of interest bearing loans and borrowings. For more information about the Company's exposure to interest rate risks refer to the note "Financial Instruments"

	At 31 Dec 2010			At 31 Dec 2009		
	Principal	Interest rate	Maturity date	Principal	Interest rate	Maturity date
Loan # 1	**1,302,071**	**PRIBOR+0.29%**	**30 Nov 2011**	1,302,576	PRIBOR+0.29%	30 Nov 2011
Loan # 2	**600,059**	**PRIBOR+2.00%**	**30 June 2012**	600,064	PRIBOR+2.00%	30 June 2012
Loan # 3	**610,611**	**PRIBOR+1.95%**	**30 June 2012**	613,094	PRIBOR+1.95%	30 June 2012
Loan # 4	**–**	**–**	**–**	150,006	Fix 1.55%	4 Jan 2010
Loan # 5	**–**	**–**	**–**	74,126	Fix 1.245%	6 Jan 2010
Loan # 6	**–**	**–**	**–**	750,037	Fix 1.79%	7 Jan 2010
Payables from cash pooling to PREměření	**20,658**	**PRIBID-0.25%**	**–**	68,219	PRIBID-0.25%	–
Payables from cash pooling to PREleas	**4,590**	**PRIBID-0.25%**	**–**	4,143	PRIBID-0.25%	–
Long-term	**1,210,670**			2,515,733		
Short-term	**1,327,319**			1,046,532		
Total	**2,537,989**			**3,562,265**		

The banks do not require loan collateral with regard to the Company's rating. Undrawn loan facilities amounted to CZK 3,902 million as of 31 December 2010 (2009: CZK 3,479 million).
Loans are carried at their amortised cost which does not significantly differ from their fair value. Currently, the Company does not capitalise any borrowing costs in accordance with the applied accounting policy.

(22) Trade Payables and Other Payables (CZK thousand)

Trade payables and other long-term payables	**2010**	2009
Payables to employees*)	**78,762**	54,388
Other financial liabilities	**49,137**	53,315
Total	**127,899**	**107,703**

*) Includes payables under the Collective Agreement (involving bonuses paid to employees in connection with their retirement, work and life anniversaries).

Trade payables and other short-term payables	**2010**	2009
Trade payables*)	**1,815,701**	1,598,157
Payables from revaluation of commodity contracts (trading portfolio)	**146,868**	815,569
Payables from revaluation of interest rate derivatives	**35,763**	41,859
Payables to employees**)	**30,076**	37,530
Payables from social security and health insurance	**10,166**	11,229
Intercompany payables***)	**2,325,313**	2,230,774
Other payables****)	**117,038**	87,677
Total	**4,480,925**	**4,822,795**

*) Includes an estimated payable for supplied but not yet billed electricity recognised together with the prepayment received for electricity in the total amount of CZK 875,740 thousand (2009: CZK 495,643 thousand).
**) Includes outstanding December salaries and payables to employees under the Collective Agreement in the amount of CZK 13,163 thousand (2009: CZK 13,874 thousand).
***) Includes an estimated payable for the provision of distribution services from PREdistribuce, a.s. in the amount of CZK 1,824,248 thousand (2009: CZK 1,839, 488 thousand), payables to PREdistribuce, a.s. arising from bills for distribution services in the amount of CZK 500,997 thousand (2009: CZK 391,263 thousand) and payables to PREměření a.s. amounting to CZK 68 thousand (2009: CZK 22 thousand).
****) Of which CZK 14,351 thousand (2009: CZK 12,143 thousand) represents payables arising from finance leases.

The Company reports overdue trade payables in the amount of CZK 369 thousand (2009: CZK 333 thousand). All overdue payables were settled during January 2011.
The Company's payables are carried at amortised cost which corresponds to their fair value.

(23) Finance Lease Payables (CZK thousand)

Lease payables	Minimum lease payables		Present value of minimum lease payments	
	2010	2009	**2010**	2009
Lease payments due within 1 year	**14,670**	15,106	**14,351**	12,143
Lease payments due from 1 to 5 years	**50,298**	59,364	**47,960**	51,630
Lease payments due in over 5 years	**1,410**	1,779	**1,176**	1,686
Total lease payments	**66,378**	**76,249**	**63,487**	**65,459**
Future lease payments	**(2,891)**	(10,790)		
Present value of minimum lease payments	**63,487**	**65,459**	**63,487**	**65,459**
Trade payables and other payables				
Long-term			**49,136**	53,316
Short-term			**14,351**	12,143
Total			**63,487**	**65,459**
Tangible fixed assets				
Carrying amount of assets held under finance leases			**63,487**	63,691

The Company holds cars under finance lease contracts. All contracts have a fixed payment schedule and the Company did not enter into any contracts on contingent lease payments.
All lease payables are denominated in Czech crowns. The fair value of lease payables corresponds to their carrying value.

