PRE

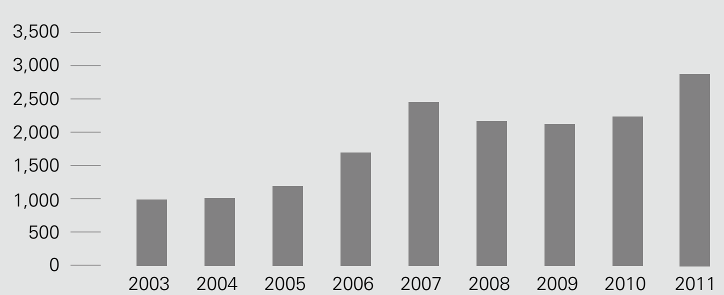
PRE Group / Annual Report 2011

Selected Financial, Trading and Technical Indicators

Selected Financial Indicators from the Consolidated Financial Statements

	Unit	**2011**	2010	2009	2008	2007	2006	2005	2004	2003
Total assets	**MCZK**	**20,019**	**18,395**	**19,441**	**18,296**	**15,222**	**13,680**	**12,635**	**12,233**	**11,208**
Fixed assets	MCZK	**17,190**	16,043	14,934	13,935	12,995	12,257	11,764	11,330	10,022
of which: tangible fixed assets	MCZK	**16,929**	15,806	14,700	13,703	12,698	12,085	11,569	11,120	9,809
of which: assets for distribution	MCZK	**14,864**	13,878	12,877	11,864	10,933	10,248	9,800	9,800	9,800
Depreciation of tangible and intangible fixed assets	%	**40**	39	40	40	41	41	41	40	38
Current assets	MCZK	**2,829**	2,353	4,507	4,361	2,227	1,423	871	903	1,186
Total liabilities	**MCZK**	**20,019**	**18,395**	**19,441**	**18,296**	**15,222**	**13,680**	**12,635**	**12,233**	**11,208**
Equity	MCZK	**12,533**	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	3,869
Long-term liabilities	MCZK	**1,877**	3,159	4,234	2,985	1,589	1,683	1,653	1,587	1,276
Short-term liabilities	MCZK	**5,609**	3,717	3,792	3,504	2,077	1,413	1,228	1,343	1,523
Total income (without turnover of fin. operations)	MCZK	**20,789**	20,289	20,761	19,062	16,728	14,158	12,267	11,188	10,342
of which: income from electricity sold	MCZK	**20,469**	19,984	20,366	18,879	16,533	13,947	12,141	11,009	10,025
Total costs (without turnover of fin. operations)	MCZK	**(17,165)**	(17,422)	(17,980)	(16,273)	(13,780)	(11,823)	(10,666)	(9,883)	(8,986)
of which: costs of electricity sold	MCZK	**(14,210)**	(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	**(904)**	(862)	(811)	(740)	(740)	(688)	(834)	(877)	(611)
Net cash flow from investment activity	**MCZK**	**(1,866)**	**(1,894)**	**(1,849)**	**(1,764)**	**(1,376)**	**(1,255)**	**(1,434)**	**(1,503)**	**(878)**
Profit from ordinary activity before tax	**MCZK**	**3,578**	**2,791**	**2,682**	**2,730**	**2,978**	**2,336**	**1,586**	**1,287**	**1,243**
Profit from ordinary activity after tax	**MCZK**	**2,881**	**2,246**	**2,144**	**2,170**	**2,457**	**1,693**	**1,198**	**1,027**	**979**
Net profit from per share	**CZK**	**745**	**580**	**554**	**561**	**635**	**438**	**304**	**254**	**242**
EBIT	MCZK	**3,663**	2,880	2,781	2,757	2,993	2,352	1,608	1,303	1,270
EBITDA	MCZK	**4,567**	3,742	3,591	3,497	3,732	3,040	2,442	2,180	1,881

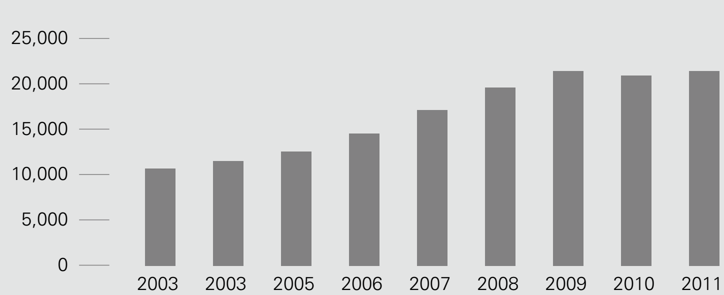
Profit after Tax PRE Group (MCZK)



Other indicators

	Unit	**2011**	2010	2009	2008	2007	2006	2005	2004	2003
Gross distributed electricity	GWh	**6,310.7**	6,450.5	6,339	6,373	6,172	6,085	5,842	5,667	5,500
Total active power costs	GWh	**6,621**	6,828	6,686	6,846	6,608	6,395	6,028	5,813	5,479
of which: compulsory purchase	GWh	**0**	0	0	0	32	29	57	251	207
Total number of consumption points as at 31.12.	number	**687,601**	721,681	744,539	728,235	721,740	716,541	703,499	697,143	688,498
of which: large customers	number	**2,190**	2,202	2,221	2,184	2,108	2,139	1,997	1,924	1,859
retail small businesses	number	**134,643**	132,099	141,980	136,916	135,455	135,566	130,804	128,347	125,579
retail households	number	**550,768**	587,380	600,338	591,400	584,177	578,836	570,698	566,872	561,060
Total length of networks	km	**11,901**	11,781	11,679	11,552	11,544	11,229	11,229	11,197	11,180
of which: VHV	km	**202**	202	202	206	196	196	196	196	194
HV	km	**3,863**	3,829	3,780	3,701	3,670	3,476	3,556	3,581	3,633
LV	km	**7,836**	7,750	7,693	7,645	7,678	7,557	7,477	7,420	7,354
Average recalculated number of the Group employees (consolidated)	persons	**1,338**	1,314	1,332	1,338	1,391	1,392	1,398	1,440	1,456

Total Revenues PRE Group (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 on the licensed territory,
- by using the latest technologies and procedures it fully meets the requirements and expectations of its customers,
- the Group's strategic focus responds to 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 other key partners.

PRE Group Strategic Vision – 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 the Capital City of Prague and its vicinity; a Company that is economically and socially responsible to shareholders, citizens, customers and employees.

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

Contents

Changes which have occurred since the end of the accounting period (31.12.2011) to the deadline for the issue of this Annual Report (31.3.2012) are marked in ***bold italics.***

Introduction

The PRE Group consists of the parent company and three further stated 100% subsidiaries – controlled entities.

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.: 840 550 055, 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 the distribution system equipment, ID No.: 27376516, Prague 5, Svornosti 3199/19a, tel.: 840 550 055, 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 generation, commercial activities related to connection and repair or modification of a new or existing consumption point, services in the field of photovoltaic power plants servicing, thermovision measuring of heat leakage from buildings etc., ID No.: 25677063, Prague 10, Na Hroudě 2149/19, tel.: 840 550 055, 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 approx. 690,000 consumption points is the third largest electricity supplier in the Czech Republic. Currently it employs about 1,338 employees; in 2011 it supplied to its customers approx. 6.3 TWh of electricity on all voltage levels and achieved a total consolidated net profit in the amount of 2.88 billion CZK.

Among the PRE Group's main activities belong the sales, 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.

Lucie Festrmajerová – Customer Centre

The department carries out activities related to connection to the DS and ensuring energy input based on customers' requirements. It administers contracts with customers (arranges contracts, customer records, consumption points, arranges installation and servicing of metering equipment).

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; extended to 16.1.2017)**
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 17.5.2035)**
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 for PRE, 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 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 above all the independence and responsibility of employees in the sphere of services 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 of 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 strategic topics.

Main Events of the Year

January

5 photovoltaic power plants, operated by the subsidiary PRE měření, a.s., commissioned under an awarded electricity generation licence,

February

- 2nd anniversary of the re-opening of the Technical and Documentary Museum of Prague power supply in its new premises in the Holešovice substation,
- the first recharging station for electric cars at OC Chodov shopping centre put into operation,

March

- election of an employee representative to the parent Company's Supervisory Board,

April

- a week of electric mobility held from 4–11 April in the Capital City,
- the second stage of the investment plan for the "Reconstruction of the R 110 kV Třeboradice Transfomer Station" approved,

May

- 6th annual conference "Energy Day" – attended by more than 200 B2B segment customers,
- General Meetings of the 100% owned subsidiaries – all showed an economic profit in 2010,

June

- Technical and Documentary Museum of Prague power supply included for the third time in the "Prague Museum Night" Project,
- ordinary General Meeting of the parent company – detailed information in a chapter entitled "Information on General Meetings held in 2011",

July

- the PRE – "PREkolo" specialised electric bike rent service fully launched,

August

- 2nd anniversary of the opening of the Centrum energetického poradenství PRE (CEP PRE) (PRE Energy Advisory Centre) in the street Jungmannova 29,

September

- the massive autumn retention campaign "Autumn 2011" launched,
- election of an employee representative to the parent company's Supervisory Board,

October

- the two millionth customer called the Customer Line,
- PRE hosted 36 participants of the NTP (Network Twinning Programme) – a meeting of colleagues from distribution companies in Germany, France, Hungary and Slovakia,

November

- work meeting of section managers with the Group's Top Management,
- the Board of Directors received a letter from Pražská energetika Holding a.s. in which this shareholder informs that it is interested in the shares purchased from small shareholders during the delisting process (repurchased at the end of the month),
- completion of the laying of cable at 110 kV Pankrác – Karlov substation,

December

- completion of the delisting process (factually and financially),
- 9 electric car charging stations put into operation in the capital city at the end of the year,
- decision to acquire 2 photovoltaic power plants in Hořovice, Kondrac),
- the branch of the Balabenka Customer Centre closed and all activities moved to the Adria Customer Centre,
- the site acquired of ETT Energetika, a.s. in Prague 9 Vysočany – PREdistribuce, a.s.

Board of Directors' Report on Business Activities and Assets

PRE Group

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

The subsidiary PREměření, a.s. carries out metering services, i.e. purchase, calibration, installation of electricity meters and their regular readings (gas and heat). The company also secures electricity generated from renewable sources as the power generation licence holder, and offers new services as of 2011 such as a photovoltaic power service, thermovision readings for heat escaping from buildings, and so on.

The third and last subsidiary PREleas, a.s. provides intercompany leasing services.
Pražská energetika, a.s. and its legal predecessors have existed for 115 years now. The joint stock company emerged in its present form from the transformation of the state enterprise of the same name in 1994.

Shareholders

In accordance with the provision of Section 186a of the Commercial Code, the ordinary General Meeting of Pražská energetika, a.s. (PRE) decided on 22 June 2011 to remove subscriber securities (2,553,831 PRE common registered non-certificated shares of the nominal value of 1 share per CZK 1,000, ISIN CZ0005078154) from trading on the regulated market (Burza cenných papírů Praha, a.s. / Prague Stock Exchange) and from the market of the company RM-SYSTEM, a.s.). Pražská energetika, a.s., subsequently presented a public draft agreement to those shareholders who did not vote for the removal of the Company shares from trading on the regulated market or did not attend the ordinary General Meeting and did not relinquish the right of their sale to PRE.

In this way and for the abovementioned reason PRE acquired from the shareholders in two waves (November, December 2011) a total of 6,634 own shares of a total nominal value of 6,634,000 CZK for CZK 8,000 per share of the nominal value of CZK 1,000, i.e. for the total price of CZK 53,072,000 which represents a 1.372% share of PRE's registered capital.

The removal of the PRE shares from trading on the regulated market came into effect as of 1 December 2011.

On 28 December 2011 PRE and the shareholder - Pražská energetika Holding a.s. - settled the sale of 6,634 PRE shares of a total nominal value of CZK 6,634,000 for the total price of CZK 53,204,680, i.e. CZK 8,020 per share of a nominal value of CZK 1,000 which completed the delisting process. Therefore, at the start and close of the accounting period PRE did not own any of its own shares.

Economic results in 2011

The expectations for 2011, which were to continue with the positive economic results of the previous year with an increase in demand and growth of GDP by about 3%, were not met. The economy developed more slowly than expected; the main cause of this was due to external factors – especially the Euro zone crisis. Despite this Pražská energetika a.s. financial management was very successful in 2011. The PRE Group achieved a consolidated net profit of MCZK 2,881 which was a MCZK 635 increase compared with the previous year. The result of the adjusted EBIT saw a year-on-year MCZK 516 rise to MCZK 3,397.

Pavel Elis
Chairman
of the Board of Directors

The main reasons of such a good result were a year-on-year increase of the margin and consistent control of expenses, above all overhead expenses. A positive trend in the gross margin had an impact on the fall of spot prices, successful exchange rate hedging, restructuring of selected selling tariffs and a fall in power grid losses in distribution. In operating costs there was a year-on-year increase in the extent of repairs to the distribution networks; there was an increase in costs spent on the "Podzim 2011" (Autumn 2011) marketing campaign. The average wage in accordance with the Collective Agreement increased year-on-year by 2.9%.

The remaining profit and loss (as a further item of the profit and loss account) significantly affected the achieved profit. This usually involves a negative balance of about MCZK 100 especially consisting of a depreciation of irrecoverable debts and additions to reserves. In 2011 the result was a positive balance particularly due to the accounting of reserves (MCZK 221) for a legal dispute with ČEZ, a.s. dating back to 2001 which, after protracted legal proceedings, ended with an out-of-court settlement. The sale of unused distribution assets also contributed to the positive balance of this item with a profit of MCZK 52.2.

The PRE Groups' net operating cash flow in 2011 reached the value of MCZK 3,784 (in 2010 it was MCZK 3,970).

The Group's long-term consolidated assets increased since the start of the year by MCZK 1,148. Implemented investment construction was worth MCZK 2,109; for the most part this was an investment made into the distribution networks. It involved completion of the laying of 110 kV cable between TR Karlov and TR Pankrác, completion of the first stage of the reconstruction of TR Letňany, completion of the reconstruction of R 110 kV in TR Holešovice and restoration of the 63 MVA transformer in TR Střed. The Bohdalec cable tunnel was also completed and work began on the Slavia cable tunnel. Four disconnecting stations were reconstructed. The local important distribution system (including the Východ 110 kV substation) in the former site of ČKD Vysočany was connected to the distribution grid at the end of last year. The main purpose of the investments was to achieve a highly reliable supply and satisfy the demands of newly connected customers.

Short-term assets have increased since the start of the year by MCZK 476 to MCZK 2,829. Among other things, there was also an increase of matured receivables; the receivables from the revaluation of currency derivatives were increased by more than MCZK 200 which the PRE Group used to provide advance security for almost the entire need for foreign currency required for the purchase of electricity in 2012. As a consequence of the amendment to the VAT Act, there was an increase in tax receivables by CZK 180 (as of 2011 an enterprise can claim VAT at entry only after delivery of a tax document).

Long-term payables decreased in 2011 by a total of MCZK 1,281 to MCZK 1,878. The reason for this significant decrease of their value was, above all, the reclassification of long-term bank loans due in 2012 in the amount of MCZK 1,211 to short-term payables and a decrease in reserves.

The total value of short-term payables increased by MCZK 1,892. The reason was the abovementioned reclassification of long-term loans to short-term payables, increase in the balance of selected advances on electricity by MCZK 269 and temporary increase of payables connected with investments at the end of December 2011 which were settled in January 2012.

Despite the good results, PRE's management is looking for new possibilities of increasing efficiency, in order to continue to face the strengthening competition in the sector and the increasing pressure from regulation. Among the most important activities in this area are:

Podzim 2011 Marketing Campaign:

- Customers, who signed electricity supply contract for a further two years and accepted the amended business terms and conditions, were provided with a one-off signature premium and electricity price discount of 10% to the end of 2011.
- All customers were provided with a 10% electricity price discount for September and October 2011.
- This marketing campaign was extraordinarily successful; the new contracts were signed by more than 30% of customers which contributed to limiting the risk of customers churning to join different electricity suppliers.

Gas sales:

- PRE acquired the first customers for gas supply and provided the first gas supply at the end of 2011.

The system of operative management of work crews in distribution (Work Force Management):

- The successful implementation of this system in cooperation with colleagues from EnBW Regional made it possible to increase the efficiency and quality of the work carried out in network maintenance.

Strategic projects:

- Investments in the generation of electricity from renewable sources. There were two new acquisitions at the end of 2011 – further photovoltaic sources were procured in addition to the existing photovoltaic power plants of a total output of 2 MW at Kondrac near Vlašim and Hořovice.
- Entry in the market of the smaller service works segment; this involves work for connecting customers to the distribution network, thermovision metering of technologies and buildings, revision and service works on customer-owned technologies.
- Acquisition of local distribution systems – PREdi took over the local distribution system of Lipence and ČKD Vysočany.

MOST Project:

- In 2011 work continued on the joint PRE and EnBW MOST (BRIDGE) Project aimed at the exchange of know-how between both companies in order to achieve common synergy. Significant successes were achieved in purchase, networks and ICT services. The trial operation of IT services for the EnBW Group was launched.

Fit For Future II Project

- The Fit For Future II Project was launched which aims to simplify and make internal processes more effective, optimise the use of long-term assets and ensure further increased performance in cooperation with the project teams of the EnBW concern's Fokus II Project.

Trading

The gas and electricity trading market developed dynamically in 2011. Almost 450,000 households (by 200,000 more than in 2010) changed their electricity supplier. Over 360,000 customers changed their gas supplier which is a four-fold increase compared with 2010. This became a welcome change and extended means of optimising the expenses of households, small businesses and industrial enterprises.

In terms of the purchase of electricity, there was a change in the portfolio of suppliers. Electricity purchased from terminated medium term contracts with power companies Energotrans, a.s. and Elektrárny Opatovice, a.s. were replaced by supply from different market suppliers. Normal customer consumption fluctuation was secured by medium-term and operative electricity trading on the wholesale market in order to minimise total electricity purchase costs.

The total volume of sales to large customers connected to the HV and VHV networks exceeded the volume of 2010 by 2% and was a record year in PRE's history for this segment.

The activities of competitors in the large customer segment were constantly high; in view of the fact that customers often organised tenders associated with the real or expected trend in prices on the power exchange market – the achieved result can be considered an extraordinary one. A significant change in this segment was the extension of spectrum of commodities offered to include gas supply. The volume of supplies outside PREdi's distribution territory exceeded 1 TWh and rose year-on-year by 15%. The activities in the small business/household segment were marked throughout the year by the quality improvement of services and offer of new innovative products/offers to customers. The Company carried out several organisational measures in this segment, above all due to the bad practices used by alternative salesmen culminating in the introduction of a new sales activity management system. In the first half of the year a new structure Komfort/Aktiv products was launched for sales associated either with a fixed constant payment or price of active power for 2 or 3 years. According to the classic communication channels (Call Centre and Customer Centre) new sales channels were introduced and tested in this customer segment. A sales retention campaign called "Podzim 2011" was held at the end of the year.

The Energy Advisory Centre in the street Jungmannova can be described as an extraordinary success which, due to its attractive topics for specialised exhibitions, lectures and cultural activities, has registered an annual increase of visitors. The Company also wants to be the leader of the E-mobility Project in the Capital City (in cooperation with Prague City Council).

Being aware of its social responsibility Pražská energetika, a.s., prefers to purchase electricity from renewable sources in the green bonus regime. Cooperation in green energy continued with Povodí Vltavy, s.p. A significantly higher supply was also secured from biogas stations; the volume of secured green electricity for customers reached 185 GWh (almost 30% more than in the previous year). The share of electricity from renewable sources in the total quantity of procured electricity increased to almost 3% compared with 2% in 2010.

PREdistribuce, a.s.

For the subsidiary PREdistribuce, a.s. 2011 ended as the sixth year of its independent existence. The distribution system consists of a system of 110 kV outdoor and cable lines of 202 km in length, 22 kV lines (3,863 km) and 0.4 kV lines (7,836 km), 110/22 kV (24) transformer substations and 22/0.4 kV (4,839) grid transformer stations. A total of 507 employees maintained all the distribution equipment, performing high quality work to a high professional standard. Among the main tasks of the employees was the planning of the development and renovation of the distribution equipment, connection of new customers, metering of the electricity supplied to the VHV and LV networks and delivery of data for the billing of distribution services and supplies to the Electricity Market Operator. The Company also manages the grid assets and operations, and services and handles faults including planned repairs and maintenance of the grid according to the regulations of preventive maintenance.

Last year the so-called Work Force Management (WFM) system was introduced for the need to manage field grid operation work crews. When selecting a suitable management system the experience was applied of EnBW Regional in Stuttgart which had decided to use this system earlier. The WFM system was put into trial operation on 1 January 2011; then into routine operation on 1 June 2011. Currently the system is working and all crews are managed from a centre while the information is passed on directly from the field – about handling and operating the networks on-line on the one hand and about the condition of the grid to the dispatching centre on the other hand, or directly to their supervising work manager.

No system breakdowns or significant breakdowns of electricity supply occurred in the distribution network on the licensed territory of Prague and Roztoky u Prahy last year. The network worked reliably throughout the year; quality standards were met and the level of services makes PREdistribuce, a.s. the most reliable electricity distributor in the Czech Republic. No system failure was registered during the year in the subsidiary's distribution networks which could have been caused by inadequate maintenance of the network and its elements. The operational results of the entire distribution system confirmed the trend in the fall of the power distribution failure rate in the Capital City.

PREměření, a.s.

This subsidiary met its planned objectives during the year. The focal point of its business is providing services to PREdistribuce, a.s. in the purchase and installation of electricity meters and their calibration as well as providing a meter reading service. The company continued to provide this service to its long-term partners Pražská plynárenská distribuce a.s. and Pražská teplárenská, a.s. The company began to gain a more significant profile in services for external subjects. This particularly involved newly introduced services – extension of work offered on consumption points, review of the LV network, review of transformer stations, photovoltaic power service and thermal vision. A substantial part of the creation of profit in the subsidiary's assets comes from the generation of electricity from renewable sources. Besides the generation of electricity from renewable sources, the subsidiary continued to develop further strategic themes during the year – the automatic metering (AMM) project. A total of 2,500 electricity meters were installed as part of the pilot project of this "smart" system. Essential technologies of data transmission and processing centre, including the automated data transmission to billing systems, were put into operation.

Dear shareholders, allow me, on behalf of the Board of Directors, to thank all the customers and employees of the PRE Group, shareholders and suppliers for their trust and cooperation in 2011 and for their contribution to the Group's good results.

Pavel Elis
Chairman of the Board of Directors

Alexander Sloboda
Vice Chairman of the Board of Directors

Statutory Bodies and the PRE Group Management

Board of Directors as at 31.12.2011

Pavel Elis
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 1996–5/2011), from 5/2011 Chairman of the Board of Directors; 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 | Graduate of Vocational College. In 1988–1992 he worked at Stadtwerke Wiesbaden AG - power industry; in 1993–1997 at Rhenag Rheinische Energie AG, Headquarters – management of property participations; 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 member of EnBW Transportnetze AG Supervisory Board, from 1/9 /2010 member of PREměření, a.s. Supervisory Board, from 8/9 2010 Chairman of PREměření, a.s. Supervisory Board, from 1/2011 member of PREdistribuce, a.s. Supervisory Board; from 10/2010 member of PRE-H Board of Directors | Date of birth: 14.3.1963 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Milan Jančík
Vice Chairman | 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; in 2002–2010 he was the Mayor of this municipal district. At present he is a private entrepreneur. | 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

Marcus Bort
Member (from 1.11.) | Graduate of Hochschule Mannheim (process engineering) | In 1991–1999 working at Linde AG (various positions in sales, engineering and commissioning of petrochemical plants and cryogenic air separation plants in national and international projects) | Since 1999 at EnBW working in different management positions in the field of energy services | Currently Executive Director and spokesman of the Executive Board of EnBW Energy Solutions GmbH, responsible for strategy, projects and communication | Date of birth: 17.7.1965 | Address: EnBW AG, Durlacher Allee 93, D-76131 Karlsruhe, Germany

Marián Čalfa
Member (from 1.11.) | Graduate of Charles University Law Faculty in Prague | In years 1970–1972 a lawyer at the Czech Press Agency |1972–1988 an employee of the Presidium of the Czechoslovak Federal Government | 1992–2011 lawyer | As a practising lawyer he specialised in providing legal services for the Czech energy sector, particularly in Prague | A long-term advisor in legal issues concerning the legal regulation of the Company's activity in the corporate area | Date of birth: 7.5.1946 | Address: Dieselova 250, 109 00 Prague 10
On 21 February 2012 Marián Čalfa announced his resignation from the office of member at the meeting of the Board of Directors. The Board of Directors decided (in accordance with Article 18 (3) of the Company´s Article of Association) that his mandate ends on 21 April.

