

We shape the future

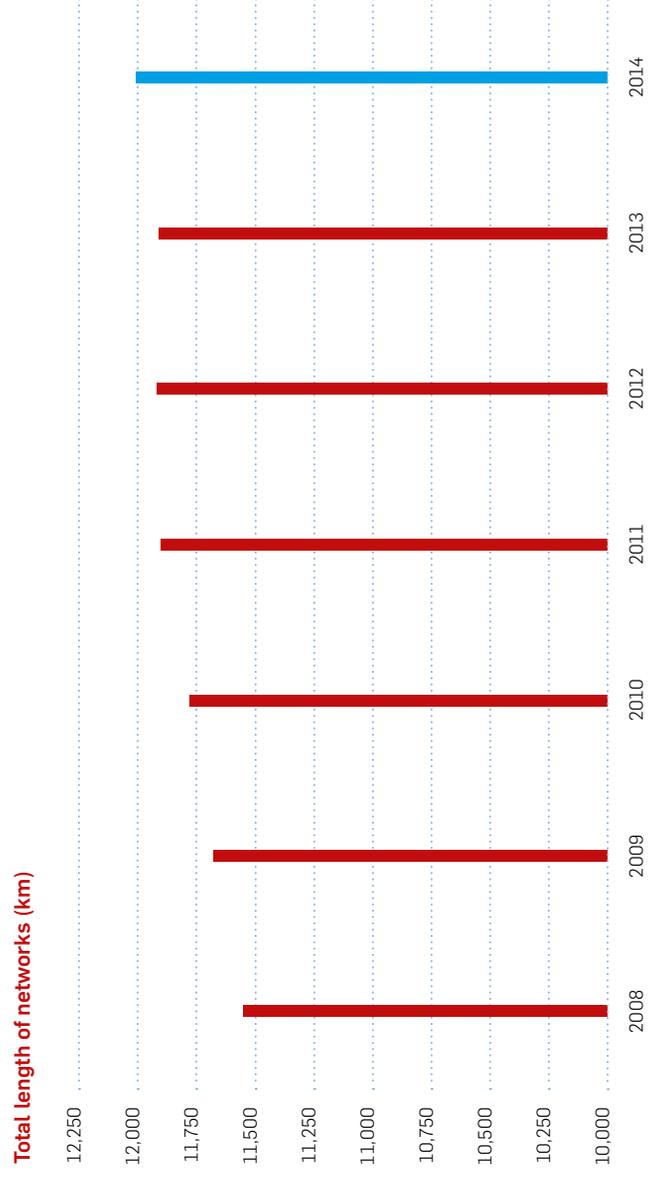


SELECTED FINANCIAL INDICATORS FROM THE CONSOLIDATED FINANCIAL STATEMENTS

| | | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|-------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total assets | MCZK | 23,291 | 22,782 | 20,076 | 20,019 | 18,395 | 19,441 | 18,296 |
| Fixed assets | MCZK | 20,908 | 19,858 | 17,982 | 17,190 | 16,043 | 14,934 | 13,935 |
| of which: tangible fixed assets | MCZK | 20,573 | 19,656 | 17,750 | 16,929 | 15,806 | 14,700 | 13,703 |
| assets for distribution | MCZK | 17,408 | 16,758 | 15,755 | 14,864 | 13,878 | 12,877 | 11,864 |
| Depreciation of tangible and intangible fixed assets | % | 38 | 38 | 39 | 40 | 39 | 40 | 40 |
| Current assets | MCZK | 2,383 | 2,924 | 2,094 | 2,829 | 2,353 | 4,507 | 4,361 |
| Total liabilities | MCZK | 23,291 | 22,782 | 20,076 | 20,019 | 18,395 | 19,441 | 18,296 |
| Equity | MCZK | 14,365 | 13,812 | 12,760 | 12,533 | 11,520 | 11,415 | 11,807 |
| Share capital | MCZK | 3,869 | 3,869 | 3,869 | 3,869 | 3,869 | 3,869 | 3,869 |
| Long-term payables | MCZK | 5,147 | 4,888 | 4,472 | 1,877 | 3,159 | 4,234 | 2,985 |
| Short-term payables | MCZK | 3,779 | 4,082 | 2,844 | 5,609 | 3,717 | 3,792 | 3,504 |
| Total income | MCZK | 19,117 | 21,824 | 20,934 | 20,789 | 20,289 | 20,761 | 19,062 |
| of which: income from electricity and gas sold and from electricity generation | MCZK | 18,710 | 21,433 | 20,557 | 20,469 | 19,984 | 20,366 | 18,879 |
| Total costs | MCZK | (16,069) | (18,427) | (17,806) | (17,165) | (17,422) | (17,980) | (16,273) |
| of which: costs of electricity and gas sold | MCZK | (12,814) | (15,079) | (14,502) | (14,210) | (14,401) | (15,164) | (13,677) |
| depreciation of tangible and intangible fixed assets | MCZK | (1,043) | (1,021) | (989) | (904) | (862) | (811) | (740) |
| Net cash flow from investment activity | MCZK | (1,806) | (2,498) | (1,935) | (1,866) | (1,894) | (1,849) | (1,764) |
| Profit from ordinary activity before tax | MCZK | 3,006 | 3,366 | 3,035 | 3,578 | 2,791 | 2,682 | 2,730 |
| Profit from ordinary activity after tax | MCZK | 2,418 | 2,713 | 2,443 | 2,881 | 2,246 | 2,144 | 2,170 |
| Net profit per share | CZK | 625 | 701 | 631 | 745 | 580 | 554 | 561 |
| EBIT | MCZK | 3,050 | 3,399 | 3,134 | 3,663 | 2,880 | 2,781 | 2,757 |
| EBITDA | MCZK | 4,094 | 4,420 | 4,124 | 4,567 | 3,742 | 3,591 | 3,497 |