(24) Provisions (CZK thousand)

	Business risks	Severance pay	Other	**Total**
Balance at 31 Dec 2008	**246,460**	**–**	**1,385**	**247,845**
Creation of provisions in the current year	10,647	2,260	308	**13,215**
Use of provisions in the current year	(988)	–	(435)	**(1,423)**
Balance at 31 Dec 2009	**256,119**	**2,260**	**1,258**	**259,637**
Creation of provisions in the current year	20,010	–	208	**20,218**
Use of provisions in the current year	–	(2,260)	(704)	**(2,964)**
Balance at 31 Dec 2010	**276,129**	**–**	**762**	**276,891**
Long-term	267,432	–	762	**268,194**
Short-term	8,697	–	–	**8,697**
Total	**276,129**	**–**	**762**	**276,891**

The provisions for business risks include a provision established for a lawsuit filed by Středočeská energetická a.s. ("STE a.s.") claiming CZK 171,719 thousand and penalty interest relating to services in the area of capacity reservation and electricity transmission in 2001.
The Energy Regulation Office has expressed its opinion in favour of STE a.s. The legal proceedings are still under way. The provision amounted to CZK 266,265 thousand (CZK 255,619 thousand as of 31 December 2009).

(25) Share Capital (CZK thousand)

Share Capital

Registered as of 31 December 2010	**2010**	2009
Bearer stock with a nominal value of CZK 1,000 per share	**–**	2,553,831
Registered stock with a nominal value of CZK 1,000 per share	**3,869,443**	1,315,612
Total	**3,869,443**	**3,869,443**

At the extraordinary General Meeting held on 15 October 2010, the shareholders approved the change in the form of 2,553,831 ordinary bearer shares in the book-entry form to registered shares. These shares carry full voting rights and are transferrable with the agreement of the General Meeting. The shares carry no right for the regular payment of dividends.
The Company's share capital has been paid in full.

(26) Funds from Profit (CZK thousand)

	2010	2009
Statutory reserve fund	**773,889**	773,889
Fund from the revaluation of current other financial assets	**(13,474)**	(13,037)
Cash flow hedge*)	**29,251**	28,304
Other funds from profit	**382,711**	382,711
Total	**1,172,377**	**1,171,867**

Other funds from profit represent part of the capital of the former state enterprise, the legal predecessor of the Company. As a result of the privatisation project, the state enterprise's capital was divided into share capital, reserve fund and capital funds as of the date of incorporation of the joint stock company (1 January 1994). As of that date, the balance of the capital funds was CZK 390,390 thousand. The use of capital funds to settle losses is subject to the decision of the Board of Directors pursuant to the prior opinion of the Supervisory Board. A different use of capital funds is subject to the decision of a General Meeting at the suggestion of the Board of Directors and after the examination of the Supervisory Board. Using the capital funds to pay out dividends is not allowable. The Company's reserve fund has been created in the amount of 20 percent (CZK 773,889 thousand) of the share capital and no further increase is to be made. The Board of Directors decides on the use of the reserve fund. In accordance with the conditions specified in the Company's Articles of Association, the reserve fund can only be used to offset a loss. The fund from the revaluation of other financial assets is used to record gains and losses from the revaluation of securities available for sale.

(27) Contingent Liabilities and Contingent Assets (CZK thousand)

The Company issued a payment bank guarantee of CZK 30,000 thousand in favour of Operátor trhu s elektřinou a.s. (CZK 30,000 thousand as of 31 December 2009), a bank guarantee in the amount of EUR 200 thousand to Slovenská elektrizačná prenosová sústava, a.s. (2009: EUR 200 thousand), and EUR 3.3 million to Centrální depozitář cenných papírů, a.s. (2009: EUR 5 million) and CZK 30 million for the public contract of the Prague School of Economics. In the year ended 31 December 2006, ČEZ, a.s. filed an appellate review in respect of the judgement in favour of the Company for the settlement of CZK 50,953 thousand for the alleged failure to meet its contractual obligation in supplying electricity in 1996. In 2010, the court confirmed the ruling from 2006. ČEZ, a.s. appealed the ruling. Given the recent development of the proceedings, the result cannot be determined with a reasonable degree of certainty.

(28) Financial Instruments (CZK thousand)

Categories of Financial Instruments

Financial assets	**2010**	2009
(a) Financial assets at fair value through profit or loss (revaluation of commodity contracts)	**188,305**	868,424
(b) Financial derivatives under hedge accounting	**36,112**	34,943
(c) Loans and receivables (including cash and cash equivalents)	**4,762,308**	5,771,272
(d) Financial assets available for sale	**49,025**	148,851

The loans and receivables predominantly include receivables from intercompany borrowings and receivables from electricity supplies.