Supervisory Board as at 31.12.2011

Petr Hulinský

Chairman | Graduate of the Police Academy of the Czech Republic specializing in corruption and bribery in the field of criminal law | Member 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 | 2002–2010 Pražská teplárenská Holding, a.s., member of the Supervisory Board | 2002–2012 Everen Sp. Z.o.o., Warsaw, Poland, member of the Supervisory Board | 2006–present PREdistribuce, a.s., Vice Chairman of the Board of Directors | 2007–2010 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

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

Member | Graduate of Bayreuth University, (business economics 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 (purchasing department – team leader for electrotechnology/electronics); 10/2000–02/2005 McKinsey&Company, Inc., Cologne and Zagreb/Croatia (project manager); from 2/2005 until today EnBW AG, Karlsruhe (2/2005–12/2007 Head of Purchasing; 7/2006–6/2009 Executive Director of EnBW Systeme Infrastruktur Support GmbH; from 01/2009 until today Senior Vice President corporate development; from 1/2008 until today assistant lecturer at Bayreuth University (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

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 a 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 Budapest 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 he was a head of the main department of network services at EnBW Regional AG, Stuttgart, from 2009 a head of concern controlling at EnBw, Karlsruhe, Germany. | Date of birth: 27.8.1961 | Address: Durlacher Allee 93, 76131 Karlsruhe, Germany

On 17 February 2012 the secretary of the Supervisory Board received notice from Martin Konermann of his resignation from the office of member of the Supervisory Board. His tenure ended (in accordance with Section 66 (1), Act No. 513/1991 Coll., the Commercial Code and Article 25 (2) of the Company´s Articles of Association) on the day when the Supervisory Board discussed his request, i.e. on 24 February.

Martin Langmajer

Member | Three years of studies at the Czech Technical University, Faculty of Mechanical Engineering, two years at the 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. In 2003–2011 he was Chairman of Kolektory Praha, a.s. Supervisory Board; member of PREdistribuce, a.s. Board of Directors (from 2006). | Date of birth: 20.12.1964 | Address: Tichonická 1017/30, 104 00 Prague 10

Petr Dolínek (from 22.6.)
Member | Two years of studies at the Faculty of Humanities; then three years of studies at FF UK – Politology | In 1999–2002 head of secretariat of Young Democrats ČSSD (Mladí demokraté ČSSD); in 2003–2004 Thomson Multimedia ČR; 2003–2010 entrepreneur | In 2004–2006 Ministry of Education, Youth and Sports; 2010–present MHMP | Date of birth: 27. 3. 1981 | Address: MHMP, Mariánské náměstí 2, 110 00 Prague 1

Drahomír Ruta
Member | Graduate of the Faculty of Electrical Engineering ČVUT – Czech Technical University, in the energy sector worked from 1970 | Chairman of the Board of Directors of the Company from 1/1995–10/2010; Chairman of the Board of Directors of PREleas, a.s., (1996–5/2011), member of ČSZE Board of Directors (until 2010), member of PREdistribuce, a.s. Supervisory Board, (2006–2010). | In the period of 2002–3/2003 he was 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 | In PRE since 1984; she first worked in the section of the Group Economy, payroll clerk (until 30.9.2006); from 1.10.2006 Company Executive Office Section, PR Department. | Date of Birth: 7.5.1958 | 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 10

Ivana Grafnetrová
Member | Graduate of the Secondary School of Electrical Engineering in Resslova Street | In PRE since 1984; firstly 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

Irena Potěšilová (from 7.9.)
Member | Graduate of the University of Economics in Prague | in 1985–1992 Research Institute of Food Industry, Prague. In PRE from 1999, Methodology and Statistics Department; from 2002 Manager of Methodology and Taxes Department | Date of birth: 24.2.1963 | Address: Na Hroudě 1492/4, 100 05 Prague 10

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

Miroslav Poche (until 22.6.)
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. 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: Velehradská 1735/28, 130 00 Prague 3

Diana Stuchlíková (until 5.9.)
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 1.3.2008 Manager of Methodology and Support of FO Department; from 1.2.2011 Manager of Customer Data Administration Department | Date of birth: 27.5.1964 | Address: Na Hroudě 1492/4, 100 05 Prague 10

Senior Management of the Parent Company as at 31.12.2011

Pavel Elis
Chief Executive Officer

Alexander Sloboda
Commercial Director

Directors of 100% subsidiaries as at 31.12.2011

Milan Hampl
PREdistribuce, a.s

Aleš Staněk
PREměření, a.s.

Jaroslav Oliva
PREleas, a.s.

Milan Hampl

Pavel Elis

Alexander Sloboda

Aleš Staněk

Risk Management System in the PRE Group

The risk management system in the PRE Group is planned on a two-level arrangement.

The risk management system in 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. In the next step consequently the consolidation of risks within the PRE Group is carried out. The PRE Group Risk management Committee then discusses the risks based on the Overall Consolidated Report on Risk Management and stipulates the strategy of risk management in relation to 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 belong to the basic attributes 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 and also in the group of other risks.

Monitored risks are projected with regard to their expected level of impact and relative frequency. Specific indicators such as VaR, CFaR, maximum imminent 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 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 catalogue. The Risk Management closely cooperates with the PRE Group internal audit and thereby helps to identify the key interest areas.

In 2011 the PRE Group risk management system was incorporated into the corporate risk management system in the EnBW Group. The monitored risks are reported under the rules of the EnBW Concern through a uniform structure of reports and in periods laid down by the risk management rules of the EnBW Concern. Risk reporting is supported by a uniform IT platform. The further development of the risk management system is based on the results of the ongoing cooperation within the EnBW Shareholder Group using the shared know-how in this area.

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 management system of health and safety at work **"Bezpečný podnik"**.

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. During the year, in cooperation with EnBW specialised departments, work began on incorporating the internal control system of the PRE Group into the internal control system of EnBW.

Kamila Böhmová – Customer Line

The department provides information to customers and carries out advisory work; it organises telemarketing campaigns in cooperation with other departments. It is engaged in settling administrative actions, claims, complaints and other requests for making changes and settling correspondence; it answers telephone, fax, email and written submissions, settles requests entered via the e-portal.

Review of the PRE Group History Milestones

As part of the Group's long-term strategy in electricity generation, it was decided to acquire 2 photovoltaic power plants (Hořovice and Kondrac).

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 (Středočeské energetické závody) n.p. (STE) and the Prague District Administration,

1965 • foundation of the Prague Distribution Enterprise within STE, n.p.,

1982 • the Prague Electricity Works (Pražské energetické závody, k.p.), acquire the status of an independent company within ČEZ Syndicate (České energetické závody) by a 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 repercussions of the August floods,

2003 • 100% subsidiary PREmont LHOTKA, a.s. sold to a Belgian firm Fabricom S.A.,

2004 • in accordance with the European legislation the Company "unbundling" process was started, i.e. the separation of regulated and unregulated activities which means actual division of the 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 a part of the "Together for Prague" Project,

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 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 its activities, 100% 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),
- historically maximum load profile of the distribution network (1,209 MW) was achieved on 1.12.2010 at 2.00 pm.

2011
- 7 photovoltaic power plants of PRE měření, a.s. were commissioned under an awarded electricity generation licence thereby launching the Group's activities in this area of electricity generation,
- as part of the Group's long-term strategy in electricity generation, it was decided to acquire 2 photovoltaic power plants in Hořovice and Kondrac),
- the ordinary general meeting decided to cancel publicly tradable shares,
- on 28 December the delisting process (purchase of shares from small shareholders) was formally completed with the settlement of the transaction between PRE and PRE-H,
- acquisition of the ETT Energetika site in Prague 9 Vysočany – PREdistribuce, a.s.

Brief History and Current Situation in the Electricity Sector

The year 2011 was the second 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.

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 industry and they are continuously subject to changes (in the period of last one or two years, as typical examples in this context may be mentioned photovoltaic power plants – unpredictable system of subsidies and also low prices of permissions, increasing output of wind parks without any control etc.).

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 – licence.

A regulated third party access to grids (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 grids. 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 2011 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 (Russia) and IBERDROLA (Spain). However ČEZ, E.ON and PRE continue to maintain their position as the biggest suppliers to end customers.

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.

More frequently there was a 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 2011 was the second 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 levels still remained different, but their level was 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 2011

In 2011 all electricity customers, just as before in 2006–2010, had the opportunity of selecting their supplier upon their own discretion (Act No. 458/2000 Coll.). This year was also the second 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 2010. 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 norms were issued during the year:

- Act No. 211/2011 Coll. of 9 June 2011 which amends Act No. 458/2000 Coll. on business conditions and public administration in the energy sectors and on amendment of other laws (the “Energy Act”), as amended, and other related laws – in force as of 18 August 2011,
- Act No. 299/2011 Coll. of 6 September 2011 which amends Act No. 406/2000 Coll. on energy management, as amended, and Act No. 458/2000 Coll. on business conditions and public administration in the energy sectors and on amendment of other laws (the “Energy Act”), as amended – effective as of 13 November 2011,
- Decree No. 62/2011 Coll. of 7 March 2011 on the conditions of connection to the gas system and on the amendment to the Decree of the Ministry of Industry and Trade No. 251/2001 Coll. which lays down the rules of the operation of the transmission system and distribution systems in the gas industry – effective from 1 April 2011,
- Decree No. 82/2011 Coll. of 17 March 2011 on electricity metering and way of determining compensation for damage due to unauthorised consumption, unauthorised supply, unauthorised transmission or unauthorised electricity distribution – effective from 1 April 2011,
- Decree No. 108/2011 Coll. of 14 April 2011 on gas metering and on the way of determining compensation for damage due to unauthorised compensation, unauthorised supply, unauthorised storage, unauthorised transmission or unauthorised gas distribution – effective from 1 May 2011,
- Decree No. 210/2011 Coll. of 1 July 2011 on the extent, requirements and dates of billing supplies of electricity, gas or thermal energy and related services – effective from 15 December 2011,
- Decree No. 371/2011 Coll. of 30 November 2011 which amends Decree No. 541/2005 Coll. on electricity market rules, principles of pricing for the activity of the electricity market operator and some other provisions of the Energy Act, as amended – effective from 6 December 2011,
- Decree No. 392/2011 Coll. of 1 December 2011 which amends Decree No. 426/2005 Coll. on details concerning the award of licences for business in the energy sectors, as amended – effective from 27 December 2011,
- Decree No. 393/2011 Coll. of 5 December 2011 which amends Decree No. 140/2009 Coll. on the method of price regulation in the energy sectors and price regulation procedures, as amended by Decree No. 264/2010 Coll. – effective from 12 December 2011,
- Decree No. 396/2011 Coll. of 5 December 2011 which amends Decree No. 545/2006 Coll. on the quality of gas supplies and related services in the gas industry – effective from 1 January 2012,
- Decree No. 442/2011 Coll. of 16 December 2011 which amends Decree No. 365/2009 Coll. on gas market rules, as amended by Decree No. 370/2010 Coll. – effective from 1 January 2012,
- Energy Regulatory Office Price Decision No. 3/2011 of 26 September 2011 which amends Energy Regulatory Office Price Decision No. 6/2010 of 29 December 2010 which amends Energy Regulatory Office Price Decision No. 4/2010 of 30 November 2010 which lays down prices of regulated services related to electricity supply,
- Energy Regulatory Office Price Decision No. 4/2011 of 21 November 2011 on prices of regulated services related to gas supply,

- Energy Regulatory Office Price Decision No. 5/2011 of 21 November 2011 which lays down the prices of regulated services related to electricity supply,
- Energy Regulatory Office Price Decision No. 6/2011 of 21 November 2011 which lays down the prices of regulated services related to electricity supply to customers connected to low voltage networks,
- Energy Regulatory Office Price Decision No. 7/2011 of 23 November 2011 which lays down support for electricity generation from renewable energy sources, combined heat and power and secondary energy sources,

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

- the parent company was the electricity licence holder from 1.1.2002 to 16.1.2007 under the ERÚ Decision of 14.8.2001. It received a licence on 21.11.2006 for the next period from 17.1.2007 to 16.1.2012. On 17.1.2007 the licence was extended until 16.1.2017.
- PRE was also an electricity distribution licence holder under the ERÚ Decision of 26.10.2001; in the period from 1.1.2002 to 31.12.2005 (in the ERÚ Decision on the granting of a licence the period of its validity is set to last until 16.1.2027). 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 1.1.2006. This company is the holder of the electricity distribution licence for the period of 1.1.2006 to 1.1.2031.
- PREm was granted an electricity production licence under the ERÚ Decision on 14.12.2010 which is in force until 17.5.2035 (this concerns electricity production at photovoltaic power plants Jinonice, Lhotka, Hrouda, Pražačka and TR Sever I. and also in acquisitions in Hořovice and Kondrac).
- the parent company was granted a gas sales licence for the period of the next five years under the ERÚ Decision of 12.1.2011.

Martin Křenek – KA (Key Account) Segment Sales

The department concludes electricity supply and combined electricity supply service contracts with customers of the entrusted segment; it performs acquisitions. It also makes active sales to existing customers for the future period (new products, extension of contracts, etc.).

Trading Activity

In 2011 there was greater diversification of suppliers and changes to individual shares of procured electricity.

Suppliers and Trading in Electricity

The consumption and volume of purchased electricity stagnated in 2011; there was a change to the portfolio of suppliers. Electricity purchased from terminated medium-term contracts with the companies Energotrans, a.s. and Elektrárny Opatovice, a.s. were replaced by different market suppliers and the growing share of ČEZ, a.s. Normal customer consumption fluctuation was secured by medium-term and operative electricity trading on the wholesale market in order to minimise total electricity purchase costs.

In 2011 there was greater diversification of suppliers and changes to individual shares of procured electricity. The share of ČEZ, a.s. rose to 26% which corresponds to the position of this company on the Czech market.

The earthquake and subsequent disaster at the Fukushima Nuclear Power Plant in 2011 had a significant impact on the trend of electricity prices. Germany's subsequent decision to shutdown its oldest nuclear power plants resulted in a sharp rise in electricity market prices and it was only at the end of the year that the price fell to the level it was at the start of the year. The offer from renewable sources throughout Europe, especially from wind and photovoltaic power plants in Germany also had a constantly greater impact on the electricity market price.

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 partly on Power Exchange (PXE). The volume of traded electricity and number of closed transactions achieved roughly the same level as in 2010. In 2011 the Group actively utilised the option of direct trading on the spot market of the EPEX Exchange in Germany, including intraday trading.

The demand of the Group's customers for green electricity remains at a high level (and preference was given to the purchase of electricity from renewable sources in the green bonus regime). In 2011 cooperation continued with Povodí Vltavy, s.p. which is the biggest supplier of green electricity. A significantly higher supply was also secured from biogas stations; the volume of procured green electricity for customers reached 185 GWh (almost 30% more than in the previous year). The share of electricity from renewable sources in the total quantity of procured electricity increased to almost 3% (2% in 2010).

Volume of Electricity procured for Customers (GWh):

	2011	2010	2009	2008	2007	2006	2005	2004	2003
TOTAL volume procured:	**6,621.00**	6,828.01	6,686.42	6,846.71	6,608.38	6,395.88	6,027.51	5,813.09	5,47877
of which regulated prices	**7.94**	0.41	0	0	32.41	29.33	57.43	250.88	207.3
of which green bonus prices	**184.52**	142.37	92.85	94.18	4.41	23.76	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.

Sales of Electricity (B2B Segment)

The start of the year saw a sharp rise in prices on the EEX and PXE power exchange markets (approx. 17% due to the natural disaster in Japan) that had a significant impact on the sales to the customer segment; this was almost immediately followed by the German government's decision to phase out the nuclear energy sector.

There is a great competition in the segment; customers (aiming to achieve maximum decrease of purchase prices) organise tenders. Continuous sales of electricity was also introduced during the year to the smallest customers of this segment.

An important event in this customer segment was the introduction of the sale of natural gas. PRE acquired a gas trading licence; so a new commodity could be offered from about the middle of the year. The first actual physical supply of gas in the history of PRE took place in December.

The total volume of sales to B2B customers connected to the HV and VHV networks exceeded the volume of 2010 by 2% and was a record in PRE's history for this customer segment. Sales rose because new customers were acquired and due to the slight increase in the activities of the portfolio of customers focusing on services. The size of supplies outside the territory of PREdi exceeded the value of 1 TWh thereby rising year-on-year by 15%.

The sales results of small businesses segment connected at LV confirmed that the decision to provide individual services to these customers was right.

Sales of Electricity (B2C Segment)

The main activity in the B2C Segment was the introduction of the measure to eliminate the churn of customers. The cause was the bad business practices of the door-to-door sales of electricity by alternative suppliers. There were several organisational changes at the start of the year which contributed to:

- introduction and new organisational management of sales activities in the B2C Segment,
- increase of responsibility for the development of new products and their implementation.

In the first half of the year a new structure of products was introduced to sales providing better coverage of customers' needs. The basic division of the structure of products is as follows:

- standard range of Komfort or Aktiv products,
- range of Komfort FIX or Aktiv FIX products – fixing the price of standing charges for 2 or 3 years,
- range of Komfort+ or Aktiv+ products – fixing the price of active power for 2 or 3 years.

New sales channels were introduced and tested in this customer segment during the year in line with the Company's sales objectives.

A sales retention campaign called "PRE Autumn Offer" was carried out at the end of the year.

Number of visits at the Customer Centre

Year	**2011**	2010	2009	2008	2007
Total	**267,109**	261,720	240,026	216,288	235,355

Number of enquiries answered by the Call Centre

Year	**2011**	2010	2009	2008	2007	2006	2005	2004	2003
Total	**252,683**	230,472	210,985	204,212	202,254	186,166	182,599	178,803	155,703

Number of e-mails answered by the Call Centre

Year	**2011**	2010	2009	2008	2007	2006	2005	2004
Total	**63,363**	48,834	30,369	30,193	18,214	6,882	5,291	2,423

Customer Services

In its activities the Customer Services Department implements the processes of the strategic intentions of the sales departments in the Front Office area. Its task is to ensure activities related to the sales of energy products, services and activities related to the service of customers of the B2C Segment.

The department also ensures the activities and support of the Back Office processes so the sales departments are disengaged from the Back Office processes and can devote themselves to their own business to the maximum possible extent.

Front Office

Processes and mechanisms were implemented in customer services for the transition to active sales while simultaneously ensuring the highest possible level of services to customers. Based on an analysis of the utility and parameters of servicing the branches of the Customer Centre and in terms of the strategic plans in customer services, it was decided to increase servicing at the Adria Customer Centre by increasing the number of counters by 6 to 26. Due to the increase of the servicing capacities at the Adria CC the branch of the Ocelářská Customer Centre in Prague 9 was closed as of 31 December 2011.

Back Office

The Back Office ensures support to departments responsible for the sales of products to end customers and to the service and sales departments. The key processes in Back Office activities are the change of supplier for consumption points of customers connected to the LV network, billing and recovery of debts from customers of B2C and B2B segments. A no less important area is the administration and availability of customer documentation to users.

A number of measures were adopted to optimise debts in the area of system modifications as well as in the management and organisation of work resources to ensure this.

The Customer Services Department contributed to and continuously cooperates in the activities and projects of other Group departments; particularly in the preparation and implementation of new trading products, in projects for increasing customer retention and strengthening sales competitiveness; it also participates in the introduction of new metering technologies (Smart Metering, AMM technologies) and the preparation and transition 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 year the PRE Group worked intensively on the E-mobility Project which (in line with global trends) is to gradually safeguard the operation of the increasing number of ecologically-friendly electric cars that will in future replace vehicles powered by combustion engines, particularly in big cities where the resulting benefit to the environment is the most visible.

In the course of the year several recharging stations for electric cars and electric scooters, so-called ePoints, were ceremonially opened. These charging points became the foundation for the infrastructure and a total of 9 of these charging points were opened in the Capital City by the end of the year. The charging points are equipped with various charging technology so that PRE can monitor their best utilisation and interest. The flagship is the ePoint Evo fast-charging station installed next to the headquarters building which is the only one of its kind in the Czech Republic that can recharge an electric car in 15 minutes. Stations will continue to be built in future years to meet the obligation of installing a total of 22 recharging stations in Prague.

Also during the year PRE (under the auspices of the Prague City Council) became an infrastructure partner of the "Praha elektromobilní" (Electromobile Prague) Project; it regularly attended inter-departmental meetings.

The Group's portfolio of means of transport was extended to include electric scooters and an electric car that are used not just as exhibits at exhibitions, but mostly as a standard means of transport within the PRE Group. An electric bike rent service was also opened to customers and citizens. PRE will continue with these activities in future years.

Investments

In compliance with the Group Strategy Plan, the investment programme in 2011 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 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 in more details in the following article.

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 based on available support documentation and with respect of mutual links by extended reproduction of network systems, while taking into account the expected requirements of customers 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, achievement of the determined operating reliability and required standard of the distribution service, expected by the consumers of the Capital City. The level of supply quality and related services was defined by the ERÚ secondary legislation. Unlike in previous years, as of 1.7.2006, non-performance of the guaranteed standards in accordance with the new ERÚ Decree No. 540/2005 Coll. is encumbered with the obligation of providing compensation for non-observance of the guaranteed standard. In 2011, the subsidiary PREdistribuce, a.s. invested MCZK 1,701.3 to networks and purchase of meters.

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 energy legislation in force, 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 the 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 significant area, were a large volume of investments is being allocated to, is the information technology. The following article provides more details about this topic.

Informatics

Within the PRE Group, ICT services (informatics, telecommunications) are secured centrally, for all members of the Group.

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.

In 2011 the Company invested the amount of MCZK 145.2 to ICT.

2011 was a very successful year in terms of informatics. Among others, it was possible to implement the following:

- successful cooperation was initiated with EnBW in the area of informatics,
- a new system of high-capacity printing was launched,
- further extension of the functionality of the Lancelot system; development of electricity market trading support,
- modifications were successfully applied in accordance with Decree No. 540/2005 Coll.,
- extension of the customer system for support of work with customers,
- continuation of the AMM project by applying it in the customer group,
- the informatics support project for improving the quality of work coordination and planning and repair in distribution networks was implemented successfully,
- informatics was successfully recertified for ISO 9001 (IT Quality) and ISO 27000 (Security).

A series of development changes is planned as part of the adopted Group strategy for 2012 that will require significant informatics support. This principally involves:

- completion of the implementation of the new high-capacity printing system,
- preparation and initiation of the upgrade of parts of the customer system,
- improvement of the efficiency of customer service by implementing new functionalities of the customer line support system,
- upgrade of the graphic GIS,
- change to the electricity trading support systems,
- continuation of the testing of AMM technology,
- modifications to the IT systems ensuing from Decree No. 540/2005 Coll.,
- development of telecommunications in accordance with the requirements for development and management of the distribution system,
- project for the replacement of network management systems (SCADA).