OTHER INDICATORS

| | Unit | 2013 | 2014 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|-----------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross distributed electricity | GWh | 6,301 | 6,090 | 6,278 | 6,311 | 6,450 | 6,339 | 6,373 |
| Total purchase of active power | GWh | 6,241 | 5,864 | 6,289 | 6,621 | 6,828 | 6,686 | 6,846 |
| Total length of networks | km | 11,912 | 12,006 | 11,921 | 11,901 | 11,781 | 11,679 | 11,552 |
| of which: VHV | km | 206 | 207 | 206 | 202 | 202 | 202 | 206 |
| HV | km | 3,872 | 3,854 | 3,865 | 3,863 | 3,829 | 3,780 | 3,701 |
| LV | km | 7,834 | 7,945 | 7,850 | 7,836 | 7,750 | 7,693 | 7,645 |
| Average recalculated number of the Group employees (consolidated) | persons | 1,394 | 1,401 | 1,375 | 1,338 | 1,314 | 1,332 | 1,338 |





ENERGY FOR THE FUTURE

THE PRESENT ALWAYS EXTENDS INTO THE FUTURE. WE REALISE THAT EVERYTHING WE DO IS THE START OF A PROCESS. BE IT SIGNIFICANT OR ONE OF MANY THAT WILL AFFECT FUTURE TIMES TO A GREATER OR LESSER EXTENT. THEREFORE WE STRIVE TO ENSURE THAT ALL THE STEPS WE TAKE ARE RESPONSIBLE ONES AND HELP TOWARDS SHAPING A BETTER FUTURE, WHETHER THIS CONCERNS OUR BUSINESS, SOCIAL RESPONSIBILITY OR ENVIRONMENTAL PROTECTION.



THE MISSION OF THE PRE GROUP IS TO BE A RELIABLE PARTNER OF ITS CUSTOMERS AND TAKE A RESPONSIBLE SHARE IN SHAPING THE FUTURE OF THE CAPITAL CITY OF PRAGUE REGION.

THE STRATEGIC VISION OF THE PRE GROUP IS TO BE A STRONG ENERGY CORPORATE GROUP WHICH PROVIDES RELIABLE AND ECOLOGICAL ENERGY SUPPLIES AND MODERN ENERGY SERVICES THROUGHOUT THE CZECH REPUBLIC WHILE FOCUSING ON THE TERRITORY OF THE CAPITAL CITY. IN ACHIEVING ITS OBJECTIVES THE PRE GROUP IS FULLY AWARE OF ITS SOCIAL RESPONSIBILITY TO THE ENVIRONMENT.