Financial liabilities	**2010**	2009
(e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts)	**146,868**	815,569
(f) Financial liabilities at fair value through profit or loss (revaluation of interest rate swaps)	**35,763**	41,859
(g) Financial derivatives under hedge accounting	**–**	–
(h) Financial liabilities at amortised cost	**6,246,086**	7,293,611

Financial liabilities at amortised cost predominantly include bank loans and payables from electricity supplies.
Financial assets and liabilities (a, d, e) are carried at values quoted on active markets. Financial assets and liabilities (b, f) are valued using the valuation models and by reference to the market data.

Gains and losses of financial instruments reported in the current period		**2010**	2009
Gain from revaluation of commodity derivatives in the trading portfolio (included in "Profit from trading")	(a, e)	**23,353**	49,541
Loss from the revaluation of interest rate swaps	(f)	**6,097**	(13,525)
Gain from securities held and received interest in the Group	(c, d)	**99,927**	124,403
Borrowing costs (except for the interest on employee benefits)	(h)	**(112,233)**	(115,388)
Other	(c, h)	**(69,360)**	(50,404)

Hedge accounting*)		**2010**	2009
Creation of the equity fund from the cash flow hedge	(b, g)	**36,112**	34,943
Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased")	(b, g)	**(34,943)**	(524,167)

*) Except for the items where the creation and reversal were performed in the same period.

Capital Risk

The Company manages its capital to ensure an optimal financial position from the long-term perspective while maximising the return to stakeholders.

Market Risk

In view of its activities, the Company is predominantly exposed to currency risk, interest rate risk and the risk of changes in the prices of electricity.
For the hedging of financial risks, the Company uses financial instruments with derivative characteristics including the following:
– Currency forwards for the currency risk hedge related to the acquisition of electricity in EUR;
– Interest rate swaps to hedge the risk of increasing interest rates; and
– Commodity futures and forwards to hedge the risk related to the development of electricity prices.
The Company uses the VaR methodology (Value at Risk) and its modifications CFaR (Cash Flow at Risk), which is complemented with the sensitivity analysis, in measuring exposure to market risks. The Company's exposure to market risks and its approach to managing and measuring these risks have not significantly changed as compared to the prior period.
There is no concentration of market risks in the Company.

Currency Risk

The major portion of the Company's electricity supplies to customers are denominated in EUR.
The Company hedges a substantial part of its future planned cash flows (in EUR) for the purchase of electricity against the foreign exchange rate risk using currency derivatives and applies hedge accounting (cash flow hedges). The Company uses the Cash Flow at Risk method (CFaR) to determine the value up to which the future planned cash flows will be hedged. The Company monitors the hedge effectiveness as part of its hedge accounting. Hedging has been highly effective to date. The ineffective part of the hedge was immaterial.

Sensitivity to Foreign Exchange Rate Changes
The Company uses the Cash Flow at Risk (CFaR) method to determine the value up to which the future planned cash flows will be hedged, and determines the limit of the maximum loss. The Company uses the VaR method for operational management of the foreign currency risk and measures the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The selected VaR indicator measures a potential loss over one day with a 95 percent confidence level. The calculated VaR is determined on the basis of historical data where the exchange rate volatility is estimated by reference to the historical data regarding the exchange rate volatility published by the Czech National Bank. The open exposure is determined on the basis of the annual plan for foreign currency requirements. The Company takes a significant foreign currency exposure only in EUR with a view to settling stock exchange or OTC transactions pursued to make transactions associated with procuring electricity for the Company's customers. As such, the one-day loss in terms of the market value change will not exceed the reported VaR with a confidence level of 95 percent. The Company monitors the aggregate potential loss which is calculated as the market value of the open exposure plus VaR.

The carrying value of foreign currency assets and liabilities:

	Assets (CZK thousand)*		Liabilities (CZK thousand)*	
	2010	2009	**2010**	2009
Currency derivatives for purchase of Euros	**36,112**	34,943	**6,861**	6,639
Other assets and liabilities in EUR	**645,100**	1,649,281	**731,360**	1,446,509
Total in EUR	**681,212**	**1,684,224**	**738,221**	**1,453,148**
Other currencies	**129**	129	**–**	125
Total	**681,341**	**1,684,353**	**738,221**	**1,453,273**

*) These include cash and cash equivalents, bank loans, margin deposits and price variances connected with trading on power stock exchanges, receivables and payables from foreign currency invoices and receivables and payables arising from cash flow hedges.

Currency derivatives open at the balance sheet date:

	Average exchange rate CZK/EUR		Value in EUR thousand		Value in CZK thousand		Fair value in CZK thousand	
EUR purchased	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Up to 1 month	**24.72**	26.01	**20,000**	20,000	**494,400**	520,250	**6,828**	9,212
1–3 months	**24.80**	25.64	**30,000**	30,000	**744,060**	769,200	**7,982**	25,731
3–12 months	**24.70**	–	**55,000**	–	**1,358,435**	–	**21,302**	–
Total	**24.73**	**25.79**	**105,000**	**50,000**	**2,596,895**	**1,289,450**	**36,112**	**34,943**

Currency Risk – Sensitivity Analysis

The Company performed a sensitivity analysis to identify the dependence of the level of profit and equity on a change in the carrying value of the financial assets and liabilities resulting from a decrease in the CZK/EUR exchange rate of 1 percent.