Anna Kopřivová – Controlling and Planning

The department methodically manages the planning module in SAP and the accounting of the PRE Group; it configures the in-house accounting system, the system of cost centres and orders as an economic management tool for all the PRE Group members.

Financial Analysis

	Unit	**2011**	2010	2009	2008	2007	2006	Calculation formula
Level of liquidity								
Total revenues (revenues from sales of electricity, services and goods)	MCZK	**20,756**	20,248	20,719	19,013	16,661	14,075	Sales of electricity + Revenues from provided services
Sales margin	MCZK	**6,259**	5,583	5,203	5,202	5,425	4,596	Sales margin from income statement
Profit after tax	MCZK	**2,881**	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)	%	**30.6**	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	%	**17.2**	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	%	**13.9**	11.1	10.3	11.4	14.7	12.0	Profit after tax / total revenues x 100
Other indicators								
Regular liquidity	%	**50.4**	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**	62.6	58.7	64.5	75.9	77.4	Equity / total invested capital x 100
Return on total assets – ROA	%	**14.4**	12.2	11.0	11.9	16.1	12.4	Profit after tax / total assets x 100
Return on equity – ROE	%	**23**	19.5	18.8	18.4	21.3	16.0	Profit after tax / equity x 100
Return on capital employed – ROCE	%	**25.4**	19.6	17.8	18.6	22.8	19.2	ROCE = EBIT / (total assets – short-term payables)
Total revenues labour productivity	TCZK/ employee	**15,512**	15,201	15,485	14,210	11,978	10,112	Total revenues / average adjusted number of employees
EBIT	MCZK	**3,663**	2,880	2,781	2,757	2,993	2,352	Operating profit / loss before interest and tax
EBITDA	MCZK	**4,567**	3,742	3,591	3,497	3,732	3,040	EBITDA = EBIT + depreciations
Net cash flow after tax	MCZK	**1,918**	2,076	1,672	1,060	980	1,677	NCF from operating activity decreased by NCF from investments

Estimated economic results in 2012–2014

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 consolidation method. A fundamental precondition for achieving planned indicators is that no significant differences will arise in the trend of GDP macroeconomic indicators, especially inflation of 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 possible risks of the increasing competition on the energy market and the uncertainty of the impact of stricter regulatory rules in the III. Regulatory Period; however in addition it reflects the anticipated changes of the economic and legislative environment in the next four years. The Company will systematically follow the fulfilment of planned assumptions and will flexibly respond to the changing conditions of external environment by correcting its strategy. Due to further rise in the PRE Group's overall performance, the parent company will at the same time look for suitable investment opportunities in electricity generation. In case of such investment, the Company is prepared to secure the financing by a combination of its own and foreign sources in the scope of the adopted 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. In line with the long-term strategy, it will (except for its basic segments – distribution, trading and energy services) continuously search for suitable acquisitions and will also strengthen the generation segment.

Human Resources

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

In April 2011 an intensive cooperation with EnBW Human Resources Section within the MOST Project was initiated. Its objective is a bilateral exchange of experience and coordination of personnel activities between both companies.

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 – full time equivalent

	2011	2010	2009	2008	2007	2006	2005	2004	2003
PRE	**620**	615	617	611	618	610	1,214	1,238	1,248
PREdi	**507**	504	514	515	555	583	–	–	–
PRE Group	**1,338**[1]	1,314	1,332	1,338	1,391	1,392	1,398	1,440	1,456

[1] other members of the PRE Group have the following number of employees – average full time equivalent: PREměření, a.s. – 209 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.

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

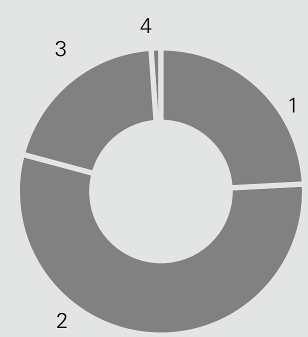
The Company ensures comprehensive works medical and dental care for its employees. A programme of preventive healthcare is taking place in the Company, which meets the requirements of the National Health Promotion Programme. The following four projects were implemented beyond the framework for employees: 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.

On a long term basis the PRE Group has been cooperating with two Prague electro technical 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. In the sphere of employees' recruitment, the Company closely cooperates with the Faculty of Electrical Engineering of the Czech Technical University.

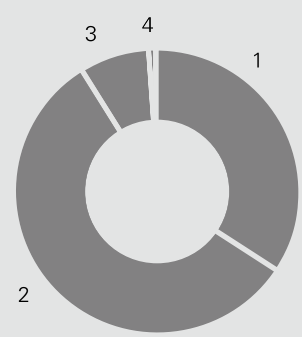
At its own costs PRE operates a training centre which is used as an aid to ensure professional internship. In 2011 a total of 1,727 persons, of whom 234 students, passed the professional internship here.

PRE Group Qualification structure



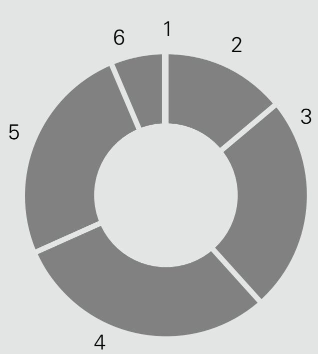
1	University	24.33%
2	Vocational with GCSE	55.11%
3	Secondary and apprenticeship	19.45%
4	Elementary	1.11%

PRE Qualification structure



1	University	34.30%
2	Vocational with GCSE	56.89%
3	Secondary and apprenticeship	7.85%
4	Elementary	0.96%

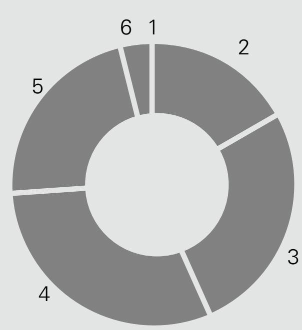
PRE Group Age Structure



1	up to 20 years	0.07%
2	20–30 years	13.91%
3	30–40 years	24.48%
4	40–50 years	30.03%
5	50–60 years	25.30%
6	over 60 years	6.21%

Average age as at 31.12.2011: 43.70

PRE Age Structure



1	up to 20 years	0%
2	20–30 years	16.83%
3	30–40 years	26.76%
4	40–50 years	30.45%
5	50–60 years	22.12%
6	over 60 years	3.84%

Average age as at 31.12.2011: 42.16

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

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 2011.

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.

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 2011.

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 for its disposal,
- systematically train employees handling dangerous chemical substances and preparations with due regard to health and environmental protection,,
- increase the awareness of employees for the need of environmental protection and the efforts to constantly improve it through the system of information and education.

Safety and Protection of Health at Work Policy

PRE as a parent company of the PRE Group is a holder of "Safe Enterprise" Award, in 2011 the Company was presented with it for the fourth time. Objectives of the "Safety Enterprise" programme became inseparable part of the safety policy and protection of health at work not only in the parent company but of the entire Group. The programme and its objectives have attracted all employees of the Group and helped to improve the approach to protection of health.

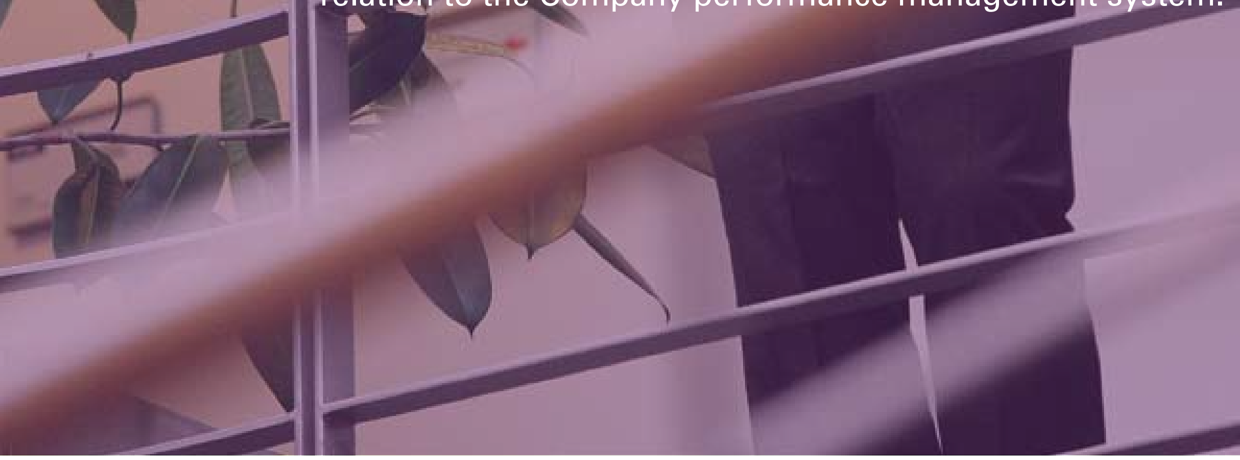
Employee healthcare at the PRE Group means not just the fulfilment of legal obligations, but also an important part of the corporate culture. Besides occupational medical services, the Group also offers further above-standard health and medical services, sports activities, recreational stays as part of employee benefits. The companies of the PRE Group have been awarded the title of "Third Level Health Supporting Enterprise" for the third time which is the highest award in this area.

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

- safety and protection of health at work as an integral part of the 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 are observed.

Jan Šebek – Payroll

The department methodically manages the Group's payroll policy and the development of the motivation system in relation to the Company performance management system.



Public Relations

Last year 63,000 customers visited PRE CEP. At the same time PRE CEP operates internet portal PRE Energy Advisor (Energetický poradce PRE) dedicated to saving electricity.

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 – refining all premises for customers, being as accommodating as possible in dealings with customers, seeking new forms of communication with customers, public, regional and municipal administration, achieving a single external and internal graphic image etc. An appreciable part of creating a public positive image lies with free advisory services for customers and marketing, which significantly contribute to creating positive/friendly external image 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 ZC 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 Web Top 100. In 2006 the PRE Group website ranked in the 1st place in this prestigious competition, in 2007 in the 3rd place. Annually it ranks at leading positions in branch category Energetika (in 2008–2011 the web www.pre.cz ranked always in the 3rd place). The PRE Group launched (in the framework of a project of free advisory services for a broad public) PRE Energy Advisor websites. Websites www.energetickyporadce.cz provide advisory services related to economical use of electricity and energy from renewable sources. You may find more information about this topic in chapter "Customer Services and Trading Support".

The PRE Energy Advisory Centre/Centrum energetického poradenství PRE (CEP), which launched its activities in 2009, provides free advisory services for households and small businesses aimed at energy saving, renewable sources, economical use of electricity and introduces latest technology. Last year 63,000 customers visited CEP. At the same time CEP operates internet portal PRE Energy Advisor (Energetický poradce PRE) dedicated to saving electricity.

A shop, where electrical heating devices and energy saving light fittings for concessionary prices can be bought, is located in the PRE Energy Advisory Centre.

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 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.

Capital Interests as at 31.12.2011

The Company focuses in its entrepreneurial activities above all on business in energy or related fields.

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 legislation in force by transforming the distribution system operator to an independent entity. The accounting of all 100% subsidiaries is elaborated according to CAS.

During the year 2011 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 at 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 subsidiary's line of business is:

- 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.

Main selected Company indicators (MCZK):

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

*) In view of the more faithful picture of gross profit from the sales of distribution services, except for the distribution and system services purchase expenses, the electricity purchase expenses for personal consumption and coverage of the Company energy losses have also been reported since 2011. The data for 2010 have been revised likewise.

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 6.3 TWh 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 development (as at 31.12. of given year)

Indicator	Unit	**2011**	2010	2009	2008	2007	2006	2005	2004	2003
Achieved maximum	MW	**1,205**	1,209	1,207	1,147	1,141	1,090	1,086	1,065	1,029
Length of VHV network	km	**202**	202	206	206	196	196	196	196	194
Number of VHV/HV stations	pieces	**22/24**	22/24	21/24	21/24	20/23	20/23	20/23	20/23	19/22
Length of HV lines	km	**3,863**	3,829	3,780	3,701	3,670	3,584	3,556	3,581	3,632
Number of HV stations	pieces	**4,839**	4,778	4,796	4,783	4,750	4,693	4,656	4,635	4,578
Number of HV/LV distribution stations[2]	pieces	**3,295**	3,254	3,277	3,281	3,272	3,258	3,238	3,241	3,222
Length of LV network[1]	km	**7,836**	7,750	7,693	7,645	7,678	7,557	7,477	7,420	7,354

[1] The 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.
[2] The increase of HV/LV distribution stations number (also of HV/LV stations for the year 2011 in total) was caused by purchasing local distribution network operated by ETT, a.s. (39 stations).

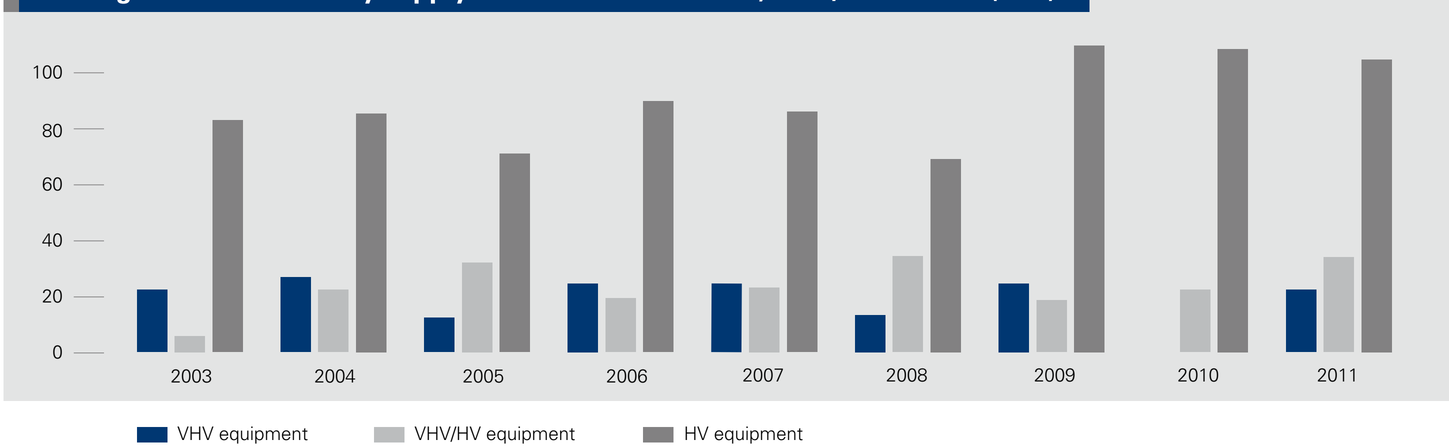
Number of enquiries answered by the Distribution Emergency Line

Year	**2011**	2010	2009	2008	2007
Total	**38,484**	32,860	28,800	34,260	31,200
of which breakdowns	**17,364**	22,160	18,650	23,300	22,300

Number of e-mails answered by the Distribution Emergency Line

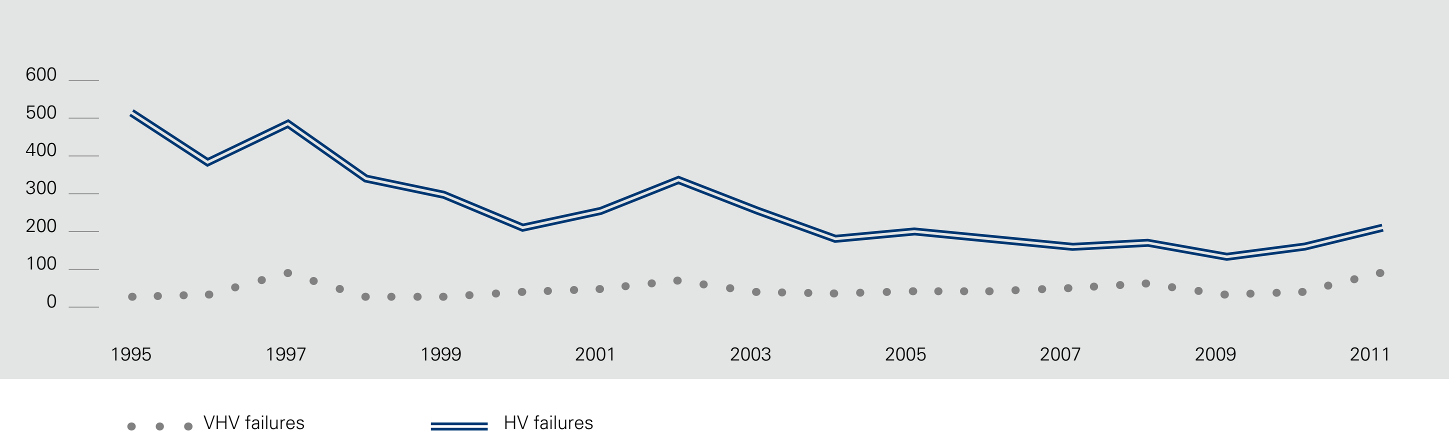
Year	**2011**	2010	2009	2008	2007
Total	**1,156**	1,577	1,230	679	100

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



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

Number of VHV and HV failures



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

PREměření, a.s.

Registered office, 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 24.11. 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 within the Group to consolidate all activities associated with LV energy metering to PREměření, a.s. Based on the decisions carried out in 2007 and coming into force as of 1.1.2008, the organisational structure was amended 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”, (a 100% subsidiary which used to provide the reading service), pursuant to Article 249 of the Labour Code related to the transfer of rights and obligations from labour law relations, were transferred to PREměření, a.s. on 1.1.2008.

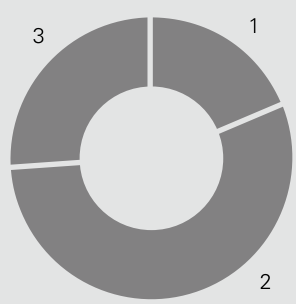
As of 1.1.2008 the subsidiary within the PRE Group took over the activities associated with readings of electric meters, gas meters and calorimeters and ensures their performance.

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).

At the end of the year the Company acquired to its ownership two photovoltaic power plants in Hořovice and Kondrac having installed capacity of 1.087 MW or 1.109 MW.

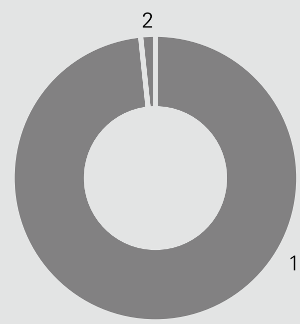
During the year the subsidiary took over activities from the parent company concerning cutting off the electricity supply of debtors and debt collection. On the external market PREměření, a.s. began selling services for work on consumption points, control of LV, transformer stations, thermovision and servicing photovoltaic power plants. The Company did not begin offering these activities until the end of the year and their impact on the Company income has been negligible so far.

Number of meter installations carried out in 2011



1 11,500 pieces new consumptions
2 34,000 pieces necessary verification
3 16,000 pieces customer's request (change of tariff)

Success rate of meter readings in 2011



1 regular readings 747,000
2 self readings 11,500

Main tasks of PREměření, a.s. for the future period are: production, installation and repairs of electric machines and instruments, purchase and sales of metering equipment, assembly and repairs of metering equipment, readings and collection of metering equipment data, checking seals, meter readings, power generation and other specialized activities.

Main data about the Company (TCZK):

	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003
Assets	**316,616**	128,404	120,889	122,581	103,172	69,147	74,001	90,394	81,611
Liabilities	**316,616**	128,404	120,889	122,581	103,172	69,147	74,001	90,394	81,611
Equity	**59,698**	56,408	67,940	72,032	51,310	48,939	56,961	66,792	59,725
External sources /Liabilities	**256,895**	71,996	52,949	50,549	51,862	20,208	17,040	23,602	21,886
Revenues	**329,118**	316,573	339,674	347,438	278,741	227,878	247,243	392,558	364,816
Costs	**311,428**	302,205	313,771	315,313	267,926	220,938	246,525	380,830	358,596
Profit after tax	**17,690**	14,368	25,903	32,125	10,815	6,940	718	11,728	6,220
Data on major investments made in the current accounting period and in previous accounting periods including financial investments	**195,708**	46,942	1,899	0	7,364	3,344	2,500	3,700	3,525

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

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.

In view of the new adopted tax legislation, the Company since 2006 stopped new purchases of leasing objects. PREleas, a.s. now performs leasing operations of objects acquired in the past until the due end of their leasing depreciation so that it can exploit all the potential of efficiency in line with the valid provisions of the tax law.

Main data about the Company (TCZK):

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Assets	**59,192**	86,645	118,343	164,540	216,235	280,542	352,896	329,985	320,023
Liabilities	**59,192**	86,645	118,343	164,540	216,235	280,542	352,896	329,985	320,023
Equity	**34,039**	48,815	62,172	68,422	59,442	79,372	77,281	61,467	45,538
External sources/liabilities[1]	**22,880**	32,994	47,278	81,409	135,619	170,804	232,999	209,876	195,674
Revenues	**39,286**	46,565	63,822	72,262	87,844	99,676	125,308	129,685	115,824
Costs	**32,962**	38,822	53,972	62,182	75,674	86,585	108,494	112,956	102,451
Profit after tax	**6,324**	7,743	9,850	10,080	12,170	13,091	16,814	16,729	13,373
Data on major investments made in the current accounting period and in previous accounting periods including financial investments	**0**	0	0	0	0	0	112,689	103,012	110,151

[1] Without accruals

Data on major investments made in the current accounting period and in previous accounting periods including financial investments.

All subsidiaries operated at a profit in 2011.

The Group is 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), Chamber of Commerce of the Capital City of Prague (Hospodářská komora hlavního města Prahy, Czech Union of Employers in Power Industry (Český svaz zaměstnavatelů v energetice), Association of Electronic Commerce (Asociace pro elektronickou komerci) and a Club of Friends of the National Technical Museum in Prague.

David Wimmer – Readings VI

The department takes readings. As requested by PREdi it takes readings of LV electricity meters; takes readings of gas meters as requested by Pražská plynárenská Distribuce, a.s.; takes readings of calorimeters as requested by Pražská teplárenská, a.s., and readings of metering devices of special customers.

Shareholders

Thanks to information shown on the Company website, shareholders have in fact an immediate access to information on any important changes in the Company.

All shareholders have free access to all important information on the Company. All materials are available either directly on the Company internet address or upon request from the Shareholder Agenda department, which is fully available to shareholders.

Thanks to information shown on the Company website, shareholders have in fact an immediate access to information on any important changes in the Company.

Main PRE Shareholders (%)

Status as at 31.12.	**2011**	2010	2009	2008	2007	2006	2005	2004	2003
PRE-H	**58.05**	57.87	57.87	57.87	50.78	50.78	50.78	50.78	50.78
ČEZ, a.s.	**–**	–	–	–	–	–	–		34.00
Honor Invest, a.s.	**–**	–	41.10	41.10	34.00	34.00	34.00	34.00	–
MPSV ČR	**–**	–	–	–	14.19	14.19	14.19	14.19	14.19
FNM ČR	**–**	–	–	–	–	–	–	–	–
Capital City of Prague	**–**	–	–	–	–	–	–	–	–
EnBW Energie Baden-Württemberg AG	**41.40**	41.26	0.16	0.16	0.16	0.16	0.16	–	–
GESO AG	**–**	–	–	–	–	–	–	0.16	0.16
RWE Energie AG[1]	**–**		–	–	–	–	–	–	–
Legal entities	**0**	0.18	0.18	0.18	0.16	0.17	0.17	0.17	0.17
Natural persons	**0.55**	0.69	0.69	0.69	0.70	0.70	0.70	0.70	0.70
Employee shares	**–**	–	–	–	–	–	–	–	–

Status as at 31.12.	2002	2001	2000	1999	1998	1997	1996	1995	1994
PRE-H	50.7	50.77	–	–	–	–	–	–	–
ČEZ, a.s.	–	–	–	–	–	–	–	–	–
Honor Invest, a.s.	–	–	–	–	–	–	–	–	–
MPSV ČR	–	–	–	–	–	–	–	–	–
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	33.8	–
EnBW Energie Baden-Württemberg AG	–	–	–	–	–	–	–	–	–
GESO AG	0.16	0.16	17.42	16.76	16.49	16.09	15.59	–	–
RWE Energie AG[1]	–	–	7.61	–	–	–	–	–	–
Legal entities	0.1	0.1	0.18	0.26	0.48	0.50	0.73	12.81	–
Natural persons	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.