THE STRATEGY OF THE PRE GROUP IS THE CONSTANT SUSTAINABLE GROWTH, ACTIVE DEVELOPMENT OF ITS TRADING ACTIVITIES AND USE OF MODERN AND INNOVATIVE TECHNOLOGIES AND ENERGY CONCEPTS. THE KEY SEGMENTS OF THE STRATEGY ARE ELECTRICITY DISTRIBUTION, TRADING IN ELECTRICITY AND GAS, GENERATION OF ELECTRICITY FROM RENEWABLE SOURCES AND ENERGY SERVICES.

The PRE Group activities – whether this involves the development of the distribution network, installation of charging points for electric cars or the generation of green electricity – significantly affect the future of the Capital City of Prague and its residents.

Besides its modern online customer services, the PRE Group also offers its customers the sale and renting of electric bikes, helps and advises them about energy savings and supports them in the use of modern technological solutions. An integral part of the PRE Group's involvement is also the active development and sponsorship of socially beneficial projects.

| | |
|--|-----|
| Introduction | 3 |
| Board of Directors' Report on Business Activities and Assets | 5 |
| PRE Group Management and Statutory Bodies | 10 |
| PRE Group Risk Management | 13 |
| Internal Audit, Compliance, Ombudsman | 16 |
| PRE Group History and Important Events of 2014 | 17 |
| Trend in the Power Engineering Sector | 19 |
| Trading Activity | 22 |
| Investments | 30 |
| Financial Analysis | 32 |
| Human Resources | 36 |
| Environmental Protection and OHS | 38 |
| Public Relations | 42 |
| Informatics | 44 |
| Capital Interests | 45 |
| Shareholders Structure | 49 |
| Information on General Meetings held in 2014 | 52 |
| PRE Group Organisational Structure | 53 |
| Report on Relations | 54 |
| Information required in accordance with Legal Regulation | 67 |
| Supervisory Board Report on Activities in 2014 | 68 |
| Auditor's Report | 69 |
| Consolidated Financial Statements for 2014 | 72 |
| Separate Financial Statements for 2014 | 106 |
| Affidavit | 141 |
| List of Relevant Abbreviations | 142 |
| Addresses and Contact Data of the PRE Group | 143 |

PRE GROUP

The PRE Group is a modern integrated energy corporate group whose principal activities include the sales of and trading in electricity and gas, distribution of electricity, generation of electricity from renewable sources and provision of additional services.

In historical terms, the PRE group has an almost one hundred and twenty year tradition of supplying electricity and developing the electricity system on the territory of the Capital City of Prague. The PRE Group with its approx. 700,000 consumption points is the third largest electricity supplier in the Czech Republic and the operator of a high quality and reliable distribution network. As part of its activities, the PRE Group supports state-of-the art technological solutions and also provides advisory services on how to utilise innovative technologies and achieve energy savings. Last year the PRE Group distributed a total of ca. 6 TWh of electricity at all voltage levels to end users and generated almost 13 GWh of electricity from renewable sources.

The PRE Group consists of the parent company Pražská energetika, a.s. which is the licence holder for electricity and gas trading on the entire territory of the Czech Republic, and its subsidiaries. These include PREdistribuce, a.s., the owner and operator of the distribution system in the Capital City of Prague and in Rožtoky, PREměření, a.s. which provides meter installations and electricity readings, energy services, service products and generation of electricity from renewable sources, and eYello CZ, k.s. which under the brand "YELLO ENERGY" focuses especially on the sales of electricity and gas to households and small businesses. The companies PRE FVE Dačice, s.r.o. and PRE FVE Mikulov, s.r.o. which own and operate photovoltaic power plants, have been part of the PRE Group since December 2014.

ENTITIES LISTED BELOW ARE MEMBERS OF THE PRE GROUP:

Pražská energetika, a.s. (PRE) – trading in electricity and gas, complete line of business is stated in the Company Articles of Association and in relevant registers

ID No.: 60193913, Prague 10, Na Hroudě 1492/4,

PREdistribuce, a.s. (PREdi) – electricity distribution on the territory of Prague and Rožtoky, planning the renovation and development of the distribution system, construction, operation, administration and maintenance of the distribution system equipment

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

PREměření, a.s. (PREm) – repairs, installations and meter readings 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 the photovoltaic power plants servicing, thermovision measuring of heat leakage from buildings etc.