Sensitivity to the foreign exchange rate change (CZK thousand)

	2010	2009
Profit (+) or loss (-)	**(861)**	2,028
Shareholders' equity	**21,250**	10,712

Interest Rate Risk

The Company is exposed to a risk of an interest rate change which predominantly relates to the received loans with a floating interest rate. In order to reduce the risk related to the increase in interest rates, the Company established a hedge against the interest rate risks using interest rate swaps. Interest rate derivatives open at the balance sheet date:

	Average fixed interest rate		Agreed principal in CZK thousand		Fair value in CZK thousand	
	2010	2009	**2010**	2009	**2010**	2009
Interest rate swaps	**3.08%**	3.19%	**2,500,000**	2,300,000	**(35,763)**	(41,859)

The contracts are due in 2011 and 2012. Based on the concluded interest rate swap contracts, the Company commits to exchanging the potential difference between the amount of variable interest rates and the agreed fixed interest rate on a six-month basis.

The carrying amount of assets and liabilities which is dependent on the interest rate:

	Assets (CZK thousand)*		Liabilities (CZK thousand)*	
	2010	2009	**2010**	2009
Interest rate swaps	**–**	–	**35,763**	41,859
Other assets and liabilities	**46,045**	45,906	**6,861**	1,196,541
Total	**46,045**	**45,906**	**42,624**	**1,238,400**

*) These involve assets and liabilities relating to hedged future cash flows, and loans.

Interest Rate Risk – Sensitivity Analysis

The Company performed a sensitivity analysis to identify the dependence of the level of profit and equity on a change in the carrying value of these assets and liabilities resulting from an increase in the CZK/EUR exchange rate of 1 percent.

Sensitivity to the interest rate change (CZK thousand)

	2010	2009
Profit (+) or loss (-)	**(296)**	(514)
Shareholders' equity	**(109)**	(37)

Price Risk

The Company seeks to eliminate the price risk related to transactions with current financial assets by being actively involved in financial markets. The Company is exposed to the risk related to the development of electricity prices. Upon the introduction of electricity trading at the Prague Power Exchange, variations in electricity prices increased significantly, thus exposing the Company to a greater price risk. The Company attempts to eliminate this risk mainly by seeking to minimise the open exposure which could lead to potential losses for the Company. This principle has been consequently observed in the area of the Company's principal activities, i.e. the electricity supplies to end customers, as well as in the area of commodity trading transactions.

Price Risk Related to Trading Transactions

A maximum loss limit is determined with regard to trading transactions. This limit is determined as the market value of the carried out transactions, the open positions and VaR. The limit of the potential loss was not exceeded in the reporting period.

Credit Risk

The standard practice of the Company is not to require collateral for trade receivables. Management of the Company has introduced the principles of credit risk management and the risk is monitored on a regular basis. Financial solvency of all customers is checked if they exceed a certain limit of credit exposure. In electricity supplies and distribution which is the Company's principal activity, the Company applies the following principles to minimise the failure to collect receivables. The reading of industrial customers' electricity meters and invoicing takes place on a monthly basis. Customers pay monthly or ten-day advance payments, based on their expected consumption, to cover electricity consumed but not yet invoiced, taking into account previous years' consumption, season and other factors. The method of determining the amount of the advance payments is specified in the contract. Reminders are sent to customers who fail to pay on time. If a customer fails to settle the debt within an additional time period, the electricity supply is suspended. Certain industrial customers cover their future payables by making prepayments in advance or by paying deposits. The standard reading of small businesses and household electricity meters and invoicing takes place on an annual basis. For supplied but unbilled electricity, advance payments are determined to reflect the volume and nature of the consumption. The determination of the price and the payment method are specified in the contracts with customers. There is no concentration of credit risk.

Liquidity Risk

The Company manages liquidity risk by maintaining an average amount of cash and cash equivalents, banking facilities and borrowing facilities, by continuously monitoring forecast and actual cash flows and seeking to match the maturity profiles of financial assets and liabilities. Included in the note "Loans" is a listing of additional undrawn loan facilities that the Company has at its disposal to further reduce liquidity risk. These loan facilities have not been drawn yet. The Company is not exposed to any significant liquidity risk and does not suffer from any solvency issues. As a result of commodity stock exchange trading, the issues related to the daily revaluation of commodity futures traded on the Prague commodity stock exchange and the related daily financial settlement of gains and losses on open positions represents a potential risk in liquidity terms. The Company's response to such risk is the intention to predict cash flows related to the revaluation of commodity futures and the adjustment of credit lines. There is no concentration of liquidity risk.

Liquidity Risk – Tables

The following tables represent the residual maturity of the Company's undiscounted non-derivative financial receivables and payables. The table including the financial payables reflects the earliest dates on which the Company may be asked to fulfil its liabilities. The table of financial receivables reflects the customers' payment discipline. The analysis excludes intercompany receivables and payables which carry no liquidity risk.