Structure of PRE Shareholders

Status as at 31. 12.	**2011**		2010		2009		2008	
	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	**5,650**	**2,266,222**	7,505	2,267,617	7,562	3,856,752	7,605	3,856,752
Foreign shareholders	**8**	**1,603,221**	10	1,601,826	10	12,691	10	12,691
Total shareholders	**5,658**	**3,869,443**	7,515	3,869,443	7,572	3,869,443	7,615	3,869,443
Natural persons	**5,641**	**21,414**	7,495	28,048	7,550	26,551	7,594	26,582
Legal entities	**17**	**3,848,029**	20	3,841,395	22	3,842,892	21	3,842,861
– of which IPF	**0**	**0**	0	0	0	0	0	0

Status as at 31. 12.	2007		2006		2005	
	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)	Number of shareholders	Nominal value (TCZK)
Domestic shareholders	7,659	3,856,756	7,720	3,856 ,751	7,821	3,856,761
Foreign shareholders	9	12,687	9	12,692	8	12,682
Total shareholders	7,668	3,869,443	7,729	3,869,443	7,829	3,869 ,443
Natural persons	7,646	27,305	7,708	27,327	7,807	27,193
Legal entities	22	3,842,138	21	3,842,116	22	3,842,250
– of which IPF	0	0	0	0	0	0

The Company (PRE) ordinary General Meeting decided on 22 June 2011 to remove the subscriber securities (2,553,831 PRE common registered uncertificated shares of the nominal value of 1 share for CZK 1,000, ISIN CZ0005078154) from trading on the regulated market (Burza cenných papírů Praha, a.s. (Prague Stock Exchange) and from the market of RM-SYSTÉM, Česká burza cenných papírů a.s.).

Subsequently PRE presented a public draft of an agreement intended for those PRE shareholders who did not vote for the removal of PRE shares from trading on the regulated market or did not attend the ordinary General Meeting and did not relinquish the right to sell the shares to PRE.

In this way and for the abovementioned reason PRE acquired from the shareholders in two waves (November and December 2011) a total of 6,634 own shares of a total nominal value of CZK 6,634,000 for CZK 8,000 per share of the nominal value of CZK 1,000, i.e. for a total price of CZK 53,072,000 which represents a 1.372% share of PRE registered capital.

The removal of the PRE shares from trading on the regulated market came into effect as of 1 December 2011.

On 28 December 2011 PRE and the shareholder – Pražská energetika Holding a.s. – settled the sale of 6,634 PRE shares of a total nominal value of CZK 6,634,000 for the total price of CZK 53,204,680, i.e. CZK 8,020 per share of a nominal value of CZK 1,000 which completed the delisting process.

Therefore, at the start and close of the accounting period PRE did not own any of its own shares.

Information on General Meetings held in 2011

During the year one ordinary General Meeting was held.

Information on the ordinary General meeting held on 22 June 2011:

The General meeting approved:

- the procedural rules of the General Meeting,
- the report of the Board of Directors on the business activity and on the state of its assets for 2010,
- the summarizing explanatory report according to § 118, (5), letters a) to k) of the Act No. 256/2004 Coll., as amended, on trading on the capital market,
- consolidated and regular (separate) financial statements for 2010, distribution of profit including fixing the level and method of paying out dividends and royalties for 2010,
- decision to remove the Company participating securities from trading on the regulated market,
- change in the Articles of Association,
- recall and election of the Supervisory Board members,
- decision on designation of the financial statements auditor,
- decision on using the international accounting standards (IFRS/IAS) for drawing up separate financial statements for the year 2011 and consequent years,
- decision on remuneration of the Supervisory Board members,
- amount of gifts for 2012 in the total amount of MCZK 10.

Note:
- the proposed change of the Articles of Association was caused by the extension of the line of business by one activity – Gas Sales,
- the proposed change in Article 7 (Shares) was due to the decision of the General Meeting for removing the Company subscriber securities from trading on the regulated market,
- the change to Article 46 (Notices) specified the form of delivery of documents to shareholders.

Jan Šinagl – DS Operation and Failure

The department removes outages and interruptions in electricity supply in the VHV, HV and LV networks, and marks out faulty parts in cooperation with the relevant dispatching centre.

PRE Top Management Organizational Structure as at 31.12.2011

Chief Executive Officer

Commercial Director

Services Unit

Company Executive Office

Group Economy

Human Resources

Legal

Informatics

Support Services

Strategy and Relations with Shareholders[1]

Commercial Unit

Sales

Trading in Electricity

Sales Development

Customer Services

Unit

Section

[1] from 1.1. 2012

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

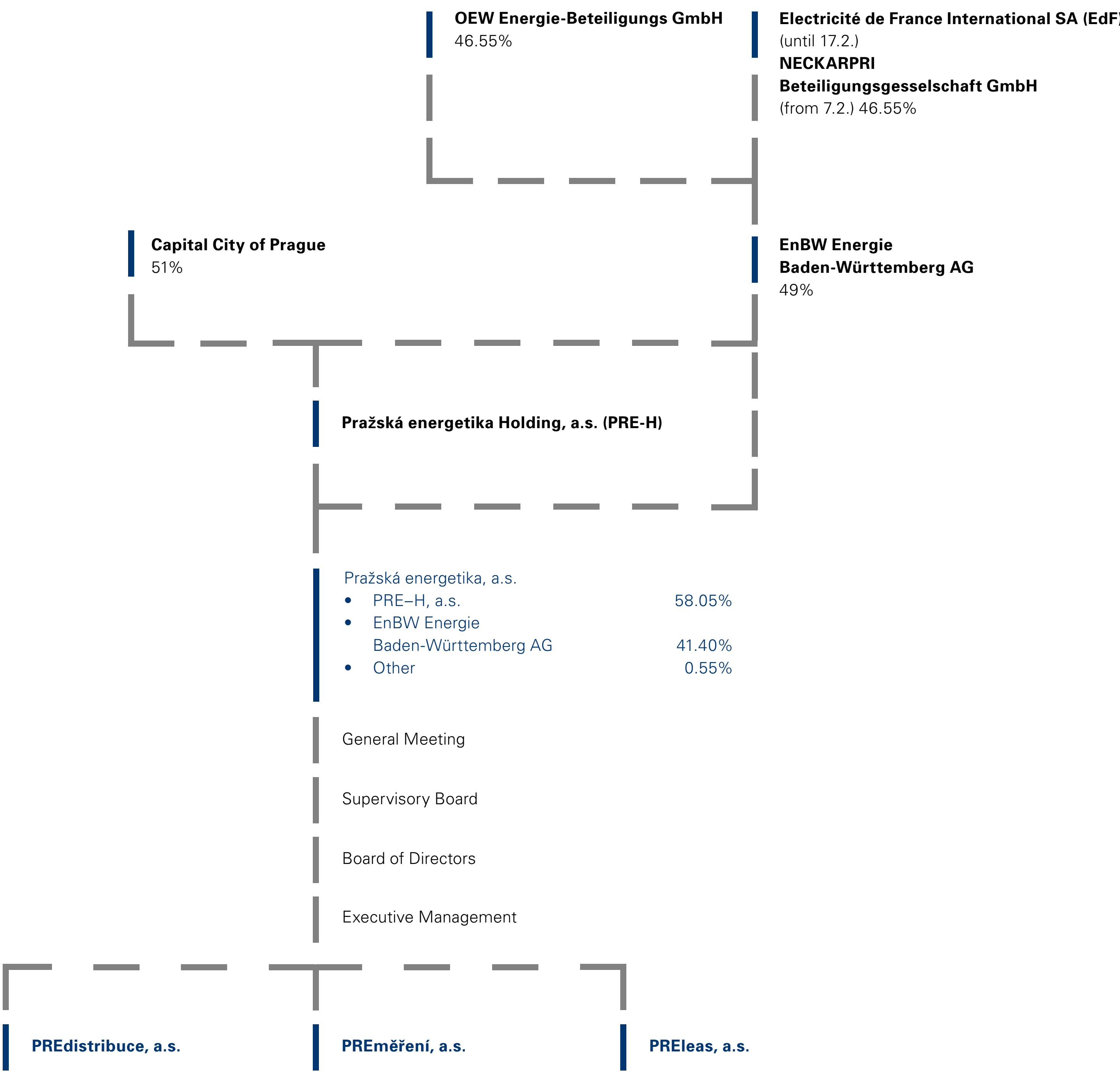
- constantly increase the efficiency of the Group while using all possible synergies, including synergies with EnBW,
- develop market and customer oriented model of arrangement,
- increase transparency of units structure and distribution of specialized competencies,
- finalize the process of unbundling.

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 organisation of electricity sales to B2C 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 to one section was carried out 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 to products traded by PRE – thermovision, maintenance of wholesale transformer stations, technology equipment, etc.).

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



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,
- 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,

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),
- publishing activities, polygraphic production, bookbinding and copying services.

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)
Controlling 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 7,100,109,000
Average number of employees:	–
Economic result after tax:	CZK 1,167,007,000
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 1,164,496,000
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 on patents or 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 except for financial:	–
General data on trends in the issuer’s activity and data on business prospects:	–

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)

a) Controlling and Controlled Person (PRE-H a 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 1492/4) 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 prices:

– 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.

b) Contracts concluded between shareholders of the controlling person (PRE-H), i.e. the Capital City of Prague and EnBW Energie Baden-Württemberg 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 is stated in this chapter under point B.

B. Information on the Relation

Controlling person: EnBW Energie Baden-Württemberg AG., Durlacher Allee 93, 76131 Karlsruhe, SRN (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 Euro
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 entity – contracts are shown in 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 business transactions were made for usual prices.

The aforementioned contracts were concluded under standard business habits and customs without one party being placed at the advantage over the other. No controlling agreements were concluded between the controlling and controlled person, none of the two entities was provided with any advantage or incurred a loss. PRE did not incur any property loss from the fulfilment of these contracts, neither was any consideration provided which would prove disadvantageous to PRE.

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

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

I. Contractual relations between the Controlled Person PREdistribuce, a.s. and the Controlling Person Pražská energetika, a.s.
"Contract on Provision of Services " No. P200006/01 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 28.12.2006
Amendment No. 2 – in force as of 31.12.2007
Amendment No. 3 – in force as of 31.12.2008
Amendment No. 4 – in force as of 1.4.2009
Amendment No. 5 – in force as of 15.12.2009
Amendment No. 6 – in force as of 21.12.2010
Amendment No. 7 – in force as of 21.6.2011

"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
Amendment No. 3 – in force as of 1.4.2011
"Lease Contract" No. P200006/06 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 1.9.2006
Amendment No. 2 – in force as of 1.4.2007
Amendment No. 3 – in force as of 31.12.2007
"Contract on Lease of Non-residential Premises" No. P200006/09 – in force as of 1.1.2006 for indefinite period
Amendment No. 1 – in force as of 1.12.2007
Amendment No. 2 – in force as of 1.9.2008
Amendment No. 3 – in force as of 1.4.2010
Amendment No. 4 – in force as of 1.4.2011
"Contract on 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 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
Amendment No. 4 – in force as of 1.2.2011
"Contract on Lease of Garage Parking Lot" No. P200006/13 – in force as of 1.1.2006 for indefinite period
"Contract on Electricity Supply to cover Losses in the Distribution System and 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 Customer Consumption Points of the Electricity Trader" No. PS20000011/011 – in force as of 1.1.2011 for indefinite period
"Contract on provision of 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 on Construction of Telecommunication Facilities" No. P200006/27 – in force as of 2.5.2006 for indefinite period
"Licence Contract" No. 20000011/029 – in force as of 3.1.2011 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 Advertisement Billboards" No. NO21106/001 – in force as of 30.12.2005 for indefinite period
Amendment No. 1 – in force as of 1.1.2010
Amendment No. 2 – in force as of 1.1.2011
"Administration, Operation and Maintenance of Optical Networks" No. PS23400206/002 – in force as of 1.1.2007 for indefinite period
"Contract for Work Administration, Operation and Maintenance of Optical Networks" No. PS21000111/079 – in force as of 1.7.2011 for indefinite period
"Contract for Work" No. PS23310209/012 – in force as of 1.1.2009 for indefinite period
"Lease Contract" No. PG3530/07/2008/22 – in force as of 1.8.2008 for indefinite period
Amendment No. 1 – in force as of 1.1.2009
"Contract on Loan" No. 1/2009" No. PS20000009/017 – in force as of 6.6.2009 to 30.6.2012
Amendment No. 1 – in force as of 29.6.2009
Amendment No. 2 – in force as of 29.6.2010
Amendment No. 3 – in force as of 29.6.2011

"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
"Lease Contract" No. NO21109/001 – in force as of 1.3.2009 to 31.12.2015
"Lease Contract" No. NO21109/006 – in force as of 1.4.2009 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/03236/07/3065 – in force as of 26.1.2007 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/03502/07/4849 – in force as of 26.1.2007 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/03665/07/4394 – in force as of 29.11.2007 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/03938/08/5562 – in force as of 2.4.2008 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/04067/07/6065 – in force as of 12.11.2007 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/04295/08 – in force as of 5.2.2008 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/04449/08/5877 – in force as of 13.10.2008 for indefinite period
"Contract on Establishment of Easement" No. VV/G33/04457/08 – in force from 2.4.2008 to 2.4.2048
"Contract on Establishment of Easement" No. 33200/4793/08/5678 – in force as of 19.1.2009 for indefinite period
"Contract on Establishment of Easement" No. 33200/5001/08 – in force as of 12.12.2008 for indefinite period
"Agreement on a Future Contract on Establishment of Easement" No. VB/S24/1010230 – in force as of 23.11.2010
"Contract on Establishment of Easement" No. VV/G33/06487/1006936 – in force as of 21.5.2010
"Purchase Contract" No. KV/G33/07628/1112867 – in force as of 17.8.2011
"Contract on Establishment of Easement" No. VV/G33/07210/1110903 – in force as of 12.5.2011
"Purchase Contract" No. NO21111/011 – in force as of 1.4.2011 for indefinite period

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

"Contract on Provision of Services" No. S252007/002, C00270/07 – in force as of 1.1.2007 for indefinite period
Amendment No. 1 – in force as of 1.1.2008
Amendment No. 2 – in force as of 1.1.2009
Amendment No. 3 – in force as of 1.1.2010
Amendment No. 4 – in force as of 1.1.2011
Amendment No. 5 – in force as of 1.7.2011
"Contract on Supply of Malfunctioning Metering Equipment" No. S252007/003, C00261/06 – in force as of 30.12.2006 for indefinite period
"Contract on Supply 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 as of 1.4.2010 to 31.12.2030
"Contract on Lease of Land" No. NO21110/004 – in force as of 1.9.2010 to 31.12.2030
"Contract on Lease of Land" No. N21110/039 – in force as of 1.10.2010 to 31.12.2035
Amendment No. 1 – in force as of 9.12.2010
"Contract on Lease of a Part of Real Estate" No. NO21110/005 – in force as of 1.10. 2010 to 31.12.2035
Amendment No. 1 – in force as of 9.12.2010
"Contract on Supply of Metering Equipment" No. C00456/10, PS21000111/038 – in force as of 1.1.2011 to 31.12.2011
"Contract on Settlement of Regulated Payments for Electricity Generated from a Renewable Source" 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 Connection to the Distribution System on LV Level" No. 6149169/2010 (C00422/10) (FVE Jinonice) – in force as of 26.05.2010 for indefinite period
"Contract on Connection to the Distribution System on LV Level" No. 6168552/2010 (C00442/10) (FVE Lhotka) – in force as of 4.8.2010 for indefinite period
"Contract on Electricity Supply from Renewable Sources" (C00445/10) (FVE Lhotka) – in force as of 1.10.2010 for indefinite period
Amendment No. 1 – in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00465/10) (FVE Pražačka TO 03) – in force as of 26.5.2010 for indefinite period
Amendment No. 1 – in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00466/10) (FVE Pražačka TO 02) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 – in force as of 1.4.2011
Amendment No. 2 – in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00467/10) (FVE Pražačka TO 04) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 – in force as of 1.4.2011

"Contract on Electricity Supply from Renewable Sources" (C00468/10) (FVE Sever) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 – in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00469/10) (FVE Hrouda) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 – in force as of 1.4.2011
"Purchase Contract" No. PS20000011/010, C00490/11 – in force as of 1.5.2011
"Contract on Cooperation to perform work on unmetered parts of electricity consumption equipment" No. PS20200011/003, C00478/11 – in force from 13.4.2011 to 28.2.2013

PREleas, a.s.
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. 0300005 to 0300014 – in force as of 1.2.2003
Leasing Contracts No. 0400006 – in force as of 1.2.2004
Leasing Contracts No. 0500001 to 0500003 – in force as of 1.2.2005

III. Commentary of the Statutory Body

Further to Section 66a (9) of the Commercial Code the 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 connected persons, the companies PREměření, a.s and PREleas, a.s.

PREdistribuce, a.s. has not incurred any loss of assets and no consideration has been provided which would be disadvantageous from the point of view of PREdistribuce, a.s. It is for this reason that there is no need to conclude any contract between the stated companies for compensation of loss of assets and no such loss had to be compensated by the end of 2011 to Pražská energetika, a.s., PREměření, a.s. and PREleas, a.s. The aforementioned business contracts were concluded under the usual business practices, with no advantage to one or the other contractual party.

b) 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 the 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
"Contract on Lease of Garage Parking Lot 62/35300/07/Ni" (C00312/08) (Prague, 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
Amendment No. 2 (C00474/11) – in force as of 1.2.2011
"Contract on Lease of a Part of Real Estate" (C00441/10), (Prague 9, Novovysočanská 696/3) – in force as of 1.1.2010 to 31.12.2030
Amendment No. 1 (C00458/10) – in force as of 9.12.2010 do 31.12.2035
"Contract on Lease of a Part of Real Estate" (C00453/10), (Prague 10, Na Hroudě 2149/19) – in force as of 1.11.2010 to 31.12.2030
Amendment No. 1 (C00459/10) – in force as of 8.12.2010 to 31.2.2035
"Contract on a Short-term Loans" (C00186/05) – in force as of 30.11.2005 for indefinite period
Amendment No. 1 (C00537/11) – in force as of 24.11.2011
"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

“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
Amendment No. 4 (C00464/10) – in force as of 1.1.2011
Amendment No. 5 (C00511/11) – in force as of 1.7.2011
“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
“General Contract on Assembly of Storage Heating“ (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
“Contract on Lease“ (C00523/11) – in force as of 1.9.2011 (Prague 4, Vladimírova 18) for indefinite period
“Licence Agreement to Use Trademark“ (C00470/11) in force as of 3.1.2011 (authorization to use PRE trademark) for indefinite period
“Contract for Work“ (C00472/11) – in force as of 18.2.2011 (thermovision metering) for indefinite period
“General Contract for Work“ (C00500/11) – in force as of 24.6.2011 (servicing transformer stations) for indefinite period
“Contract on Combined Services related to the Electricity Supply – type MO No. SoSSE/6254022“ (C00503/11) – in force as of 14.6.2011 (FVE Sever) for indefinite period
“Contract on Combined Services related to the Electricity Supply – type MO No. SoSSE/6250517“ (C00504/11) – in force as of 14.6.2011 (FVE Pražačka T02) for indefinite period
“Contract on Combined Services related to the Electricity Supply – type MO No. SoSSE/6282725“ (C00505/11) – in force as of 14.6.2011 (FVE Pražačka T04) for indefinite period
“Contract on Combined Services related to the Electricity Supply – type MO No. SoSSE/6279473“ (C00506/11) – in force as of 14.6.2011 (FVE Pražačka T03) for indefinite period
“Contract on Combined Services related to the Electricity Supply – type MO No. SoSSE/6283505“ (C00507/11) – in force as of 14.6.2011 (FVE Hrouda) for indefinite period
“Contract on Combined Services related to the Electricity Supply – type MO No. SoSSE/6207319“ (C00508/11) – in force as of 14.6.2011 (FVE Jinonice) for indefinite period
“Contract on Combined Services related to the Electricity Supply – type MO No. SoSSE/6253998“ (C00509/11) – in force as of 14.6.2011 (FVE Lhotka) for indefinite period
“General Contract for Work“ (C00519/11) – in force as of 29.9.2011 (installation and servicing the charging points) for indefinite period
“General Contract for Work“ (C00522/11) – in force as of 19.9.2011 (measuring of the electric wiring load at a consumption point) for indefinite period
“Mandate Contract“ (C00542/11) – in force as of 5.12.2011 (conclusion of contracts, collection of receivables) 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 Lease of Land No. N 21110/016“ (C00418/10) (FVE Lhotka) – in force from 1.4.2010 to 31.12.2030
“Contract on Lease of Land No. N 21110/039“ (C00436/10) (FVE Sever) – in force from 1.10.2010 to 31.12.2030
Amendment No. 1 (C00460/10) – in force from 9.12.2010 to 31.12.2035
“Contract on Lease of Land No. NO 21110/004“ (C00438/10) (FVE Jinonice) – in force from 1.9.2010 to 31.12.2030
“Contract on Lease of a Part of Real Estate No. N 21110/005“ (C00439/10) (FVE Pražačka) – in force from 1.10.2010 to 31.12.2030
Amendment No. 1 (C00457/10) – in force as of 9.12.2010 to 31.12.2035
“Contract for Work No. P 20006/19“ (C00203/06) – in force as of 1.3.2006 (realization of minor adjustments and connections in LV network, engineering) for indefinite period
Amendment No. 1 (C00339/08) – in force as of 2.1.2008
“Contracts on Supply of used Metering Equipment“ (C00260/06) – in force as of 30.12.2006 for indefinite period
“Contracts on Supply of Malfunctioning Metering Equipment“ (C00261/06) – in force as of 30.12.2006 for indefinite period
“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
Amendment No. 4 (C00463/10) – in force as of 1.1.2011
Amendment No. 5 (C00510/11) – in force as of 1.7.2011

"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 Delivery of Metering Equipment" (C00456/10) – in force from 10.1.2011 to 31.12.2011
"Contract on Electricity Supply from Renewable Sources" (C00420/10) (FVE Jinonice) – in force as of 26.5.2010 for indefinite period
Amendment No. 1 (C00484/11) – in force as of 1.4.2011
"Contract on Connection to the Distribution System on LV Level No. 6149169/2010" (C00422/10) (FVE Jinonice) – in force as of 26.5.2010 for indefinite period
"Contract on Connection to the Distribution System on LV Level No. 6168552/2010" (C00442/10) (FVE Lhotka) – in force as of 4.8.2010 for indefinite period
"Contract on Electricity Supply from Renewable Sources" (C00445/10) (FVE Lhotka) – in force as of 1.10.2010 for indefinite period
Amendment No. 1 (C00485/11) – in force as of 1.4.2011
"Contract on Settlement of Regulated Payments for Electricity Generated from Renewable Sources No. 65024896/2010" (C00462/10) (FVE) – in force as of 20.12.2010 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
Amendment No. 1 (C00488/11) – in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00466/10) (FVE Pražačka TO 02) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 (C00486/11) – in force as of 1.4.2011
Amendment No. 2 (C00487/11) – in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00467/10) (FVE Pražačka TO 04) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 (C00489/11) – in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00468/10) (FVE Sever) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 (C00483/11) in force as of 1.4.2011
"Contract on Electricity Supply from Renewable Sources" (C00469/10) (FVE Hrouda) – in force as of 28.12.2010 for indefinite period
Amendment No. 1 (C00482/11) – in force as of 1.4.2011
"Contract on cooperation for performing work on unmetered parts of consumption electric equipment" (C00478/11) – in force from 13.4.2011 to 28.2.2013
"Purchase Contract" (C00490/11) (purchase of tangible fixed assets) – in force as of 1.5.2011

III. Commentary of the Statutory Body

Further to Section 66a (9) of the Commercial Code the aforementioned contracts 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 controlled, connected persons, i.e. companies PREdistribuce, a.s. and PREleas, a.s. were concluded or were already in force and effect for the last accounting. PREměření, a.s. has not incurred any loss of assets and no consideration has been provided which would be disadvantageous from the point of view of PREměření, a.s. It is for this reason that there is no need to conclude any contract between the stated companies for compensation of loss of assets and no such loss had to be compensated by the end of 2011 to Pražská energetika, a.s., PREdistribuce, a.s. and PREleas, a.s. The aforementioned business contracts were concluded under the usual business practices, with no advantage to one or the other contractual party.

c) 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 Contract No. 6/2004" – lease of long-term tangible fixed assets amounting to TCZK 69,344, 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 connected persons (services offered 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. 1/2010" – in force from 15.2.2010 to 15.2.2011
"Contract on Loan No. 1/2011" – in force from 15.2.2011 to 15.2.2012

IV. Commentary of the Statutory Body

Further to Section 66a (9) of the Commercial Code the aforementioned contracts between Pražská energetika, a.s. as the Controlling Person and PREleas, a.s. as the Controlled Person were concluded or were already in force and effect for the last accounting period. PREleas, a.s. has not incurred any loss of assets and no consideration has been provided which would be disadvantageous from the point of view of PREleas, a.s. It is for this reason that there is no need to conclude any contract between the two companies for compensation of loss of assets and no such loss had to be compensated by the end of 2011 by Pražská energetika, a.s.
The aforementioned business contracts were concluded under the usual business practices, 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 entity 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 controlled by Pražská energetika, a.s. which would be inconsistent with the procedure usual for concluding business relations with Pražská energetika, a.s.