Receivables – 2010	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade balances	(16)	1,001,681	70,382	9,549	–	**1,081,612**
Margin deposit, principals paid	(16)	97,739	6,248	17,741	19,122	**140,850**
Other receivables including receivables for sold apartments	(16)	16,061	646	1,749	10,599	**29,055**
Total		**1,115,481**	**77,276**	**29,039**	**29,721**	**1,251,517**

Receivables – 2009	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade balances	(16)	650,023	403,318	8,901	–	**1,062,242**
Margin deposit, principals paid	(16)	179,303	14,680	31,318	27,419	**252,720**
Other receivables including receivables for sold apartments	(16)	25,680	617	1,652	12,819	**40,768**
Total		**855,006**	**418,615**	**41,871**	**40,238**	**1,355,730**

Payables – 2010		Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade payables	(22)	874,920	10,345	54,697	–	**939,962**
Other financial payables	(22)	92,876	4,319	33,578	6,793	**137,566**
Bank loans	(21)	10,611	–	1,355,051	1,239,592	**2,605,254**
Provisions	(24)	2,119	2,119	6,578	268,194	**279,010**
Total		**980,526**	**16,783**	**1,449,904**	**1,514,579**	**3,961,792**

Payables – 2009		Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade payables	(22)	1,010,710	20,086	71,718	–	**1,102,514**
Other financial payables	(22)	71,319	2,150	28,223	43,570	**145,262**
Bank loans	(21)	987,575	–	79,529	2,604,062	**3,671,166**
Provisions	(24)	–	–	–	257,377	**257,377**
Total		**2,069,604**	**22,236**	**179,470**	**2,905,009**	**5,176,319**

Payables from leases – refer to the Note "Finance Lease Payables".

(29) Operating Leases (CZK thousand)

Operating lease payments expensed in the current period:

	2010	2009
Non-residential premises	**14,261**	13,698
Cars	**6,585**	7,655
Other rented assets of all types	**7,327**	7,222
Total	**28,173**	**28,575**

The Company predominantly holds cars and non-residential premises for an indefinite period of time under operating leases. Management expects the costs of leases to remain at the current level in the future, i.e. in the amount of approximately CZK 28 million per year for contracts concluded as of 31 December 2010.

(30) Related Party Transactions (CZK thousand)

Related parties include the owners of the Company that hold individually or by acting in concert more than 40 percent of voting rights (Pražská energetika Holding a.s., and Energie Baden – Württemberg AG) and companies controlled by them, their owners, members of bodies and executive management of the Company and subsidiaries.

Movements in receivables and payables of related parties:

	Sales to related parties		Purchases from related parties	
Company	**2010**	2009	**2010**	2009
Pražská energetika Holding, a.s.*)	**326**	326	**–**	–
EnBW Trading GmbH**)	**479,300**	637,237	**538,730**	1,134,699
Hlavní město Praha*)	**45,065**	46,072	**13,976**	19,640
Dopravní podniky hl.m. Prahy, a.s.**)	**1,027,977**	936,853	**852**	720
Pražská teplárenská, a.s.**)	**169,189**	166,508	**295,516**	387,380
Kolektory Praha, a.s.**)	**6,689**	6,634	**–**	–
Energotrans a.s.**)	**6,742**	98	**1,906,474**	2,409,311
Kongresové centrum Praha, a.s.**)	**56,775**	55,553	**–**	–
Pražské služby, a.s.**)	**31,434**	44,032	**136**	157
Total	**1,823,497**	**1,893,313**	**2,755,684**	**3,951,907**

Total receivables from and payables to related parties:

	Receivables		Payables	
Company	**2010**	2009	**2010**	2009
Pražská energetika Holding, a.s.*)	**25**	25	**–**	–
EnBW Trading GmbH**)	**–**	–	**8,040**	22,050
Hlavní město Praha*)	**376**	275	**17,831**	16,768
Dopravní podniky hl.m. Prahy, a.s.**)	**63,393**	41,300	**12,773**	12,566
Pražská teplárenská, a.s.**)	**8,068**	10,599	**32,499**	40,023
Kolektory Praha, a.s.**)	**–**	50	**2,616**	2,262
Energotrans a.s.**)	**–**	1	**70,901**	201,135
Kongresové centrum Praha, a.s**)	**–**	43	**131**	–
Pražské služby, a.s**)	**591**	904	**23**	5
Total	**72,453**	**53,197**	**144,814**	**294,809**

*) relations with the parent company
**) relations with a fellow subsidiary

Business transactions were conducted on an arm's length basis. Outstanding amounts were not collateralised and were settled at the beginning of the following year.

Dividends Paid

	2010	2009
Pražská energetika Holding a.s.	**1,216,003**	1,216,003
Energie Baden –Württemberg AG	**2,844**	2,844

Executive management holds 99 shares of the Company in aggregate.