In Prague on 15.3.2012

Information required in accordance with Legislation in Force

Information about facts which occurred after the balance sheet day
The data are continuously shown in the text of the Annual Report and are marked in bold italics.

Information about the estimated activity development of the accounting unit
The data are found in the chapter "Estimated Economic Results in 2012–2014".

Information about activities in research and development
The Company does not systematically conduct activities in these fields.

Information about whether the accounting unit has an organisational unit abroad
The Company has an organisational unit in Slovakia with a total turnover that accounts for less than 10%.

Information about activities in the field of environmental protection, legal and labour relations
The data are found in chapters "Ecology, Environmental Protection, Safety and Protection of Health at Work" and "Human Resources".

Information about objectives and methods of the Risk Management in the Company
The data are found in the chapter "PRE Group Risk Management System".

Information about price, credit and liquidity risks and risks related to cash flow to which the accounting unit is exposed
The data are found in the "Financial Report" and in the financial statements.

Information about Interruption of Business
The issuer did not interrupt its business during the year.

Supervisory Board Report

In 2011 the Supervisory Board held eight meetings altogether (of which three times per rollam). The meetings focused on fundamental materials concerning strategic decisions, financial and investment plan for the year 2012.
Thereafter the Supervisory Board among others:
- discussed the financial plans of PRE and PREdistribuce, a.s. for the period 2012–2014,
- discussed the financial plan of PRE for 2012,
- approved the financial plan for 2012,
- discussed the preparation of the General Meeting held in 2011,
- discussed the text of the Annual Report for 2010,
- discussed the text of the report about risks and information concerning the cooperation project of PRE and EnBW (MOST).

The Supervisory Board also 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.

Further the Supervisory Board 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 regular (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 Controlled Persons Controlled by the same Controlling Person in accordance with Section 66a (9) of the Commercial Code.

At its meetings held in 2012, the Supervisory Board among others:
- discussed and reviewed the consolidated and regular (separate) financial statements for the year 2011 and became acquainted with the reports of the auditor concerning these statements,
- discussed and reviewed the proposal of profit division for the year 2011 and recommended the General Meeting to approve it, including the submitted drafts of the consolidated and regular (separate) financial statements,
- discussed the text of the Annual Report for 2011.

The Supervisory Board declares that the Company's economic results in 2011 were very good and expresses its thanks to the members of the Company Board of Directors and employees.

In Prague on 15.3.2012

Petr Hulinský
Chairman of the Supervisory Board

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: 601 93 913

Report on the Separate Financial Statements

Based upon our audit, we issued the following audit report dated 21 February 2012 on the financial statements which are included in this annual report on pages from 101 to 133:

We have audited the accompanying financial statements of Pražská energetika, a.s., which comprise the statement of financial position as of 31 December 2011, 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 International Standards on Auditing. 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 of 31 December 2011, 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 21 February 2012 on the consolidated financial statements which are included in this annual report on pages from 67 to 98:

We have audited the accompanying consolidated financial statements of Pražská energetika, a.s. and its subsidiaries, which comprise the statement of financial position as of 31 December 2011, 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 its subsidiaries as of 31 December 2011, and of its 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 2011 which is included in this annual report on pages 53 to 60. 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 2011 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 2011 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 23 March 2012

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. certificate no. 79	Václav Loubek certificate no. 2037
Deloitte	

Consolidated Financial Statements – retrospective summary (2003–2009)

Consolidated Income Statements (CZK thousand)

	2009	2008	2007	2006	2005	2004	2003
Revenues from electricity sold	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	(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	**5,202,537**	**5,202,183**	**5,424,939**	**4,595,575**	**3,980,259**	**3,772,063**	**3,645,156**
Other operating income	394,364	182,787	195,154	210,258	126,516	179,118	317,315
Personnel expenses	(996,497)	(960,525)	(979,253)	(904,787)	(799,161)	(749,662)	(711,217)
Depreciation	(810,676)	(739,669)	(739,803)	(688,289)	(833,994)	(877,104)	(610,862)
Costs of services, material and energy	(925,999)	(994,289)	(899,904)	(861,115)	(830,360)	(835,239)	(1,023,132)
Financial costs (bearing interest	(98,485)	(27,341)	(14,558)	(16,539)	(21,780)	(15,351)	
Other gains and losses	(82,918)	(66,585)	(8,554)	561	(34,995)	(186,518)	(347,542)
Profit from ordinary activity before tax	**2,682,326**	**2,729,731**	**2,978,021**	**2,335,664**	**1,586,485**	**1,287,307**	**1,269,718**
Income tax	(538,645)	(559,233)	(521,108)	(642,398)	(388,755)	(259,904)	(264,393)
Profit from ordinary activity after tax	**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	**2,143,681**	**2,170,498**	**2,456,913**	**1,693,266**	**1,197,730**	**1,027,403**	**978,618**
Profit per ordinary share [CZK]	554	561	635	438	304	254	242

Consolidated Balance Sheet – Consolidated Statements on Financial Position – (CZK thousand)

	2009	2008	2007	2006	2005	2004	2003
ASSETS							
Property, plants and equipment	14,700,276	13,702,513	12,697,512	12,084,545	11,569,394	11,119,624	9,808,997
Intangible fixed assets	210,827	186,073	169,645	142,310	163,949	177,710	155,707
Trade receivables and receivables	22,850	46,540	128,211	29,852	30,300	32,586	57,616
Non-current assets	**14,933,953**	**13,935,126**	**12,995,368**	**12,256,707**	**11,763,643**	**11,329,920**	**10,022,320**
Inventories	41,927	53,130	42,866	31,186	34,099	49,767	40,834
Tax receivables	152,190	79,363	5,483	23,038	75,337	53,703	41,733
Trade receivables and other receivables	2,618,911	3,594,018	1,949,385	650,971	586,882	429,916	307,017
Other financial assets	148,851	172,350	162,754	441,028	134,885	319,158	666,399
Cash and cash equivalents	1,545,586	461,910	66,443	276,986	40,241	50,831	129,948
Current assets	**4,507,465**	**4,360,771**	**2,226,931**	**1,423,209**	**871,444**	**903,375**	**1,185,931**
Total assets	**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
Funds from profit	1,171,867	1,566,166	1,048,453	1,156,387	1,155,605	1,156,255	1,154,527
Retained earnings	6,373,757	6,371,678	6,637,636	5,558,243	4,729,516	4,277,212	3,385,110
Equity	**11,415,067**	**11,807,287**	**11,555,532**	**10,584,073**	**9,754,564**	**9,302,910**	**8,409,080**
Loans	2,515,733	1,305,060	0	84,238	125,000	149,000	163,000
Trade payables and other payables	189,816	185,938	326,643	162,277	197,986	39,075	13,921
Provisions	333,988	331,855	325,760	321,705	364,808	578,604	423,512
Deferred tax liability	1,194,322	1,161,768	937,095	1,114,862	964,937	820,664	675,573
Long-term liabilities	**4,233,859**	**2,984,621**	**1,589,498**	**1,683,082**	**1,652,731**	**1,587,343**	**1,276,006**
Bank loans	974,169	655,132	221,224	197,905	416,000	457,000	28,000
Tax payables	101,725	116,305	331,959	153,343	14,383	12,278	35,991
Trade payables and other payables	2,711,748	2,729,229	1,461,534	1,014,348	705,533	863,311	1,453,780
Provisions	4,850	3,323	62,552	47,165	91,876	10,453	5,394
Short-term liabilities	**3,792,492**	**3,503,989**	**2,077,269**	**1,412,761**	**1,227,792**	**1,343,042**	**1,523,165**
Total liabilities	**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 31.12.2011

Consolidated Income Statement (CZK thousand)

	Note	2011	2010
Revenues from electricity produced		**5,939**	1,523
Revenues from electricity sold		**20,463,031**	19,984,453
Costs of electricity sold		**(14,210,352)**	(14,402,907)
Gross profit from the sale and production of electricity	**(4)**	**6,258,618**	**5,583,069**
Other operating income	(4)	**320,131**	304,228
Personnel expenses	(6)	**(1,129,933)**	(1,048,783)
Amortisation and depreciation	(13, 14)	**(904,296)**	(861,721)
Costs of services, material and energy	(7)	**(1,094,887)**	(990,721)
Borrowing costs	(8)	**(84,653)**	(89,765)
Other gains and losses	(9)	**213,040**	(105,669)
Profit from ordinary activity before tax		**3,578,020**	**2,790,638**
Income tax	(10)	**(696,647)**	(544,975)
Profit from ordinary activity after tax		**2,881,373**	**2,245,663**
Earnings per share attributable to ordinary shares (CZK)	(12)	**745**	580

Consolidated Statement of Comprehensive Income (CZK thousand)

	2011	2010
Profit from ordinary activity after tax	**2,881,373**	**2,245,663**
Total other comprehensive income:		
Revaluation of other financial assets	**3,344**	(437)
Cash flow hedging	**178,538**	947
Total other comprehensive income after tax	**181,882**	**510**
Comprehensive income attributable to shareholders of the parent company	**3,063,255**	**2,246,173**

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

	Note	**2011**	2010
ASSETS			
Property, plant and equipment	(13)	**16,928,531**	15,805,631
Intangible assets	(14)	**233,327**	215,742
Trade receivables and other receivables	(16)	**28,213**	21,335
Non-current assets		**17,190,071**	**16,042,708**
Inventories	(17)	**27,978**	41,002
Tax receivables		**193,984**	13,445
Trade receivables and other receivables	(16)	**2,174,931**	1,656,360
Other financial assets	(18)	**52,371**	49,025
Cash and cash equivalents	(19)	**379,519**	592,853
Current assets		**2,828,783**	**2,352,685**
Total assets		**20,018,854**	**18,395,393**
LIABILITIES			
Share capital	(24)	**3,869,443**	3,869,443
Funds from profit	(25)	**1,354,259**	1,172,377
Retained earnings		**7,309,034**	6,478,232
Shareholder's equity attributable to the parent company's shareholders		**12,532,736**	**11,520,052**
Loans	(20)	**73,479**	1,210,670
Trade payables and other payables	(21)	**250,405**	311,738
Provisions	(23)	**73,723**	345,073
Deferred tax liability	(10)	**1,479,599**	1,291,241
Long-term payables		**1,877,206**	**3,158,722**
Loans	(20)	**2,376,876**	1,302,071
Tax payables		**149,773**	79,962
Trade payables and other payables	(21)	**2,973,433**	2,325,889
Provisions	(23)	**108,830**	8,697
Short-term payables		**5,608,912**	**3,716,619**
Total liabilities		**20,018,854**	**18,395,393**

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 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**
Dividends and director's fees paid	–	–	(2,050,571)	(2,050,571)
Other comprehensive income	–	181,882	–	181,882
Net profit for 2011	–	–	2,881,373	2,881,373
Balance at 31 Dec 2011	**3,869,443**	**1,354,259**	**7,309,034**	**12,532,736**

Consolidated Cash Flow Statement (CZK thousand)

	Note	**2011**	2010
Opening balance of cash and cash equivalents	(19)	**592,853**	1,545,586
Operating activity			
Accounting profit from ordinary activity before tax		**3,578,020**	**2,790,638**
Amortisation and depreciation	(13, 14)	**904,296**	861,721
Write-off of bad debts and other assets	(9)	**31,000**	22,069
Change in allowances, provisions and temporary accounts		**(160,339)**	166,158
Profits and losses from the sale and disposal of fixed assets	(9)	**(38,925)**	(1,296)
Interest on and income from securities held	(8, 9)	**76,010**	80,855
Foreign exchange rate gains and losses	(9)	**(4,100)**	26,959
Revaluation of financial instruments	(9)	**(36,461)**	5,320
Net cash flow from operating activity before changes in working capital		**4,349,501**	**3,952,424**
Change in trade receivables	(16)	**(517,151)**	209,073
Change in trade payables	(21)	**435,009**	168,874
Change in inventories	(17)	**12,864**	6,691
Net cash flow from operating activity before tax and interest		**4,280,223**	**4,337,062**
Interest paid		**(75,156)**	(81,774)
Interest received		**8,634**	8,909
Income tax paid		**(429,736)**	(294,209)
Net cash flow from operating activity		**3,783,965**	**3,969,988**
Investment activity			
Expenses related to the acquisition of fixed assets	(13, 14)	**(1,952,687)**	(1,915,175)
Income from the sale of fixed assets		**86,595**	21,236
Net cash flow from investment activity		**(1,866,092)**	**(1,893,939)**
Financial activity			
Change in financial payables	(20)	**(80,805)**	(976,074)
Change in other current financial assets	(18)	**131**	97,186
Dividends paid – majority interests	(11)	**(1,997,424)**	(1,216,003)
Dividends paid – minority interests	(11)	**(53,707)**	(924,482)
Net cash flow from financial activity		**(2,131,805)**	**(3,019,373)**
Impact of the change in foreign exchange rates		**598**	(9,409)
Change in cash and cash equivalents		**(213,932)**	(943,324)
Closing balance of cash and cash equivalents	**(19)**	**379,519**	**592,853**

Notes to the Financial Statements for the year ended 31.12.2011

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	**2011**	2010
Pražská energetika Holding a.s.	**58.05%**	57.87%
Energie Baden – Württemberg AG	**41.40%**	41.26%
Other	**0.55%**	0.87%
Total	**100.00%**	**100.00%**

As part of the finalisation of the delisting of the Company's shares from regulated markets, 6,501 shares were added to PRE's account at the Central Securities Depository as of 2 November 2011 on the basis of the repurchase from minority shareholders; the shares were purchased for CZK 8,000 per share, i.e. the total of CZK 52,008,000. On 15 December 2011, shares were additionally purchased from the shareholders that concluded a valid contract for the sale of shares but they did not issue an instruction for their transfer on a timely basis. As of that date, 133 shares were added to PRE's account in the Central Securities Depository, purchased for CZK 8,000 per share, i.e. a total of CZK 1,064,000. As of 16 December 2011, 6,634 shares of Pražská energetika, a.s. were registered at PRE's account at the Central Securities Depository. In accordance with the contracts for the transfer of securities for consideration dated 7 December 2011 and 19 December 2011, the total of 6,634 shares were sold for CZK 8,020 per share, i.e. a total of CZK 53,204,680 thousand, to Pražská energetika Holding a.s. The settlement date was 28 December 2011. On that date, 6,634 shares were transferred from the asset account of Pražská energetika, a.s. to the asset account of Pražská energetika Holding a.s. Pražská energetika, a.s. complied with all the statutory requirements defined for the delisting of shares from trading on regulated markets. For this reason, organisers of these markets – Burza cenných papírů Praha, a.s. and RM-SYSTÉM česká burza cenných papírů a.s., decided that the registered shares of Pražská energetika, a.s. in the certificate form, ISIN CZ0005078154, were delisted from the trading on regulated markets, with effect from 1 December 2011. The last trading date was 30 November 2011.

The Capital City of Prague owns 51 percent of Pražská energetika Holding and Energie Baden – Württemberg AG holds 49 percent.

(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 European Union are effective for the current period:

- **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 July 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 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 July 2010 or 1 January 2011 – according to specific standards or interpretations);

- **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 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 IFRS 7 "Financial Instruments: Disclosures"**- Transfers of financial assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

Standards and interpretations issued by the IASB Council but not yet adopted by the European Union

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015);

- **IFRS 10 – "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);

- **IFRS 11 – "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013);

- **IFRS 12 – "Disclosure of Interest in Other Entities"** (effective for annual periods beginning on or after 1 January 2013);

- **IFRS 13 – "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013);

- **IAS 27 (revised in 2011) – "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);

- **IAS 28 (revised in 2011) – "Investments in Associates"** (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IFRS 1 – "First-time Adoption of International Financial Reporting Standards"** – 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"** – offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IFRS 9 – "Financial Instruments" and IFRS 7 "Financial Instruments – Disclosures"** – binding date of effectiveness of IFRS 9 and temporary disclosures;

- **Amendments to IAS 1 – "Presentation of Financial Statements"** – presentation of items of other comprehensive income (effective for annual periods beginning on or after 1 July 2012);

- **Amendments to IAS 12 – "Income Taxes"** – deferred tax – recovery of underlying assets (effective for annual periods beginning on or after 1 January 2012);

- **Amendments to IAS 19 – "Employee Benefits"** – improved accounting for post-employment benefits (effective for annual periods beginning on or after 1 January 2013); and

- **Amendments to IAS 32 – "Financial Instruments: Presentation"** – offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).

(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.
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 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	4, 15
Machinery and special technology equipment, communication cables	4, 5, 10
Vehicles	4, 8, 10
Electricity meters	10, 12 a 16
Furniture and fixtures	4, 8
Hardware	3, 4
PVS – construction part *)	20
PVS – technology *)	10, 20

*) The depreciation period is calculated from the date of bringing the PVS into operation

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	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.

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 transactions.
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)

Income and expenses relating to electricity trading and electricity production	**2011**	2010
Income from electricity production	**7,729**	1,523
Payment for solar energy	**(1,790)**	–
Total income from electricity production	**5,939**	**1,523**
Sale of electricity B2B (including B2B NN)	**6,591,200**	7,121,953
Sale of distribution and system services B2B	**4,412,713**	3,430,806
Sale of electricity B2C	**3,385,699**	4,116,574
Sale of distribution and system services B2C (including B2B NN)	**5,791,025**	5,086,335
Other income *)	**260,410**	205,432
Gross profit from trading	**21,984**	23,353
Total income from sold electricity	**20,463,031**	**19,984,453**
Costs of purchases of sold electricity	**(8,981,814)**	(10,617,224)
Costs of purchases of distribution and system services	**(5,228,538)**	(3,785,683)
Total costs of sold electricity	**(14,210,352)**	**(14,402,907)**
Gross profit from the sale and production of electricity	**6,258,618**	**5,583,069**

*) Includes income from the supplies of electricity to distributors and electricity traders.

Other operating income	**2011**	2010
Income from provided services *)	**112,765**	120,397
Received investment contributions	**173,869**	143,528
Change in work-in-progress and internal investments	**1,265**	4,940
Compensation for unauthorised consumption	**24,598**	26,205
Other	**7,634**	9,158
Total	**320,131**	**304,228**

*) 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.

Segment reporting	Trade		Distribution		Services	
	2011	2010	2011	2010	2011	2010
Electricity/Distribution						
External income	**18,468,522**	18,787,817	1,994,509	1,196,636	5,939	1,523
Inter-segment income	**568,813**	641,174	7,118,282	6,547,957	–	–
External expenses	**(10,113,057)**	(11,418,613)	(4,097,295)	(2,984,294)	–	–
Inter-segment expenses	**(7,108,800)**	(6,540,491)	(568,813)	(641,174)	–	–
Gross profit	**1,815,478**	**1,469,887**	**4,446,683**	**4,119,125**	**5,939**	**1,523**
Other external operating income	**11,941**	10,062	218,598	192,422	89,592	94,628
Other inter-segment operating income	**219,775**	208,965	14,194	11,457	1,315,402	1,279,025
Personnel expenses	**(233,056)**	(204,056)	(388,544)	(403,013)	(396,059)	(411,430)
Depreciation and amortisation of fixed assets	**(8,149)**	(6,729)	(695,038)	(662,456)	(201,847)	(193,150)
Other operating expenses	**(472,769)**	(452,469)	(1,500,030)	(1,408,989)	(666,741)	(611,555)
Other gains and losses net of received interest	**(51,600)**	(63,089)	25,345	(32,028)	(26,985)	2,144
Operating profit or loss of the segment	**1,281,620**	**962,571**	**2,121,208**	**1,816,518**	**119,301**	**161,185**
Received interest	**–**	–	471	1	78,743	96,360
Borrowings costs	**–**	–	(53,649)	(70,301)	(110,218)	(115,825)
Provisions (unallocated)	**–**	–	–	–	–	–
Income tax	**–**	–	(334,343)	(331,434)	–	–
Income tax (unallocated)	**–**	–	–	–	–	–
Segment profit or loss	**1,281,620**	**962,571**	**1,733,687**	**1,414,784**	**87,826**	**141,720**
Other information						
Property, plant and equipment	**12,437**	11,991	14,730,685	13,758,472	2,185,409	2,035,168
Intangible assets	**–**	–	40,068	17,777	193,259	197,965
Receivables	**1,728,741**	1,454,230	2,061,858	2,436,320	3,153,585	3,050,919
Other assets	**–**	–	183,810	1,863	276,160	694,462
Total assets	**1,741,178**	**1,466,221**	**17,016,421**	**16,214,432**	**5,808,413**	**5,978,514**
Payables	**4,242,548**	4,531,040	4,588,094	4,562,702	3,202,633	3,045,373
Expenses related to the acquisition of fixed assets	**–**	–	(1,532,012)	(1,637,334)	(392,675)	(277,841)
Non-cash expenses other than write-offs	**(227,654)**	78,048	24,653	88,043	33,101	54,416

Segment reporting	Eliminations		Total	
	2011	2010	2011	2010
Electricity/Distribution				
External income	**–**	–	20,468,970	19,985,976
Inter-segment income	**(7,687,095)**	(7,189,131)	–	–
External expenses	**–**	–	(14,210,352)	(14,402,907)
Inter-segment expenses	**7,677,613**	7,181,665	–	–
Gross profit	**(9,482)**	**(7,466)**	**6,258,618**	**5,583,069**
Other external operating income	**–**	7,114	320,131	304,226
Other inter-segment operating income	**(1,549,371)**	(1,499,447)	–	–
Personnel expenses	**–**	–	(1,017,659)	(1,018,499)
Depreciation and amortisation of fixed assets	**738**	614	(904,296)	(861,721)
Other operating expenses	**1,544,653**	1,482,292	(1,094,887)	(990,721)
Other gains and losses net of received interest	**15**	18	(53,224)	(92,955)
Operating profit or loss of the segment	**(13,446)**	**(16,875)**	**3,508,683**	**2,923,399**
Received interest	**(79,214)**	(96,361)	–	–
Borrowings costs	**79,214**	96,361	(84,653)	(89,765)
Provisions (unallocated)	**–**	–	153,990	(42,997)
Income tax	**(50,529)**	1,152	(384,872)	(330,282)
Income tax (unallocated)	**–**	–	(311,775)	(214,692)
Segment profit or loss	**(63,975)**	**(15,723)**	**2,881,373**	**2,245,663**
Other information				
Property, plant and equipment	**–**	–	16,928,531	15,805,631
Intangible assets	**–**	–	233,327	215,742
Receivables	**(4,547,158)**	(5,263,774)	2,397,026	1,677,695
Other assets	**–**	–	459,970	696,325
Total assets	**(4,547,158)**	**(5,263,774)**	**20,018,854**	**18,395,393**
Payables	**(4,547,158)**	(5,263,774)	7,486,117	6,875,341
Expenses related to the acquisition of fixed assets	**–**	–	(1,924,687)	(1,915,175)
Non-cash expenses other than write-offs	**–**	–	(169,900)	220,507

(6) Personnel Expenses (CZK thousand)

	2011	2010
	Staff including management	Staff including management
Average headcount	**1,338**	1,314
Payroll costs	**625,002**	597,586
Salaries paid depending on the fulfilment of the plan	**58,116**	54,495
Insurance	**243,042**	235,987
Remuneration to the members of the Group's statutory bodies	**12,510**	12,433
Other social costs *)	**191,263**	148,282
Total	**1,129,933**	**1,048,783**

*) Primarily costs of severance pays and employee benefits defined by the Collective Agreement, specifically catering contributions, bonuses paid to employees in relation to work or life anniversaries, retirement and contributions to additional pension insurance. The increase in expenses relates to the newly recognised provision for salaries paid in dependence on the fulfilment of the plan of the prior period and salaries corresponding to outstanding vacation days incurred as of the balance sheet date.

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

	2011	2010
Material and consumed energy	**98,759**	105,715
Repairs of tangible fixed assets	**338,341**	273,881
Consulting services	**44,048**	28,149
Rental charges	**169,287**	167,543
Postage and telecommunication fees	**47,394**	45,383
IT support	**120,812**	123,300
Marketing	**102,312**	93,971
Training and conferences	**8,929**	6,509
Other *)	**165,005**	146,270
Total	**1,094,887**	**990,721**

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

(8) Borrowing Costs (CZK thousand)

	2011	2010
Interest on loan	**78,007**	82,448
Interest expense on employee benefits	**4,104**	4,758
Interest on leases	**2,539**	2,555
Other	**3**	4
Total	**84,653**	**89,765**

(9) Other Gains and Losses CZK thousand)

	2011	2010
Write-offs of doubtful debt and creation of allowances	**(49,528)**	(60,884)
Taxes and charges	**(13,260)**	(13,167)
Insurance premium	**(7,817)**	(6,903)
Gain/(loss) from the sale and disposal of fixed assets and inventories	**44,088**	1,411
Change in provisions	**223,314**	(19,783)
Foreign exchange rate gains (losses)	**(9,436)**	946
Proceeds from securities held	**3,026**	3,787
Revaluation of interest rate swaps	**28,992**	6,097
Other	**(6,339)**	(17,173)
Total	**213,040**	**(105,669)**

(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 2011 (2010: 19 percent). Deferred tax is calculated only in respect of significant items, using the income tax rates effective in future periods, i.e. 19 percent (2010: 19 percent).

	2011	2010
Current tax payable	**550,167**	448,278
Deferred tax	**146,480**	96,697
Total income tax	**696,647**	**544,975**

Effective tax rate	**2011**		2010	
Profit before tax	**3,578,020**		**2,790,638**	
Income tax using the effective income tax rate	**679,824**	**19.00%**	530,221	19.00%
Impact of items that are never tax-deductible	**17,673**	**0.49%**	11,668	0.42%
Corrections of tax estimates from prior periods	**(850)**	**(0.02)%**	3,086	0.11%
Total income tax/effective tax rate	**696,647**	**19.47%**	**544,975**	**19.53%**

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

	2011	Recorded in profit or loss	Recorded in equity	2010	Recorded in profit or loss	Recorded in equity	2009
Fixed assets	**1,507,717**	108,525	–	1,399,192	108,814	–	1,290,378
Provisions and allowances against receivables	**(34,154)**	40,030	–	(74,184)	(2,665)	–	(71,519)
Inventories	**(470)**	(29)	–	(441)	1,096	–	(1,537)
Obligation under the Collective Agreement	**(42,234)**	(2,047)	–	(40,187)	(11,104)	–	(29,083)
Cash flow hedge	**48,740**	–	41,879	6,861	–	222	6,639
Other	**–**	–	–	–	556	–	(556)
Total deferred tax liability	**1,479,599**	**146,479**	**41,879**	**1,291,241**	**96,697**	**222**	**1,194,322**

(11) Dividends (CZK thousand)

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

	2011	2010
Final dividend for 2010 of CZK 520 (2009: CZK 543) per share	**2,012,110**	2,101,108

The proposed final dividend for 2011 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 2,881,373 thousand (2010: CZK 2,245,663 thousand) attributable to 3,869,443 shares, i.e. the earnings per share amount to CZK 745 (2010: CZK 580). 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 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**

	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 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**
Additions	120.0	522.1	663.7	69.7	22.0	11.4	26.7	207.1	358.9	2,001.6
Disposals	(10.6)	(85.9)	(56.2)	(30.0)	(35.8)	(9.4)	(73.7)	(23.0)	(1.8)	(326.4)
Reclassification	(0.1)	468.4	203.1	64.1	75.8	–	30.6	1.9	(428.8)	415.0
Balance at 31 Dec 2011	**646.4**	**9,467.3**	**10,590.7**	**2,070.4**	**1,668.8**	**98.4**	**1,804.3**	**763.0**	**472.6**	**27,581.9**
Accumulated depreciation										
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)**
Depreciation	–	(231.7)	(218.2)	(139.9)	(35.5)	(16.0)	(151.6)	(33.4)	–	(826.3)
Accumulated depreciation on disposals	–	78.4	55.9	28.7	10.3	6.7	73.7	20.3	–	274.0
Reclassification	–	(331.7)	(83.1)	–	–	–	–	(0.2)	–	(415.0)
Balance at 31 Dec 2011	**(1.8)**	**(3,858.0)**	**(3,412.2)**	**(1,457.6)**	**(340.6)**	**(42.5)**	**(1,240.5)**	**(300.2)**	**0.0**	**(10,653.4)**
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**
Net book value – 2011	**644.6**	**5,609.3**	**7,178.5**	**612.8**	**1,328.2**	**55.9**	**563.8**	**462.8**	**472.6**	**16,928.5**

*) The "Other" category includes the value of photovoltaic power stations at the net book value of CZK 235 million with the capacity of 2.798 kWp.

(14) Intangible Assets (CZK million)

	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**

	Software	Other	Assets under construction	Total
Cost				
Balance at 31 Dec 2010	**646.2**	**22.4**	**74.8**	**743.4**
Additions	22.1	1.9	85.3	109.3
Disposals	(0.4)	–	(9.5)	(9.9)
Reclassification	50.6	2.2	(52.8)	–
Balance at 31 Dec 2011	**718.5**	**26.5**	**97.8**	**842.8**
Accumulated amortisation				
Balance at 31 Dec 2010	**(514.5)**	**(13.2)**	**–**	**(527.7)**
Amortisation	(77.6)	(4.6)	–	(82.2)
Accumulated amortisation on disposals	0.4	–	–	0.4
Reclassification	–	–	–	–
Balance at 31 Dec 2011	**(591.7)**	**(17.8)**	**–**	**(609.5)**
Net book value – 2010	**131.7**	**9.2**	**74.8**	**215.7**
Net book value – 2011	**126.8**	**8.7**	**97.8**	**233.3**

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

	2011	2010
Depreciation	**(904.3)**	(861.7)
Impairment loss	**(4.2)**	–
Total	**(908.5)**	**(861.7)**

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	**2011**	2010
Low value tangible assets	**269,531**	267,875
Low value intangible assets	**37,163**	37,437
Total	**306,694**	**305,312**

The ownership title to the photovoltaic power station in the Dub u Kondrace cadastral area is restricted by the pledge corresponding to the amount of the loan (refer to Note 20 – Loans, loan no.6).
The Group anticipates incurring aggregate capital expenditure of CZK 2.3 billion thousand in 2012. Approximately CZK 0.7 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.	Purchase, sale and installation 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	**2011**	2010
Principal amounts paid	**21,800**	13,173
Receivables from sold flats *)	**6,282**	8,032
Other	**131**	130
Total	**28,213**	**21,335**

*) Of the stated receivables, the maturity of receivables totalling CZK 133 thousand exceeds five years (2010: CZK 759 thousand).

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

Trade receivables and other short-term receivables	**2011**	2010
Receivables from electricity supplies	**1,310,682**	1,162,976
Margin deposit with power exchanges	**105,264**	127,555
Receivables from the revaluation of commodity contracts (own-use portfolio)	**1,666**	28,674
Receivables from the revaluation of commodity contracts (trading portfolio)	**158,797**	188,305
Receivables from cash flow hedges	**257,450**	36,112
Other assets*)	**341,072**	112,738
Total	**2,174,931**	**1,656,360**

Of the stated short-term trade receivables, receivables past their due date totalled CZK 438,727 thousand (2010: CZK 433,343 thousand).

Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

Balance at 31 Dec 2009	**186,108**
Charge and drawing in the current year	38,815
Balance at 31 Dec 2010	**224,923**
Charge and drawing in the current year	18,528
Balance at 31 Dec 2011	**243,451**

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	**2011**	2010
Material	**21,090**	32,285
Goods	**6,888**	8,717
Total	**27,978**	**41,002**

"Purchased material, services and energy" and "Other gains and losses" in the income statement include costs of sold and consumed material of CZK 118,972 thousand (2010: CZK 135,960 thousand).

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

Balance at 31 Dec 2009	**8,088**
Charge and drawing in the current year	(5,767)
Balance at 31 Dec 2010	**2,321**
Charge and drawing in the current year	160
Balance at 31 Dec 2011	**2,481**

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	
	2011	2010
Equity securities available for sale	**6,035**	8,051
Bonds available for sale	**46,336**	40,974
Total	**52,371**	**49,025**

(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	**2011**	**2010**
Depository bills	**51,601**	147,218
Current bank accounts	**323,537**	440,776
Cash on hand	**2,641**	3,118
Stamps and vouchers	**1,740**	1,741
Total	**379,519**	**592,853**

(20) Loans (CZK thousand)

	2011			2010		
	Amount	Interest rate	Maturity date	Amount	Interest rate	Maturity date
Loan # 1	**–**	**–**	**–**	1,302,071	PRIBOR + 0.29%	30 Nov 2011
Loan # 2	**610,792**	**PRIBOR + 2.00%**	**30 June 2012**	600,059	PRIBOR + 2.00%	30 June 2012
Loan # 3	**610,549**	**PRIBOR + 1.95%**	**30 June 2012**	610,611	PRIBOR + 1.95%	30 June 2012
Loan # 4	**1,001,396**	**PRIBOR+0.42%**	**30 Nov 2012**	–	–	–
Loan # 5	**150,010**	**FIX 1.23%**	**2 Jan 2012**	–	–	–
Loan # 6	**77,608**	**Fix 5.69%**	**31 Dec 2024**	–	–	–
Total	**2,450,355**			**2,512,741**		
Long-term loans	**73,479**			1,210,670		
Short-term loans	**2,376,876**			1,302,071		

Loan no. 6 loan is collateralised by the pledge of tangible assets forming the functional system of the photovoltaic power station located in the Dub u Kondrace cadastral area. The Group uses interest rate swaps to hedge the interest rate from loans. The banks do not require loan collateral with regard to the Group’s rating. Undrawn bank loans amounted to CZK 3,819 million as of 31 December 2011 (2010: CZK 3,902 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	**2011**	2010
Payables to employees *)	**208,721**	191,893
Payables from distribution services (correction factor according to ERO)	**–**	70,676
Other financial payables	**41,684**	49,169
Total	**250,405**	**311,738**

*) 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	**2011**	2010
Trade payables*)	**2,530,782**	1,930,438
Payables from the revaluation of commodity contracts (trading portfolio)	**109,890**	146,868
Payables from revaluation of interest rate derivatives	**6,771**	35,763
Payables to employees **)	**64,442**	66,852
Payables from social security and health insurance	**24,889**	21,434
Other payables ***)	**236,659**	124,534
Total	**2,973,433**	**2,325,889**

*) Include an estimated payable for the supplied but not yet billed electricity reported together with received electricity prepayments of CZK 904,910 thousand (2010: CZK 775,243 thousand).
**) Includes unpaid December salaries and payables to employees under the Collective Agreement in the amount of CZK 26,201 thousand (2010: CZK 32,787 thousand).
***) Of which CZK 14,495 thousand represent payables arising from finance leases (2010: CZK 14,351 thousand).

The Group reports overdue trade payables in the amount of CZK 27 thousand (2010: CZK 413 thousand). All overdue payables were settled during January 2012. 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	
	2011	2010	**2011**	2010
Lease payments due within 1 year	**26,251**	14,670	**26,010**	14,351
Lease payments due from 1 to 5 years	**30,728**	50,298	**29,239**	47,960
Lease payments due in over 5 years	**999**	1,410	**896**	1,176
Total lease payments	**57,978**	**66,378**	**56,145**	**63,487**
Future lease payments	**(1,833)**	(2,891)		
Present value of minimum lease payments	**56,145**	**63,487**	**56,145**	**63,487**
Trade payables and other payables				
Long-term			**41,652**	49,136
Short-term			**14,493**	14,351
Total			**56,145**	**63,487**
Tangible fixed assets				
Carrying amount of assets held under finance leases			**56,145**	63,487

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 of the Group corresponds to their carrying value.

(23) Provisions (CZK thousand)

	Business risks	Severance pay	Other	Total
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**
Creation of provisions in the current year	–	108,830	150	108,980
Use of provisions in the current year	(56,729)	–	–	(53,747)
Release of provisions in the current year	(223,468)	–	–	(226,450)
Balance at 31 Dec 2011	**72,813**	**108,830**	**910**	**182,553**
Long-term payables – provisions	72,813	–	910	73,723
Short-term payables – provisions	–	108,830	–	108,830
Total	**72,813**	**108,830**	**910**	**182,553**

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 dispute was discontinued through the settlement agreement. CZK 45,050 thousand of the provision amounting to CZK 266,265 thousand was used for the settlement and the remaining portion was released.
- A provision for risks arising from the operation of fixed assets totalling CZK 68,599 thousand (CZK 72,378 thousand as of 31 December 2010).

(24) Share Capital (CZK thousand)

Share capital		
Registered as of 31 December 2011	**2011**	**2010**
Registered stock with a nominal value of CZK 1.000 per share	**3,869,443**	3,869,443
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)

	2011	2010
Statutory reserve fund	**773,889**	773,889
Fund from the revaluation of current other financial assets	**(10,876)**	(13,474)
Cash flow hedge *)	**208,535**	29,251
Other funds from profit	**382,711**	382,711
Total	**1,354,259**	**1,172,377**

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 1993). 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 108 million in favour of Operátor trhu s elektřinou a.s. (CZK 30 million as of 31 December 2010), a bank guarantee in the amount of EUR 200 thousand to Slovenská elektrizačná prenosová sústava, a.s. (2010: EUR 200 thousand), EUR 2.5 million to Centrální depozitář cenných papírů, a.s. (2010: EUR 3.3 million), CZK 30 million for the public contract of the Prague School of Economics, CZK 5 million for the public contract of Jihoměstská majetková, a.s., CZK 0.5 million for the public contract of Mikrobiologický ústav AV ČR and CZK 0.8 for public contracts of the capital city of Prague.

(27) Financial Instruments (CZK thousand)

Categories of Financial Instruments

Financial assets	**2011**	2010
(a) Financial assets at fair value through profit or loss (revaluation of commodity contracts)	**158,767**	188,305
(b) Financial derivatives under hedge accounting	**257,450**	36,112
(c) Loans and receivables (including cash and cash equivalents)	**1,855,794**	1,927,221
(d) Financial assets available for sale	**52,371**	49,025

The loans and receivables predominantly include receivables from electricity supplies.

Financial liabilities	**2011**	2010
(e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts)	**109,890**	146,868
(f) Financial liabilities at fair value through profit or loss (revaluation of interest rate swaps)	**6,771**	35,763
(g) Financial liabilities at amortised cost	**4,459,763**	4,193,233

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		**2011**	2010
Gain from revaluation of commodity derivatives in the trading portfolio			
(included in "Profit from trading")	(a, e)	**21,984**	23,353
Profit/loss from the revaluation of interest rate swaps	(f)	**28,992**	6,097
Gain from securities held	(c, d)	**3,025**	3,787
Borrowing costs (except for the interest on employee benefits)	(g)	**(80,548)**	(85,007)
Other	(c, g)	**236,736**	(74,700)
Hedge accounting *)		**2011**	**2010**
Creation of the equity fund from the cash flow hedge	(b)	**257,450**	36,112
Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased")	(b)	**(36,112)**	(34,943)

*) 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.

	2011	2010
Total assets	**20,018,854**	18,395,393
Shareholders' equity	**12,532,736**	11,520,052
Shareholders' equity/total assets	**63%**	63%

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) *	
	2011	2010	**2011**	2010
Currency derivatives for the purchase of EUR	**257,450**	36,112	**48,916**	6,861
Other assets and liabilities	**546,414**	645,275	**1,003,690**	731,360
Total EUR	**803,864**	**681,387**	**1,052,606**	**738,221**
Other currencies	**204**	187	**–**	–
Total	**804,068**	**681,574**	**1,052,606**	**738,221**

*) 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	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Up to 1 month	**24.13**	24.72	**30,000**	20,000	**724,005**	494,400	**49,991**	6,828
1–3 months	**24.11**	24.80	**60,000**	30,000	**1,446,840**	744,060	**100,636**	7,982
3–12 months	**25.27**	24.70	**211,000**	55,000	**5,331,272**	1,358,435	**106,823**	21,302
Total	**24.92**	**24.73**	**301,000**	**105,000**	**7,502,117**	**2,596,895**	**257,450**	**36,112**

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)

	2011	2010
Profit (+) or loss (-)	**(4,572)**	(859)
Shareholders' equity	**62,474**	21,250

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	
	2011	2010	**2011**	2010	**2011**	2010
Interest rate swaps	**2.53%**	3.08%	**1,200,000**	2,500,000	**(6,771)**	(35,763)

The contracts will mature in 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) *	
	2011	2010	**2011**	2010
Interest rate swaps	**–**	–	**6,771**	35,763
Other assets and liabilities	**265,936**	46,045	**1,277,928**	6,861
Total	**265,936**	**46,045**	**1,284,699**	**42,624**

*) 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)

	2011	2010
Profit (+) or loss (-)	**(1,113)**	(296)
Shareholders' equity	**(511)**	(109)

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 exchange trading, the issues related to the daily revaluation of commodity futures traded on the Prague commodity 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 – 2011	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade balances	(16)	1,224,303	77,660	8,719	–	**1,310,682**
Margin deposits. principals paid	(16)	88,796	4,179	12,373	21,800	**127,148**
Other receivables including receivables from sold apartments	(16)	12,104	393	18,479	8,111	**39,087**
Total		**1,325,203**	**82,232**	**39,571**	**29,911**	**1,476,917**

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**

Payables – 2011	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	**Total**
Trade payables	(22)	1,567,686	21,793	36,395	–	**1,625,874**
Other financial payables	(22)	132,615	9,415	9,442	32	**151,504**
Bank loans	(21)	171,415	6,101	2,238,935	102,327	**2,518,778**
Provisions	(24)	–	5,251	49,127	73,723	**128,101**
Total		**1,871,716**	**42,560**	**2,333,899**	**176,082**	**4,424,257**

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 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	**2011**	2010
Non-residential premises	**53,191**	51,853
Cable conduits	**91,366**	89,774
Cars	**3,022**	6,585
Other rented assets of all types	**8,624**	8,663
Total	**156,203**	**156,875**

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 million per year for contracts concluded as of 31 December 2011.

Liabilities arising from irrevocable lease agreements *)	**2011**	2010
Less than 1 year	**7,498**	7,374
from 1 to 5 years	**28,521**	28,622
5 years and more	**82,960**	87,168
Total	**118,979**	**123,164**

*) Lease of land under switching stations where the likelihood of notice is minimal.

(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	**2011**	2010	**2011**	2010
Pražská energetika Holding. a.s. *)	**341**	326	**–**	–
EnBW Trading GmbH **)	**577,674**	479,300	**742,140**	538,730
EnBW Systeme Infrastruktur Support GmbH	**955**	–	**–**	–
Capital City of Prague *)	**54,392**	45,065	**59,038**	27,835
Dopravní podniky hl.m. Prahy. a.s. **)	**1,186,910**	1,027,977	**1,457**	20,728
Pražská teplárenská. a.s. **)	**181,743**	175,258	**127,301**	312,541
Kolektory Praha. a.s. **)	**6,957**	6,689	**109,291**	89,511
Energotrans a.s. **)	**7,307**	6,742	**29,383**	1,926,677
Kongresové centrum Praha. a.s. **)	**57,576**	56,780	**–**	–
Pražské služby. a.s. **)	**8,605**	31,530	**10,059**	1,486
Pražská vodohospodářská společnost a.s. **)	**16,570**	9,740	**59,755**	60,824
Total	**2,099,030**	**1,839,407**	**1,138,424**	**2,978,332**

Total receivables from and payables to related parties:

	Sales to related parties		Purchases from related parties	
Company	**2011**	2010	**2011**	2010
Pražská energetika Holding. a.s. *)	**25**	25	**–**	–
EnBW Trading GmbH **)	**–**	–	**22,649**	8,040
EnBW Systeme Infrastruktur Support GmbH	**955**	–	**–**	–
Capital City of Prague *)	**5,568**	376	**8,653**	17,831
Dopravní podniky hl.m. Prahy. a.s. **)	**71,692**	63,393	**3,184**	12,791
Pražská teplárenská. a.s. **)	**10,732**	8,978	**21,705**	33,813
Kolektory Praha. a.s. **)	**1**	–	**267**	2,616
Energotrans a.s. **)	**2,790**	–	**55**	70,901
Kongresové centrum Praha. a.s. **)	**–**	–	**53**	131
Pražské služby. a.s. **)	**523**	729	**1**	75
Pražská vodohospodářská společnost a.s. **)	**2,014**	1,071	**–**	6,660
Total	**94,300**	**74,572**	**56,567**	**152,858**

*) 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

	2011	2010
Pražská energetika Holding a.s.	**1,164,496**	1,216,003
Energie Baden –Württemberg AG	**832,928**	2,844

The Group's executive management holds 105 shares of the Company in aggregate.

Remuneration for executive management		**2011**			2010	
	Executive directors	**Board of Directors**	**Supervisory Board**	Executive directors	Board of Directors	Supervisory Board
Number	**5**	**15**	**24**	5	14	24
Amounts received from the parent company *)	**12,862**	**10,439**	**20,598**	17,423	10,837	20,373
Amounts received from subsidiaries:	**9,362**	**11,800**	**10,730**	9,301	11,406	10,872

*) Parent company is PRE.

Executive management includes the executive directors (i.e. the CEO and the divisional managers of the Company before 30 October 2010 or the Director of the Company's section since 1 November 2010 and directors of subsidiaries) and the members of the Boards of Directors and Supervisory Boards of all companies in the Group.