Remuneration to the Statutory and Supervisory Bodies and Senior Management:

	2010			2009		
Executive management	Executive directors	BoD	Supervisory Board	Executive directors	BoD	Supervisory Board
Number	2	3	12	3	4	12
Amounts received from the issuer*):						
– arising from the existence of employment**)	17,423	–	2,807	20,811	–	2,730
– arising from the membership in statutory/ supervisory bodies of the issuer***)	–	10,837	20,373	–	10,692	20,314
Amounts received from entities						
controlled by the issuer:						
– arising from the existence of employment	–	–	–	–	–	–
– arising from the membership in statutory/ supervisory bodies of the Group	846	–	–	876	–	88
Company cars for private purposes (taxable income)	547	–	134	588	–	67

*) The issuer is PRE.
**) These include salaries and the life insurance contribution.
***) These include remuneration of the members of the statutory and supervisory bodies, director's fees paid and the health care contribution.

Executive management includes the Company's executive directors (i.e. the CEO and the divisional managers) before 30 October, or the Director of the Company's section since 1 November, and the members of the Board of Directors and Supervisory Board. The management contract contains a non-competition clause extending to 12 calendar months after the termination of employment. This fact is offset by cash compensation in the amount of the average monthly salary for each month of the obligation's performance.

Members of the Company's Board of Directors and Supervisory Board entered into the Contract for the Terms and Conditions of the Job Performance for the period of the performance of their position. Remuneration is paid for the position's performance as approved annually by the General Meeting for members of the Board of Directors and the Supervisory Board. In addition to the monthly remuneration, the Contract provides for a contribution for non-standard medical, rehabilitation and convalescence services up to CZK 20 thousand per year. Members of the Supervisory Board elected from among the Company's staff also enter into a standard employment contract adequate to their job.
Members of executive management can use company cars for private purposes.

Receivables from Executive Management

As of 31 December 2010, the Company reported receivables from the members of executive management in the total amount of CZK 34 thousand (CZK 26 thousand as of 31 December 2009). The receivables are disclosed in "Trade receivables and other receivables" and were collected during January 2010.

Receivables from and Payables to Subsidiaries:

	Trade receivables of PRE as of 31 Dec		Trade payables of PRE as of 31 Dec	
	2010	2009	**2010**	2009
PREdistribuce, a.s.	**–**	–	**2,325,245**	2,230,751
PREměření, a.s.	**8,994**	8,204	**68**	22
PREleas, a.s.	**8**	8	**–**	–
Total	**9,002**	**8,212**	**2,325,313**	**2,230,773**

	PRE's receivables from cash pooling and loans as of 31 Dec		PRE's payables from cash pooling and loans as of 31 Dec	
	2010	2009	**2010**	2009
PREdistribuce, a.s.	**2,880,401**	2,818,964	**–**	–
PREměření, a.s.	**–**	–	**20,658**	68,219
PREleas, a.s.	**32,869**	47,831	**4,590**	4,143
Total	**2,913,270**	**2,866,795**	**25,248**	**72,362**

Movements in receivables from and payables to the subsidiaries:

	Income of PRE		Expenses of PRE	
	2010	2009	**2010**	2009
PREdistribuce, a.s.	**2,123,794**	**2,614,774**	**6,556,325**	**5,940,165**
Of which: Electricity supplied to end customers and distribution services	**641,174**	934,029	**6,540,491**	5,925,903
Services	**740,424**	712,719	**15,834**	14,262
Inventory	**10,489**	8,694	**–**	–
Dividends	**637,000**	848,000	**–**	–
Interest on loans	**94,707**	111,332	**–**	–
PREměření, a.s.	**108,782**	**108,468**	**272**	**1,418**
Of which: Services	**84,982**	80,459	**84**	625
Inventory	**–**	9	**–**	–
Dividends	**23,800**	28,000	**–**	–
Interest on loans	**–**	–	**188**	793
PREleas, a.s.	**21,563**	**18,099**	**32**	**64**
Of which: Services	**129**	122	**–**	–
Dividends	**20,000**	15,000	**–**	–
Interest on loans	**1,434**	2,977	**32**	64
Total	**2,254,139**	**2,741,341**	**6,559,051**	**5,941,647**

Management of the Company believes that all transactions with subsidiaries were undertaken on an arm's length basis. The Company incurred no loss arising from related-party transactions.

(31) Post Balance Sheet Events

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

Affidavit

We hereby declare that data stated in the Annual Report for the year 2010 comply with the real facts and that no known circumstances, which could affect the accurate and correct assessment of the company Pražská energetika, a.s. (PRE Group), were omitted.

In the accounting period 2001–2004 Pražská energetika, a.s. was audited by the company KPMG Česká republika Audit, spol. s r.o., (ID: 49619187, registered office: Jana Masaryka 708/12, 120 00 Prague 2); for the years 2005–2009 by the company Delloite Audit s.r.o., (ID: 49620592, registered office: Karolinská 654/2, Prague 8). The company became an auditor for the entire PRE Group in 2008.

Jan Doležálek
Date of birth: 23.2.1952
Section Manager Company Executive Office
Responsible for the Annual Report
page 1–100 and 168–173

Roman Tupý
Date of birth: 2.2.1963
Section Manager Company Economy
Responsible for the Annual Report
page 103–167

Pražská energetika, a. s.
Na Hroudě 1492/4
100 05 Prague 10

List of Abbreviations

AMM	Automatic Metering System
B2B	large customer
B2C	small businesses and households
BCPP	Prague Stock Exchange
BTTO	gross
CEP a.s.	Cejchovna elektroměrů Praha a.s., 100% dceřiná společnost / Electricity Meters Gauging Centre Prague, 100% subsidiary
PRE CEP	Centrum energetického poradenství PRE/PRE Energy Advisory Centre
ČENES	Česká energetická společnost/Czech Energy Society
ČSRES	České sdružení rozvodných energetických společností / Czech Association of Power Distribution Companies
DDZ	daily load profile
DLHM	tangible fixed assets
DLNHM	intangible fixed assets
DR	supervisory board
DŘT	dispatching control technology
DS	distribution system
DTS	distribution transformer station
ERÚ	Energetický regulační úřad / Energy Regulatory Office
ES ČR	electrification system of the Czech Republic
ESČ	Elektrotechnický svaz český / Czech Electrotechnical Union
EU	European Union
FNM ČR	Fond národního majetku České republiky / National Property Fund of the Czech Republic
FVE	photovoltaic power station
GIS	geographical information system
GWh	gigawatt-hour
HDO	mass remote control
HMP	Capital City of Prague
Hz	Hertz
CHZ	captive customer
IIR	International Institute for Research
kV	kilovolt
KVET	combined generation of electricity and heating
MF ČR	Ministerstvo financí České republiky / Ministry of Finance of the Czech Republic
MHMP	Magistrát hlavního města Prahy / Prague City Hall
MO	retail
MOO	retail – households
MOP	retail – small businesses
MPO ČR	Ministerstvo průmyslu a obchodu České republiky / Ministry of Industry and Trade
MPSV ČR	Ministerstvo práce a sociálních věcí ČR / Ministry of Labour and Social Affairs
MVE	small hydroelectric power stations
MWh	megawatt-hour
MW	megawatt
MZ ČR	Ministerstvo zdravotnictví ČR / Ministry of Health of the Czech Republic
NN	low voltage
NT	low tariff
OC	business centre
OKO	organized short-term trade
OPM	consumption supply point
OSNE	system for electricity trading support
OK	commercial centre
OTC	over the counter
OTE, a.s.	Electricity Market Operator in the Czech Republic
OZ	eligible customer
OZE	renewable sources
PDS	Distribution System Operator
PEAS	První energetická akciová společnost / First energy joint stock company
PIS	Advisory and Information Centre
PP	Board of Directors

PP, a.s.	Pražská plynárenská, a.s.
PP-H, a.s.	Pražská plynárenská Holding, a.s.
PRE	Pražská energetika, a.s.
PREdi	PREdistribuce, a.s., 100% subsidiary
PRE-H	Pražská energetika Holding, a.s.
PREleas,	PREleas, a.s., 100% subsidiary
PS	Poradenské středisko/Advisory Centre
PS, a.s.	Pražské služby, a.s.
PT, a.s.	Pražská teplárenská, a.s.
PT-H, a.s.	Pražská teplárenská Holding, a.s.
PXE	Pražská energetická burza /Prague Energy Stock Exchange
R	distribution station
REAS	rozvodné energetické akciové společnosti / power distribution joint stock companies
RS	distribution station
SCP	Středisko cenných papírů /Prague Securities Centre
SEVEn	Středisko pro efektivní využívání energie, o.p.s. / Centre for Efficient Utilization of Power, o.p.s.
SPP	SW for electricity sales support
SW	software
TDD	standardized daily load profile
TR	transformer station
ÚED ČR	Ústřední energetický dispečink České republiky / Central Power Dispatching of the Czech Republic
ÚHOS	Úřad pro ochranu hospodářské soutěže / Office for Protection of Competition
VN	high voltage
VVN	very high voltage
VO	large customer
WAN	wide areal network
WEC	world energy congress
ZHMP	Zastupitelstvo hlavního města Prahy / Municipal Authority of the Capital City of Prague
ZC	customer centre
ZL	Call Centre /customer line

Addresses and Contact Data of PRE Group Entities

Pražská energetika Holding, a.s.
ID No.: 26428059
Registered office: Prague 10, Na Hroudě 1492/4
Tel.: 224 826 418
Fax: 224 827 189