Members of the Supervisory Board elected from among the Company's staff also enter into a standard employment contract adequate to their job.

Receivables from Executive Management

As of 31 December 2011, the Group reported receivables from the members of executive management in the total amount of CZK 458 thousand (CZK 535 thousand as of 31 December 2010). These receivables are reported in "Trade receivables and other receivables" and were collected during January 2012.

30) Fees Paid to the Statutory Auditor (CZK thousand)

Service type	PRE-H	PRE	PREdi	PREm	PREleas	**Total**
Audit	384	1,166	727	187	18	**2,482**
Total at 31 Dec 2011	**384**	**1,166**	**727**	**187**	**18**	**2,482**
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**

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 – retrospective summary for the years 2005–2009[1]

Income Statement (CZK thousand)

	2009	2008	2007	2006	2005
Revenues from electricity sold	20,376,734	19,055,042	16,663,941	14,196,511	12,140,558
Cost of electricity sold	(18,928,597)	(17,745,377)	(15,215,735)	(13,226,934)	(8,160,299)
Gross profit from the sale of electricity	**1,448,137**	**1,309,665**	**1,448,206**	**969,577**	**3,980,259**
Other operating income	877,189	829,918	811,927	756,254	100,892
Personnel expenses	(487,443)	(462,181)	(469,497)	(425,008)	(732,827)
Depreciation	(186,941)	(165,294)	(177,439)	(171,365)	(826,567)
Cost of services, material and energy	(515,344)	(543,443)	(478,469)	(457,567)	(864,630)
Borrowing costs	(117,727)	(32,526)	(21,462)	(13,867)	(48,047)
Dividends received	891,000	1,616,769	630,627	24,000	10,840
Other gains and losses	59,567	133,605	15,676	44,968	(33,713)
Profit from ordinary activity before tax	**1,968,438**	**2,686,513**	**1,759,569**	**726,992**	**1,586,207**
Income tax	(224,210)	(231,412)	(275,763)	715,289	(372,216)
Profit from ordinary activity after tax	**1,744,228**	**2,455,101**	**1,483,806**	**1,442,281**	**1,213,991**
Basic and diluted earnings per share attributable to ordinary shares (CZK)	451	634	383	373	314

Balance Sheet (Statement on Financial Position) CZK thousand

	2009	2008	2007	2006	2005	2005	2005
ASSETS					PRE sum	PREdi	PRE*
Property, plant and equipment	1,922,251	1,907,117	1,827,285	1,830,397	11,570,301	9,800,406	1,769,895
Intangible assets	193,811	179,658	159,193	134,062	158,795	2,733	156,062
Equity investments	9,566,801	9,566,801	9,571,801	9,571,801	60,623	0	60,623
Trade receivables and other receivables	22,719	46,408	128,086	29,828	29,899	24	29,875
Loans	2,626,232	1,504,060	–	–	–	–	–
Non-current assets assets	**14,331,814**	**13,204,044**	**11,686,365**	**11,566,088**	**11,819,618**	**9,803,163**	**2,016,455**
Inventories	33,603	46,132	36,815	26,520	29,558	–	29,558
Tax receivables	30,606	–	11	139,814	70,117	–	70,117
Trade receivables and other receivables	2,547,189	3,531,615	1,865,408	607,898	585,781	9,743	576,038
Loans	240,563	959,310	53,548	45,044	–	–	–
Short-term investments	148,851	172,350	162,754	441,028	129,185	–	129,185
Cash and cash equivalents	1,542,619	458,500	64,117	274,406	35,821	1,116	34,705
Current assets	**4,543,431**	**5,167,907**	**2,182,653**	**1,534,710**	**850,462**	**10,859**	**839,603**
Total assets	**18,875,245**	**18,371,951**	**13,869,018**	**13,100,798**	**12,670,080**	**9,814,022**	**2,856,058**
LIABILITIES							
Share capital	3,869,443	3,869,443	3,869,443	3,869,443	3,869,443	–	3,869,443
Funds from profit	1,171,867	1,566,166	1,048,453	1,156,387	1,155,605	–	1,155,605
Retained earnings	4,969,870	5,350,950	5,316,905	5,210,621	4,629,879	–	4,629,879
Shareholders' equity	**10,011,180**	**10,786,559**	**10,234,801**	**10,236,451**	**9,654,927**	**--**	**9,654,927**
Loans	2,515,733	1,305,060	–	–	–	–	–
Trade payables and other payables	107,703	108,879	250,664	89,341	421,192	307,397	113,795
Provisions	257,377	247,135	237,223	228,689	364,808	96,448	268,360
Deferred tax liability	45,778	145,051	6,258	34,800	960,796	–	960,796
Long-term payables	**2,926,591**	**1,806,125**	**494,145**	**352,830**	**1,746,796**	**403,845**	**1,342,951**
Loans	1,046,532	713,102	555,723	522,769	310,000	–	310,000
Tax payables	65,887	81,287	71,169	12,645	11,704	–	11,704
Trade payables and other payables	4,822,795	4,984,168	2,474,150	1,948,735	855,453	220,942	634,511
Provisions	2,260	710	39,030	27,368	91,200	3,000	88,200
Short-term payables	**5,937,474**	**5,779,267**	**3,140,072**	**2,511,517**	**1,268,357**	**223,942**	**1,044,415**
Total liabilities	**18,875,245**	**18,371,951**	**13,869,018**	**13,100,798**	**12,670,080**	**627,787**	**12,042,293**

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" shows the sum of PRE* and PREdistribuce, a.s. columns. The column "PREdi" shows the part of the Company prepared for the split-off to PREdistribuce, a.s. The column "PRE*" shows the remaining part of the Company after PREdistribuce, a.s. split-off.

[1] Note: Contrary to the consolidated financial statements, the separate statements don't show data for the period of 2003–2004 (all data related to this period are not compatible with data for the period of 2005–2009 – in these years the financial statements were prepared according to CAS).

Regular (Separate) Financial Statements in Full Version as at 31.12.2011

Income Statement (CZK thousand)

	Note	2011	2010
Revenues from electricity sold		**19,037,335**	19,428,991
Costs of electricity sold		**(17,221,857)**	(17,959,105)
Gross profit from the sale of electricity	**(4)**	**1,815,478**	**1,469,886**
Other operating income	(4)	**912,665**	907,813
Personnel expenses	(6)	**(555,007)**	(521,172)
Depreciation	(13,14)	**(206,265)**	(198,259)
Costs of services, material and energy	(7)	**(581,567)**	(522,720)
Borrowing costs	(8)	**(108,960)**	(114,391)
Dividends received		**883,300**	680,800
Other gains and losses	(9)	**270,486**	26,201
Profit from ordinary activity before tax		**2,430,130**	**1,728,158**
Income tax	(10)	**(304,683)**	(208,458)
Profit from ordinary activity after tax		**2,125,447**	**1,519,700**
Basic and diluted earnings per share attributable to ordinary shares (CZK)	(12)	**549**	393

Statement of Comprehensive Income (CZK thousand)

	2011	2010
Profit from ordinary activity after tax	**2,125,447**	**1,519,700**
Revaluation of other financial assets	**3,344**	(437)
Cash flow hedging	**178,538**	947
Total other comprehensive income after tax	**181,882**	**510**
Comprehensive income attributable to shareholders of the parent company	**2,307,329**	**1,520,210**

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

	Note	2011	2010
Assets			
Property, plant and equipment	(13)	**1,957,973**	1,999,227
Intangible assets	(14)	**193,259**	197,965
Equity investments	(15)	**9,566,801**	9,566,801
Trade receivables and other receivables	(16)	**28,074**	21,203
Loans	(17)	**701,711**	1,122,939
Non-current assets		**12, 447,818**	**12,908,135**
Inventories	(18)	**22,251**	33,846
Tax receivables		**133,120**	9,280
Trade receivables and other receivables	(16)	**2,043,199**	1,549,690
Loans	(17)	**1,976,612**	1,790,330
Other financial assets	(19)	**52,371**	49,025
Cash and cash equivalents	(20)	**183,636**	589,834
Current assets		**4,411,189**	**4,022,005**
Total assets		**16,859,007**	**16,930,140**
Liabilities			
Share capital	(25)	**3,869,443**	3,869,443
Funds from profit	(26)	**1,354,259**	1,172,377
Retained earnings		**4,456,061**	4,364,784
Shareholders' equity		**9,679,763**	**9,406,604**
Loans	(21)	**–**	1,210,670
Trade payables and other payables	(22)	**126,450**	127,899
Provisions	(24)	**912**	268,194
Deferred tax liability	(10)	**122,633**	41,162
Long-term payables		**249,995**	**1,647,925**
Loans	(21)	**2,377,137**	1,327,319
Tax payables		**64,784**	58,670
Trade payables and other payables	(22)	**4,432,950**	4,480,925
Provisions	(24)	**54,378**	8,697
Short-term payables		**6,929,249**	**5,875,611**
Total liabilities		**16,859,007**	**16,930,140**

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 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 2010	–	–	1,519,700	1,519,700
Balance at 31 Dec 2010	**3,869,443**	**1,172,377**	**4,364,784**	**9,406,604**
Dividends and director's fees paid	–	–	(2,034,170)	(2,034,170)
Other comprehensive income	–	181,882		181,882
Net profit for 2011	–	–	2,125,447	2,125,447
Balance at 31 Dec 2011	**3,869,443**	**1,354,259**	**4,456,061**	**9,679,763**

Cash Flow Statement (CZK thousand)

	Note	**2011**	2010
Opening balance of cash and cash equivalents		**589,834**	1,542,619
Operating activity			
Accounting profit from ordinary activity before tax		**2,430,130**	**1,728,158**
Depreciation	(13,14)	**206,265**	198,259
Write-off of bad debts and other assets	(9)	**29,275**	21,313
Change in allowances, provisions and temporary accounts		**(198,581)**	73,151
Profit (loss) from the sale and disposal of fixed assets	(9)	**7,170**	(3,599)
Income from dividends		**(883,300)**	(680,800)
Interest on and income from securities held	(9)	**21,642**	9,341
Foreign exchange rate gains (losses)		**(4,100)**	26,959
Revaluation of financial instruments		**(36,461)**	5,320
Net cash flow from operating activity before changes in working capital		**1,572,040**	**1,378,102**
Change in trade receivables	(16)	**(470,985)**	243,137
Change in short-term trade payables	(22)	**(15,088)**	263,885
Change in inventories	(18)	**11,438**	5,599
Net cash flow from operating activity before tax and interest		**1,097,405**	**1,890,723**
Interest paid		**(99,128)**	(108,628)
Interest received		**88,189**	106,702
Income tax paid		**(209,077)**	(191,971)
Net cash flow from operating activity		**877,389**	**1,696,826**
Investment activity			
Expenses related to the acquisition of fixed assets	(13,14)	**(207,334)**	(230,899)
Income from the sale of fixed assets		**19,639**	8,082
Dividends received		**883,300**	680,800
Net cash flow from investment activity		**695,605**	**457,983**
Financial activity			
Change in intercompany financial receivables and payables	(17,21)	**213,211**	(95,212)
Change in financial payables to other than Group companies	(21,23)	**(158,401)**	(976,074)
Change in other current financial assets	(19)	**(790)**	97,186
Dividends paid	(11)	**(2,033,810)**	(2,124,085)
Net cash flow from financial activity		**(1,979,790)**	**(3,098,185)**
Impact of the change in foreign exchange rates		**598**	(9,409)
Change in cash and cash equivalents		**(406,796)**	(943,376)
Closing balance of cash and cash equivalents	**(20)**	**183,636**	**589,834**

Notes to the Financial Statements as at 31.12.2011

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	**2011**	2010
Pražská energetika Holding a.s.	**58.05%**	57.87%
Energie Baden – Württemberg AG	**41.40%**	41.26%
Other	**0.55%**	0.87%
Total	**100.00%**	**100.00%**

In 2011, the Company made an offer to minority shareholders to purchase their shares as part of the delisting of the Company's shares from regulated markets. As of 16 December 2011, the Company purchased 6,634 shares for CZK 8 thousand per share, i.e. a total of CZK 53,072 thousand. Subsequently, all 6,634 shares were sold for CZK 8,020 per share, i.e. a total of CZK 53,205 thousand, to Pražská energetika Holding a.s. as of 28 December 2011 in accordance with the contracts for the transfer of securities for consideration dated 7 December 2011 and 19 December 2011.

With effect from 1 December 2011, the shares of Pražská energetika, a.s. were removed from trading on regulated markets. The last trading date was 30 November 2011.

The Capital City of Prague owns 51% of Pražská energetika Holding a.s. and Energie Baden – Württemberg AG holds 49%.

(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:

- **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 July 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 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 July 2010 or 1 January 2011 – according to specific standards or interpretations);

- **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 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 IFRS 7 "Financial Instruments: Disclosures"** – Transfers of financial assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

Standards and interpretations issued by the IASB Council but not yet adopted by the EU

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015);
- **IFRS 10 – "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);
- **IFRS 11 – "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013);
- **IFRS 12 – "Disclosure of Interest in Other Entities"** (effective for annual periods beginning on or after 1 January 2013);
- **IFRS 13 – "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013);
- **IAS 27 (revised in 2011) – "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);
- **IAS 28 (revised in 2011) – "Investments in Associates"** (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 1 – "First-time Adoption of International Financial Reporting Standards"** – 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"** – offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 9 – "Financial Instruments" and IFRS 7 "Financial Instruments – Disclosures"** – binding date of effectiveness of IFRS 9 and temporary disclosures;
- **Amendments to IAS 1 – "Presentation of Financial Statements"** – presentation of items of other comprehensive income (effective for annual periods beginning on or after 1 July 2012);
- **Amendments to IAS 12 – "Income Taxes"** – deferred tax – recovery of underlying assets (effective for annual periods beginning on or after 1 January 2012);
- **Amendments to IAS 19 – "Employee Benefits"** – improved accounting for post-employment benefits (effective for annual periods beginning on or after 1 January 2013); and
- **Amendments to IAS 32 – "Financial Instruments: Presentation"** – offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).

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 it 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, 5, 10, 12, 15, 20
Machinery and special technology equipment	4,10
Vehicles	4, 8, 10
Furniture and fixtures	4, 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.

Inventories

Inventories are 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 at 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.

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 and OTC markets. 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 transactions.
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured 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	**2011**	2010
Large customers consumption		
Sales of electricity	**6,591,200**	7,121,954
Sales of distribution and system services	**3,271,771**	2,595,214
Total	**9,862,971**	**9,717,168**
Small customers consumption		
Sales of electricity	**3,385,699**	4,116,574
Sales of distribution and system services	**4,968,274**	4,746,666
Total	**8,353,973**	**8,863,240**
Other income		
Other income *)	**798,407**	825,230
Gain from trading	**21,984**	23,353
Total income	**19,037,335**	**19,428,991**
Costs of purchases of sold electricity	**(8,981,814)**	(10,617,223)
Costs of purchases of distribution and system services	**(8,240,043)**	(7,341,882)
Total costs	**(17,221,857)**	**(17,959,105)**
Gross profit from the sale of electricity	**1,815,478**	**1,469,886**

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

Other operating income	**2011**	2010
Income from provided services *)	**908,989**	902,040
Other	**3,676**	5,773
Total	**912,665**	**907,813**

*) 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	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Electricity/Distribution								
External income	**19,037,335**	19,428,991	**–**	–	**–**	–	**19,037,335**	19,428,991
External expenses	**(17,221,857)**	(17,959,105)	**–**	–	**–**	–	**(17,221,857)**	(17,959,105)
Gross profit	**1,815,478**	**1,469,886**	**–**	**–**	**–**	**–**	**1,815,478**	**1,469,886**
Other external operating income	**11,941**	10,062	**900,724**	897,751	**–**	–	**912,665**	907,813
Other inter-segment operating income	**219,775**	208,965	**241,140**	236,846	**(460,915)**	(445,811)	**–**	–
Personnel expenses	**(233,056)**	(204,056)	**(264,130)**	(286,832)	**–**	–	**(497,186)**	(490,888)
Depreciation and amortisation of fixed assets	**(8,149)**	(6,729)	**(198,115)**	(191,530)	**–**	–	**(206,265)**	(198,259)
Other operating expenses	**(472,769)**	(452,469)	**(569,713)**	(516,062)	**460,915**	445,811	**(581,567)**	(522,720)
Other gains and losses net of received interest in the Group, net of release of provisions	**(51,600)**	(63,089)	**(22,858)**	5,864	**–**	–	**(74,457)**	(57,225)
Operating profit of the segment	**1,281,620**	**962,570**	**87,048**	**146,037**	**–**	**–**	**1,368,668**	**1,108,607**
Received dividends (not allocated)	**–**	–	**–**	–	**–**	–	**883,300**	680,800
Received interest	**–**	–	**78,679**	96,140	**–**	–	**78,679**	96,140
Financial expenses	**–**	–	**(108,960)**	(114,391)	**–**	–	**(108,960)**	(114,391)
Provisions (not allocated)	**–**	–	**–**	–	**–**	–	**208,443**	(42,998)
Income tax (not allocated)	**–**	–	**–**	–	**–**	–	**(304,683)**	(208,458)
Segment profit or loss	**1,281,620**	**962,570**	**56,767**	**127,786**	**–**	**–**	**2,125,447**	**1,519,700**
Other information								
Property, plant and equipment	**12,437**	11,991	**1,945,536**	1,987,236	**–**	–	**1,957,973**	1,999,227
Intangible assets	**–**	–	**193,259**	197,965	**–**	–	**193,259**	197,965
Receivables	**1,728,741**	1,454,230	**3,020,853**	3,029,932	**–**	–	**4,749,594**	4,484,162
Other assets	**–**	–	**391,380**	681,985	**–**	–	**391,380**	681,985
Other assets (not allocated)	**–**	–	**–**	–	**–**	–	**9,566,801**	9,566,801
Total assets	**1,741,178**	**1,466,221**	**5,551,028**	**5,897,118**	**–**	**–**	**16,859,007**	**16,930,140**
Payables	**4,242,548**	4,531,040	**2,936,695**	2,992,496	**–**	–	**7,179,243**	7,523,536
Expenses related to the acquisition of fixed assets	**–**	–	**(207,334)**	(230,899)	**–**	–	**(207,334)**	(230,899)
Non-cash expenses other than write-offs	**(227,654)**	78,048	**17,787**	48,696	**–**	–	**(209,867)**	126,744

(6) Personnel Expenses (CZK thousand)

	2011	2010
	Staff including management	Staff including management
Average headcount	**620**	615
Payroll costs	**306,499**	296,420
Salaries paid depending on the fulfilment of the plan	**28,789**	27,517
Insurance	**118,271**	115,137
Remuneration to the members of the Company's statutory bodies	**6,450**	6,609
Other social costs *)	**94,998**	75,489
Total	**555,007**	**521,172**

*) 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. The increase in expenses relates to the newly recognised provision for salaries paid in dependence on the fulfilment of the plan of the prior period and salaries corresponding to outstanding vacation days incurred as of the balance sheet date.

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

	2011	2010
Material and consumed energy	**68,331**	64,124
Repairs of tangible fixed assets	**40,339**	28,605
Consulting services	**29,047**	21,859
Rental charges	**37,783**	38,357
Postage and telecommunication fees	**47,262**	45,253
IT support	**118,431**	118,554
Marketing	**101,930**	93,971
Other *)	**138,444**	111,997
Total	**581,567**	**522,720**

*) 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)

	2011	2010
Interest on cash pooling	**535**	221
Interest on loan	**103,961**	109,457
Interest expense on employee benefits	**1,925**	2,158
Interest on leases	**2,539**	2,555
Total	**108,960**	**114,391**

(9) Other Gains and Losses (CZK thousand)

	2011	2010
Write-offs of doubtful debt and creation of allowances	**(47,098)**	(55,812)
Gain/(loss) from the sale and disposal of fixed assets and inventory	**2,180**	8,437
Change in provisions	**221,565**	(19,514)
Foreign exchange rate gains (losses)	**(9,402)**	1,006
Proceeds from securities held	**3,025**	3,787
Interest received in the Group	**78,679**	96,140
Revaluation of interest rate swaps	**28,992**	6,097
Other	**(7,455)**	(13,940)
Total	**270,486**	**26,201**

(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 2011 (2010: 19 percent). Deferred tax is calculated only in respect of significant items, using the income tax rates effective in future periods, i.e. 19 percent (2010: 19 percent).

	2011	2010
Current tax payable	**265,091**	213,296
Deferred tax	**39,592**	(4,838)
Total income tax	**304,683**	**208,458**

	2011		2010	
Profit before tax	**1,728,159**		**1,968,438**	
Income tax using the effective income tax rate	**461,725**	**19.00%**	328,350	19.00%
Impact of tax non-deductible dividends received	**(167,828)**	**(6.91)%**	(129,352)	(7.48)%
Impact of other items that are never tax-deductible	**10,786**	**0.44%**	9,460	0.55%
Total income tax/effective tax rate	**304,683**	**12.54%**	**208,458**	**12.06%**

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 2010	Recorded in profit or loss	Recorded in equity	31 Dec 2009
Fixed assets	**113,232**	(1,349)	–	114,581	1,406	–	113,175
Provisions	**(10,505)**	42,104	–	(52,609)	(3,278)	–	(49,331)
Receivables	**(10,981)**	(80)	–	(10,901)	419	–	(11,320)
Inventory	**(425)**	(29)	–	(396)	1,110	–	(1,506)
Obligation under the Collective agreement	**(17,428)**	(1,054)	–	(16,374)	(5,051)	–	(11,323)
Cash flow hedge	**48,740**	–	41,879	6,861	–	222	6,639
Other	**–**	–	–	–	556	–	(556)
Total deferred tax liability	**122,633**	**39,592**	**41,879**	**41,162**	**(4,838)**	**222**	**45,778**

(11) Dividends (CZK thousand)

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

	2011	2010
Final dividend for 2010 of CZK 520 (2009: CZK 543) per share	**2,012,110**	2,101,108

The proposed final dividend for 2011 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 2,125,447 thousand (2010: CZK 1,519,700 thousand) attributable to 3,869,443 shares, i.e. the earnings per share amount to CZK 549 (2010: CZK 393). The Company has no instruments issued diluting the basic earnings per share.

(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 2009	**163.4**	**804.2**	**1,580.7**	**95.9**	**250.5**	**20.2**	**2,914.9**
Additions	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**

	Land	Telecommunication technologies and IT	Administrative buildings	Leases of vehicles	Other	Assets under construction	**Total**
Cost							
Balance at 31 Dec 2010	**172.8**	**744.7**	**1,606.7**	**96.6**	**282.4**	**109.7**	**3,012.9**
Additions	–	21.9	21.9	11.4	8.5	52.6	**116.3**
Disposals	(2.4)	(13.6)	(35.8)	(9.4)	(6.8)	–	**(68.0)**
Reclassification	–	25.4	75.7	–	1.5	(102.6)	**–**
Balance at 31 Dec 2011	**170.4**	**778.4**	**1,668.5**	**98.6**	**285.6**	**59.7**	**3,061.2**
Accumulated depreciation							
Balance at 31 Dec 2010	**(1.8)**	**(522.1)**	**(315.4)**	**(33.3)**	**(141.1)**	**–**	**(1,013.7)**
Depreciation	–	(58)	(35.5)	(16.0)	(16.6)	–	**(126.1)**
Accumulated depreciation on disposals	–	13.6	10.3	6.7	5.9	–	**36.5**
Balance at 31 Dec 2011	**(1.8)**	**(566.5)**	**(340.6)**	**(42.6)**	**(151.8)**	**–**	**(1,103.3)**
Net book value – 2010	171.0	222.6	1,291.3	63.3	141.3	109.7	**1,999.2**
Net book value – 2011	**168.6**	**211.9**	**1,327.9**	**56.0**	**133.8**	**59.7**	**1,957.9**

14) Intangible Assets (CZK million)

	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**

	Software	Other	Assets under construction	**Total**
Cost				
Balance at 31 Dec 2010	642.5	10.4	62.6	**715.5**
Additions	22.0	1.3	61.5	**84.8**
Disposals	(0.4)	–	(9.5)	**(9.9)**
Reclassification	50.6	1.5	(52.1)	**–**
Balance at 31 Dec 2011	**714.7**	**13.2**	**62.5**	**790.4**
Accumulated amortisation				
Balance at 31 Dec 2010	(510.6)	(6.9)	–	**(517.5)**
Amortisation	(77.5)	(2.5)	–	**(80.0)**
Accumulated amortisation on disposals	0.4	–	–	**0.4**
Balance at 31 Dec 2011	**(587.7)**	**(9.4)**	**–**	**(597.1)**
Net book value – 2010	131.9	3.5	62.6	**198.0**
Net book value – 2011	**127.0**	**3.8**	**62.5**	**193.3**

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

	2011	2010
Amortisation and depreciation	**(206.1)**	(198.2)
Impairment loss	**–**	–
Total	**(206.1)**	**(198.2)**

None of the Company's assets are pledged or used as collateral.
The Company anticipates incurring total capital expenditure of CZK 263 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)	**2011**	2010
Low value tangible assets	**188,550**	186,380
Low value intangible assets	**36,556**	36,556
Total	**225,106**	**222,936**

(15) Equity Investments (CZK thousand)

	Note	Investment	**2011**	2010
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. In 2011, the Company acquired new photovoltaic sources as a result of its acquisition activities. It thus significantly increased its capacities in electricity production from renewable sources.

	2011	2010
Registered office: Prague 10, Na Hroudě 2149/19		
Corporate ID: 25677063		
Average headcount:	**209**	193
Economic data (in CZK thousand)		
Share capital	**35,000**	35,000
Shareholders' equity	**59,698**	56,408
Profit after tax	**17,690**	14,368
Sales of goods and services	**327,181**	314,958

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.

	2011	2010
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	**34,039**	48,815
Profit after tax	**6,324**	7,743
Sales of goods and services	**39,265**	46,531

Business entity: PREdistribuce a.s.
The company distributes electricity.

	2011	2010
Registered office: Prague 5, Svornosti 3199 – 19a		
Corporate ID: 27376516		
Average headcount:	**507**	504
Economic data (in CZK thousand)		
Share capital	**17,707,934**	17,707,934
Shareholders' equity	**19,202,209**	18,933,237
Profit (loss) after tax	**1,133,172**	910,240
Sales of goods and services	**9,140,952**	7,767,212

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

Trade receivables and other long-term receivables	**2011**	2010
Principal amounts paid	**21,775**	13,155
Receivables from sold flats *)	**6,282**	8,032
Other	**17**	16
Total	**28,074**	**21,203**

*) Of the stated receivables, the maturity of receivables totalling CZK 133 thousand exceeds five years (2010: CZK 759 thousand).

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

Trade receivables and other short-term receivables	**2011**	2010
Receivables from electricity supplies	**1,201,541**	1,081,612
Margin deposit with the power exchanges	**105,264**	127,555
Receivables from the revaluation of commodity contracts (own-use portfolio)	**1,666**	28,674
Receivables from the revaluation of commodity contracts (trading portfolio)	**158,797**	188,305
Receivables from cash flow hedges	**257,450**	36,112
Other assets	**318,481**	87,432
Total	**2,043,199**	**1,549,690**

Of the above stated short-term trade receivables, gross receivables past their due date totalled CZK 404,711 thousand (2010: CZK 394,419 thousand). Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

Balance at 31 Dec 2009	**172,274**
Charge and drawing in the current year	34,499
Balance at 31 Dec 2010	**206,773**
Charge and drawing in the current year	17,823
Balance at 31 Dec 2011	**224,596**

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 2011			At 31 Dec 2010	
	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
Loan granted in Group 2	**1,122,882**	**PRIBOR+2.3%**	**30 June 2012**	1,122,939	PRIBOR+2.3%	30 June 2012
Loan granted in Group 3	**701,711**	**PRIBOR+1.05%**	**30 Nov 2014**	–	–	–
Loan granted in Group 4	**–**	**–**	**–**	32,869	Fix 3.05%	14 Feb 2011
Loan granted in Group 5	**22,511**	**PRIBOR+0.8%**	**15 May 2012**			
Receivables arising from cash pooling from PREdistribuce, a.s.	**752,564**	**PRIBOR+0.5%**	**–**	254,761	PRIBOR+0.5%	–
Receivables arising from cash pooling from PREměření, a.s.	**78,655**	**PRIBOR+0.5%**				
Long-term	**701,711**			1,122,939		
Short-term	**1,976,612**			1,790,330		
Total	**2,678,323**			**2,913,269**		

The carrying amount of the granted loans does not significantly differ from their fair value.

(18) Inventories (CZK thousand)

Inventories	2011	2010
Material	20,912	32,141
Goods	1,339	1,705
Total	**22,251**	**33,846**

“Purchased material, services and energy” and “Other gains and losses” in the income statement include costs of sold and consumed inventories of CZK 244,632 thousand (2010: CZK 261,580 thousand).

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

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**
Charge in the current year	157
Drawing in the current year	–
Balance at 31 Dec 2011	**2,239**

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	
	2011	2010
Equity securities available for sale	**6,035**	8,051
Bonds available for sale	**46,336**	40,974
Total	**52,371**	**49,025**

(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.

	2011	2010
Bills of exchange	**51,601**	147,218
Term bank accounts	**–**	–
Current bank accounts	**130,482**	440,776
Cash on hand	**1,001**	1,290
Stamps and vouchers	**552**	550
Total	**183,636**	**589,834**

(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 2011			At 31 Dec 2010	
	Principal	**Interest rate**	**Maturity date**	Principal	Interest rate	Maturity date
Loan # 1	–	–	–	1,302,071	PRIBOR+0.29%	30 Nov 2011
Loan # 2	**610,792**	**PRIBOR+2.00%**	**30 June 2012**	600,059	PRIBOR+2.00%	30 June 2012
Loan # 3	**610,549**	**PRIBOR+1.95%**	**30 June 2012**	610,611	PRIBOR+1.95%	30 June 2012
Loan # 4	**1,001,396**	**PRIBOR+0.42%**	**30 Nov 2012**	–	–	–
Loan # 5	**150,010**	**1.23%**	**2 Jan 2012**	–	–	–
Payables from cash pooling to PREměření	–	–	–	20,658	PRIBID-0.25%	–
Payables from cash pooling to PREleas	**4,390**	**PRIBID-0.25%**	–	4,590	PRIBID-0.25%	–
Long-term	–			1,210,670		
Short-term	**2,377,137**			1,327,319		
Total	**2,377,137**			**2,537,989**		

The Company uses swaps for hedging of the interest rate. The banks do not require loan collateral with regard to the Company's rating. Undrawn loan facilities amounted to CZK 3,819 million as of 31 December 2011 (2010: CZK 3,902 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	**2011**	2010
Payables to employees *)	**84,799**	78,762
Other financial liabilities	**41,651**	49,137
Total	**126,450**	**127,899**

*) 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	**2011**	2010
Trade payables *)	**2,262,551**	1,815,701
Payables from revaluation of commodity contracts (trading portfolio)	**109,890**	146,868
Payables from revaluation of interest rate derivatives	**6,771**	35,763
Payables to employees **)	**31,311**	30,076
Payables from social security and health insurance	**12,051**	10,166
Intercompany payables ***)	**1,864,547**	2,325,313
Other payables ****)	**145,829**	117,038
Total	**4,432,950**	**4,480,925**

*) 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 1,131,260 thousand (2010: CZK 875,740 thousand).

**) Includes outstanding December salaries and payables to employees under the Collective Agreement in the amount of CZK 12,495 thousand (2010: CZK 13,163 thousand).

***) Includes an estimated payable for the provision of distribution services from PREdistribuce, a.s. in the amount of CZK 1,814,904 thousand (2010: CZK 1,824,248 thousand), payables to PREdistribuce, a.s. arising from bills for distribution services in the amount of CZK 49,540 thousand (2010: CZK 500,997 thousand) and payables to PREměření a.s. amounting to CZK 102 thousand (2010: CZK 68 thousand).

****) Of which CZK 14,494 thousand (2010: CZK 14,351 thousand) represents payables arising from finance leases.

The Company reports overdue trade payables in the amount of CZK 27 thousand (2010: CZK 369 thousand). All overdue payables were settled during January 2012.

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	
	2011	2010	**2011**	2010
Lease payments due within 1 year	**26,251**	14,670	**26,010**	14,351
Lease payments due from 1 to 5 years	**30,728**	50,298	**29,239**	47,960
Lease payments due in over 5 years	**999**	1,410	**896**	1,176
Total lease payments	**57,978**	**66,378**	**56,145**	**63,487**
Future lease payments	**(1,833)**	(2,891)		
Present value of minimum lease payments	**56,145**	**63,487**	**56,145**	**63,487**
Trade payables and other payables				
Long-term			**41,652**	49,136
Short-term			**14,493**	14,351
Total			**56,145**	**63,487**
Tangible fixed assets				
Carrying amount of assets held under finance leases			**56,145**	63,487

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	Salaries	Other	**Total**
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**
Release of provisions in the current year	–	–	–	–	**–**
Use of provisions in the current year	–	(2,260)	–	(704)	**(2,964)**
Balance at 31 Dec 2010	**276,129**	**–**	**–**	**762**	**276,891**
Creation of provisions in the current year	–	–	54,378	150	**54,528**
Release of provisions in the current year	(221,715)	–	–	–	**(221,715)**
Use of provisions in the current year	(53,414)	–	–	–	**(53,414)**
Balance at 31 Dec 2011	**–**	**–**	**54,378**	**912**	**55,290**
Long-term	–	–	–	912	**912**
Short-term	–	–	54,378	–	**54,378**
Total	**–**	**–**	**54,378**	**912**	**55,290**

The provision for business risks included 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 dispute was discontinued through the settlement agreement. CZK 45,050 thousand of the provision amounting to CZK 266,265 thousand was used for the settlement and the remaining portion was released.

The provision for salaries includes salaries paid in dependence on the fulfilment of the plan and salaries corresponding to outstanding vacation days.

(25) Share Capital (CZK thousand)

Share Capital

Registered as at 31 December 2010	**2011**	**2010**
Bearer stock with a nominal value of CZK 1,000 per share	**–**	–
Registered stock with a nominal value of CZK 1,000 per share	**3,869,443**	3,869,443
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)

	2011	2010
Statutory reserve fund	**773,889**	773,889
Fund from the revaluation of current other financial assets	**(10,130)**	(13,474)
Cash flow hedge	**207,789**	29,251
Other funds from profit	**382,711**	382,711
Total	**1,354,259**	**1,172,377**

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 1993). 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

The Company issued a payment bank guarantee of CZK 108 million in favour of Operátor trhu s elekřinou a.s. (CZK 30 million as of 31 December 2010), a bank guarantee in the amount of EUR 200 thousand to Slovenská elektrizačná prenosová sústava, a.s. (2010: EUR 200 thousand), and EUR 2.5 million to Centrální depozitář cenných papírů, a.s. (2010: EUR 3.3 million) and CZK 30 million for the public contract of the Prague School of Economics, CZK 5 million for the public contract of Jihoměstská majetková, a.s., CZK 0.5 million for the public contract of Mikrobiologický ústav AV ČR and CZK 0.8 for public contracts of the capital city of Prague.
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. The appeal was rejected in 2011.

(28) Financial Instruments (CZK thousand)

Categories of Financial Instruments

Financial assets	**2011**	2010
(a) Financial assets at fair value through profit or loss (revaluation of commodity contracts)	**158,797**	188,305
(b) Financial derivatives under hedge accounting	**257,450**	36,112
(c) Loans and receivables (including cash and cash equivalents)	**4,236,839**	4,762,308
(d) Financial assets available for sale	**52,371**	49,025

The loans and receivables predominantly include receivables from intercompany borrowings and receivables from electricity supplies.

Financial liabilities	**2011**	2010
(e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts)	**109,890**	146,868
(f) Financial liabilities at fair value through profit or loss (revaluation of interest rate swaps)	**6,771**	35,763
(g) Financial liabilities from derivatives under hedge accounting	**–**	–
(h) Financial liabilities at amortised cost	**5,615,476**	6,246,086

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		**2011**	2010
Gain from revaluation of commodity derivatives in the trading portfolio			
(included in "Profit from trading")	(a, e)	**21,984**	23,353
Loss from the revaluation of interest rate swaps	(f)	**28,992**	6,097
Gain from securities held and received interest in the Group	(c, d)	**81,704**	99,927
Borrowing costs (except for the interest on employee benefits)	(h)	**(107,065)**	(112,233)
Other	(c, h)	**235,102**	(69,360)
Hedge accounting *)		**2011**	**2010**
Creation of the equity fund from the cash flow hedge	(b,g)	**257,450**	36,112
Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased")	(b,g)	**(36,112)**	(34,943)

*) 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 long-term 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) *	
	2011	2010	**2011**	2010
Currency derivatives for purchase of Euros	**257,450**	36,112	**48,916**	6,861
Other assets and liabilities in EUR	**546,191**	645,100	**1,003,690**	731,360
Total in EUR	**803,641**	681,212	**1,052,606**	738,221
Other currencies	**133**	129	**–**	–
Total	**803,774**	**681,341**	**1,052,606**	**738,221**

*) 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	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Up to 1 month	**24.13**	24.72	**30,000**	20,000	**724,005**	494,400	**49,991**	6,828
1–3 months	**24.11**	24.80	**60,000**	30,000	**1,446,840**	744,060	**100,636**	7,982
3–12 months	**25.27**	24.70	**211,000**	55,000	**5,331,272**	1,358,435	**106,823**	21,302
Total	**24.92**	**24.73**	**301,000**	**105,000**	**7,502,117**	**2,596,895**	**257,450**	**36,112**

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)

	2011	2010
Profit (+) or loss (-)	**(4,574)**	(861)
Shareholders' equity	**62,474**	21,250

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	
	2011	2010	**2011**	2010	**2011**	2010
Interest rate swaps	**2.53%**	3.08%	**1,200,000**	2,500,000	**(6,771)**	(35,763)

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) *	
	2011	2010	**2011**	2010
Interest rate swaps	**–**	–	**6,771**	35,763
Other assets and liabilities	**265,936**	46,045	**1,200,321**	6,861
Total	**265,936**	**46,045**	**1,207,092**	**42,624**

*) 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)

	2011	2010
Profit (+) or loss (-)	**(1,111)**	(296)
Shareholders' equity	**(511)**	(109)

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 exchange trading, the issues related to the daily revaluation of commodity futures traded on the Prague commodity 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 – 2011	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Trade balances	(16)	1,120,753	72,068	8,719	–	1,201,540
Margin deposit, principals paid	(16)	88,796	4,179	12,373	21,775	127,123
Other receivables including receivables for sold apartments	(16)	12,108	339	16,939	8,111	37,497
Total		**1,221,657**	**76,586**	**38,031**	**29,886**	**1,366,160**

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**

Payables – 2011		Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Trade payables	(22)	1,081,383	19,719	30,189	–	1,131,291
Other financial payables	(22)	123,231	5,061	9,442	–	137,734
Bank loans	(21)	171,415	3,969	2,232,540	–	2,407,924
Provisions	(24)	–	5,251	49,127	912	55,290
Total		**1,376,029**	**34,000**	**2,321,298**	**912**	**3,732,239**

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

(29) Operating Leases (CZK thousand)

Operating lease payments expensed in the current period:

	2011	2010
Non-residential premises	**14,910**	14,261
Cars	**3,022**	6,585
Other rented assets of all types	**7,207**	7,327
Total	**25,139**	**28,173**

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 25 million per year for contracts concluded as of 31 December 2011.

(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	**2011**	2010	**2011**	2010
Pražská energetika Holding, a.s. *)	**341**	326	**–**	–
EnBW Trading GmbH **)	**577,674**	479,300	**742,141**	538,730
EnBW Systeme Infrastruktur Support GmbH **)	**955**	–	**–**	–
Hlavní město Praha *)	**50,986**	45,065	**14,227**	13,976
Dopravní podniky hl.m. Prahy, a.s. **)	**1,186,358**	1,027,977	**198**	852
Pražská teplárenská, a.s. **)	**161,648**	169,189	**116,870**	295,516
Kolektory Praha, a.s. **)	**6,957**	6,689	**–**	–
Energotrans a.s. **)	**7,160**	6,742	**29,383**	1,906,474
Kongresové centrum Praha, a.s. **)	**57,576**	56,775	**–**	–
Pražské služby, a.s. **)	**7,774**	31,434	**166**	136
Total	**2,057,429**	**1,823,497**	**902,985**	**2,755,684**

Total receivables from and payables to related parties:

	Receivables		Payables	
Company	**2011**	2010	**2011**	2010
Pražská energetika Holding, a.s. *)	**25**	25	**–**	–
EnBW Trading GmbH **)	**–**	–	**22,649**	8,040
EnBW Systeme Infrastruktur Support GmbH **)	**955**	–	**–**	–
Hlavní město Praha *)	**2,485**	376	**6,138**	17,831
Dopravní podniky hl.m. Prahy, a.s. **)	**71,642**	63,393	**3,166**	12,773
Pražská teplárenská, a.s. **)	**8,340**	8,068	**20,860**	32,499
Kolektory Praha, a.s. **)	**1**	–	**267**	2,616
Energotrans a.s. **)	**2,790**	–	**55**	70,901
Kongresové centrum Praha, a.s **)	**–**	–	**53**	131
Pražské služby, a.s **)	**281**	591	**–**	23
Total	**86,519**	**72,453**	**53,188**	**144,814**

*) 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

	2011	2010
Pražská energetika Holding a.s.	**1,164,496**	1,216,003
Energie Baden –Württemberg AG	**832,928**	2,844

Remuneration to the Statutory and Supervisory Bodies and Senior Management:

	2011		2010	
Executive management	**Executive management**	**Supervisory Board**	Executive management	Supervisory Board
Number	**5**	**12**	5	12
Amounts arising from the existence of employment *)	**12,862**	**–**	17,423	–
Amounts received arising from the membership in statutory/supervisory bodies **)	**10,439**	**20,598**	10,837	20,373

*) 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 31 October, or the Director of the Company's section since 1 November 2010), and the members of the Board of Directors. 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 2011, the Company reported receivables from the members of executive management in the total amount of CZK 29 thousand (CZK 34 thousand as of 31 December 2010). The receivables are disclosed in "Trade receivables and other receivables" and were collected during January 2012.

Receivables from and Payables to Subsidiaries:

	Trade receivables of PRE as at 31 Dec		Trade payables of PRE as at 31 Dec	
	2011	2010	**2011**	2010
PREdistribuce, a.s.	**–**	–	**1,846,446**	2,325,245
PREměření, a.s.	**9,354**	8,994	**102**	68
PREleas, a.s.	**8**	8	**–**	–
Total	**9,362**	**9,002**	**1,846,548**	**2,325,313**

	PRE's receivables from cash pooling and loans as at 31 Dec		PRE's payables from cash pooling and loans as at 31 Dec	
	2011	2010	**2011**	2010
PREdistribuce, a.s.	**2,577,156**	2,880,401	**–**	–
PREměření, a.s.	**78,656**	–	**2**	20,658
PREleas, a.s.	**22,510**	32,869	**4,388**	4,590
Total	**2,678,322**	**2,913,270**	**4,390**	**25,248**

Total movements in receivables from and payables to the subsidiaries:

	Income of PRE		Expenses of PRE	
	2011	2010	**2011**	2010
PREdistribuce, a.s.	**2,256,635**	**2,123,794**	**7,131,618**	**6,556,325**
Of which: Electricity supplied to end customers and distribution services	**568,813**	641,174	**7,108,800**	6,540,491
Services	**750,978**	740,424	**22,347**	15,834
Inventory	**8,044**	10,489	**–**	–
Dividends	**851,000**	637,000	**–**	–
Interest on loans	**77,800**	94,707	**471**	–
PREměření, a.s.	**96,715**	**108,782**	**697**	**272**
Of which: Services	**84,403**	84,982	**653**	84
Inventory	**–**	–	**–**	–
Dividends	**12,300**	23,800	**–**	–
Interest on loans	**12**	–	**44**	188
PREleas,a.s.	**20,997**	**21,563**	**20**	**32**
Of which: Services	**130**	129	**–**	–
Dividends	**20,000**	20,000	**–**	–
Interest on loans	**867**	1,434	**20**	32
Total	**2,374,347**	**2,254,139**	**7,132,335**	**6,556,629**

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 2011 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 No.: 49619187, registered office: Jana Masaryka 708/12, 120 00 Prague 2); for the years 2005–2009 by the company Deloitte Audit s.r.o. (ID No.: 49620592, registered office: Karolínská 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 1–62, 134–139

Roman Tupý
Date of birth: 2.2.1963
Section Manager Company Economy
Responsible for the Annual Report
page 65–133

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
CEP PRE	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
ICT	information and telecommunication technology
IIR	International Institut 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 Council
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
OZE	renewable sources
PDS	provozovatel distribuční soustavy/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, a.s.	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 Area Network
WEC	World Energy Congress
WFM	Work Force Management
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.: 840 550 055
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.: 840 550 055
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.: 840 550 055
Fax: 267 056 777
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

Addresses of the Parent Joint Stock Company, of the PRE Group Members and their Main Workplaces as at 31.12.2011

	Address	PCN	Telephone, fax
Pražská energetika, a.s.	**Prague 10, Na Hroudě 1492/4**	**100 05**	**840 550 055[3], 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
Support Services	Prague 10, Na Hroudě 1492/4	100 05	267 053 500
Sales	Prague 10, Na Hroudě 1492/4	100 05	267 054 100
Trading in Electricity	Prague 10, Na Hroudě 1492/4	100 05	267 053 700
Sales Development	Prague 10, Na Hroudě 1492/4	100 05	267 055 100
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
Strategy and Relations with Shareholders [2]	**Prague 10, Na Hroudě 1492/4**	**100 05**	**267 051 200**

	Address	PCN	Telephone
PRE Customer Centre	**Prague 1, Jungmannova 36/31**	**110 00**	**840 550 055**
	Prague 4, Vladimírova 64/18	**140 00**	**840 550 055**
	Prague 9, Ocelářská 5a/659 [1]	**190 00**	**840 550 055**
Energy Advisory Centre	**Prague 1, Jungmannova 747/28**	**101 00**	**267 055 555, 840 550 055**
PRE Call Centre	**Prague 10, Na Hroudě 1492/19**	**100 05**	**267 055 555, 840 550 055** [3]
PRE Information for Press	**Prague 10, Na Hroudě 1492/4**	**100 05**	**267 051 102**
PREdistribuce, a.s.	**Prague 5, Svornosti 3199/19a**	**150 00**	**840 50 055**
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 Economics	Prague 10, Sokolská 1264/7	120 00	267 052 500
Emergency Services	Prague 2, Kateřinská 9	120 00	224 915 151, 1236
	e-mail: poruchy@pre.cz		
PREměření, a.s.	**Prague 10, Na Hroudě 2149/19**	**100 05**	**840 550 055**
Metering	Prague 10, Na Hroudě 2149/19	100 05	267 056 100
Assembly	Prague 9, Novovysočanská 696/3	190 00	267 056 200
Reading Services	Prague 10, Na Hroudě 2149/19	100 05	267 056 300
Measuring Devices Servicing	Prague 9, Novovysočanská 696/3	190 00	267 056 400
PREleas, a.s.	**Prague 10, Limuzská 2110/8**	**109 00**	**272 702 305**

[1] as at 31.12. cancelled
[2] from 1.1.2012
[3] from 1.1.2012

Notes

Design: Jan Jiskra
Consultancy and Production: ENTRE s.r.o.