Pražská energetika, a.s.
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PREdistribuce, a.s.
ID No.: 27376516
Registered office: Prague 5, Svornosti 3199/19a
Tel.: 267 051 111
Fax: 267 310 817
Internet: www.pre.cz
e-mail: pre@pre.cz; distribuce@pre.cz

PREměření, a.s.
ID No.: 25677063
Registered office: Prague 10, Na Hroudě 2149/19
Tel.: 267 052 254
Fax: 267 052 172
Internet: www.pre.cz
e-mail: mereni@pre.cz

PREleas, a.s.
ID No.: 25054040
Registered office: Prague 10, Limuzská 2110/8
Tel.: 272 702 305
Fax: 272 702 305

Address of the Parent Joint Stock Company, of the PRE Group Members and their Workplaces as at 31.12.2010

	Address	PCN	Telephone, fax
Pražská energetika, a.s.	**Prague 10, Na Hroudě 1492/4**	**100 05**	**267 051 111, 267 310 817**

The Company is registered in the Commercial Register at the Municipal Court in Prague, Section B, File number 2405.
The Company was established for an unlimited period in compliance with the legal order of the Czech Republic, in accordance with Act No. 104/1990 Coll. on Joint-Stock Companies.

web: www.pre.cz	e-mail: pre@pre.cz; poradce@pre.cz	w@p: w@p.pre.cz
ID No.: 60193913		
Tax ID: CZ60193913		
Bank details:	Československá obchodní banka, a.s. Account No.: 4001-0900109423/0300	

	Address	PCN	Telephone
Chief Executive Officer	**Prague 10, Na Hroudě 1492/4**	**100 05**	**267 051 000**
Commercial Director	**Prague 10, Na Hroudě 1492/4**	**100 05**	**267 055 000**
Company Executive Office	**Prague 10, Na Hroudě 1492/4**	**100 05**	**267 051 100**
Internal audit	Prague 10, Na Hroudě 1492/4	100 05	267 051 010
Company Economy	Prague 10, Na Hroudě 1492/4	100 05	267 053 100
Human Resources	Prague 10, Na Hroudě 1492/4	100 05	267 053 200
Legal	Prague 10, Na Hroudě 1492/4	100 05	267 053 300
Informatics	Prague 10, Na Hroudě 1492/4	100 05	267 053 400
Suport Services	Prague 10, Na Hroudě 1492/4	100 05	267 053 500
Group Economy	Prague 10, Na Hroudě 1492/4	100 05	267 053 600 ***(as at 1.2.2011 cancelled)***
Section B2B ***(from 1.2.2011 Sales)***	Prague 10, Na Hroudě 1492/4	100 05	267 054 100
Section B2C	Prague 10, Na Hroudě 1492/4	100 05	267 054 200 ***(as at 1.2.2011 cancelled)***
Trading in Electricity	Prague 10, Na Hroudě 1492/4	100 05	267 053 700
Sales Support ***(from 1.2.2011 Sales Development)***	Prague 10, Na Hroudě 1492/4	100 05	267 055 100
Development and Strategy ***(from 1.2.2011 Customer Services)***	Prague 10, Na Hroudě 1492/4	100 05	267 053 410
Information for PRE Shareholders	Prague 10, Na Hroudě 1492/4	100 05	267 051 101

	Address	PCN	Telephone
PRE Customer Centre	**Prague 1, Jungmannova 36/31**	**101 00**	**267 056 363**
	Prague 4, Vladimírova 18	**140 00**	**267 054 230**
	Prague 9, Ocelářská 5a/659	**190 00**	**267 054 240**
Energy Advisory Centre (CEP)	**Prague 1, Jungmannova 28**	**101 00**	**267 055 555**
PRE Call Centre	**Prague 10, Na Hroudě 1492/19**	**100 05**	**267 055 555**
PRE Information for Press	**Prague 10, Na Hroudě 1492/4**	**100 05**	**267 051 102**
PREdistribuce, a.s.			
Director	Prague 10, Na Hroudě 1492/4	100 05	267 052 000
Network Administration	Prague 5, Svornosti 3199/19a	150 00	267 052 100
Network Management	Prague 2, Nitranská 2226/1	120 00	267 052 200
Network Operation	Prague 9, Novovysočanská 696/3	190 00	267 052 300
Network Assets Management	Prague 5, Svornosti 3199/19a	150 00	267 052 400
Access to Network and Regulation ***(from 1.2.2011 Access to Network and Economy)***	Prague 10, Sokolská 1264/7	120 00	267 052 500
Distribution Processes Support	Prague 2, Na Hroudě 1492/4	100 05	267 052 600 ***(as at 1.2.2011 cancelled)***
Emergency Services	Prague 2, Kateřinská 9	120 00	224 915 151
	e-mail: poruchy@pre.cz		
PREměření, a.s.	**Prague 10, Na Hroudě 2149/19**	**100 05**	**267 052 254**
PREleas, a.s.	**Prague 10, Limuzská 2110/8**	**109 00**	**272 702 305**

Notes

Notes