ID No.: 25677063, Prague 10, Na Hroudě 2149/19

100% subsidiaries as of 1.12.2014:

— **PRE FVE Dačice, s.r.o.**, until 1.1.2015 Black & Bush Projekt 2, s.r.o. – electricity generation, lease of real estate property, flats and non-residential premises,

ID No.: 28880757, Prague 10, Na Hroudě 2149/19

— **PRE FVE Mikulov, s.r.o.**, until 29.12.2014 Black & Bush Projekt 1, s.r.o. – electricity generation, lease of real estate property, flats and non-residential premises

ID No.: 28537319, Prague 10, Na Hroudě 2149/19

eYello CZ, k.s. (eYello), until 30.4.2014 eYello CZ, a.s.* – trading in electricity and gas, generation, trading and services not stated in the Appendices No. 1 to 3 of the Trade Licensing Act

ID No.: 25054040, Prague 10, Kubánské náměstí 1391/11

* PREm acquired a 10% share of eYello stock from PRE as at 7 March 2014. On 15 April 2014 the General Meeting of eYello approved a change to the company's legal form from a joint-stock company (public limited company) to a limited partnership (with PRE as the general partner holding a 90% share and PREm as the limited partner holding 10%). This change came into effect as of 1 May 2014.

OVERVIEW OF THE LICENCES GRANTED TO THE COMPANIES OF THE PRE GROUP

The companies of the PRE Group obtained the following licences from the Energy Regulatory Office (ERÚ):

Pražská energetika, a.s.

- electricity trading licence from 17 January 2007 renewed until 17 January 2017
- gas trading licence from 12 January 2011 to 12 January 2016

PREdistribuce, a.s.

- electricity distribution licence from 1 January 2006 to 1 January 2031

PREměření, a.s.

- electricity generation licence from 17 May 2010 to 17 May 2035

eYello CZ, k.s.

- electricity trading licence from 27 September 2012 to 27 September 2017
- gas trading licence from 27 September 2012 to 27 September 2017

PRE FVE Mikulov, s.r.o.

- electricity generation licence from 6 November 2009 to 6 November 2034

PRE FVE Dačice, s.r.o.

- electricity generation licence from 23 December 2009 to 23 December 2034

BOARD OF DIRECTORS REPORT

The PRE Group consists of the parent company Pražská energetika, a.s. (**PRE**) and its subsidiaries. The parent company, which is the holder of the electricity and gas trading licence, ensures the purchase and sales of electricity, gas and corporate services for all the members of the Group.

PRE has an almost one hundred and twenty year tradition of supplying electricity to the Capital City of Prague. It was incorporated in its present legal form of a joint-stock company in 1994. The principal shareholder of PRE is Pražská energetika Holding a.s. which is controlled jointly by the Capital City of Prague and EnBW Energie Baden-Württemberg AG (**EnBW**) and EnBW. Among the most important factors of the success of PRE is the support of and cooperation with its shareholders.

The most important subsidiary is PREdistribuce, a.s. (**PREdi**) which is the holder of the electricity distribution licence for the territory of the Capital City of Prague and the town of Roztoky. On its distribution territory PREdi ensures safe and stable operation of the distribution network and guarantees the high quality of electricity supply.

The subsidiary PREměření, a.s. (**PREm**) focuses on provision of a broad range of energy services and also on metering services. The company also ensures the operation of renewable sources of energy which are centralised in PREm and its subsidiaries. At the end of 2014 the total installed output of the PREm generation portfolio reached almost 20 MW.

The subsidiary eYello CZ, k.s. (**eYello**) offers electricity and gas to household and small business customers under its brand YELLO ENERGY. The company operates on the Czech market as a reliable and developing alternative supplier. During 2014 it has managed to significantly increase the number of new customers and has already acquired over 10 thousand electricity and gas customers.

PRE is fully aware of its social responsibility and actively supports socially beneficial projects and associations in the region of the Capital City. Its donation activities, which focus above all on the social sphere, education and healthcare, are realized either directly or through PRE Foundation established at the Charta 77 Foundation. In 2014 the Company spent on these activities over CZK 5 million from the budget approved by the General Meeting.

Macroeconomic Preconditions in 2014

Macroeconomic preconditions have an important impact on the overall demand for electricity. The trend of the Czech economy is closely linked to the EU. In 2014 there was a slight economic recovery after the previous years of stagnation which, however, did not see a growth of demand for energy especially due to the weather and the savings made in energy management. Total energy consumption in 2014 fell in the Czech Republic by 2.5% if compared to 2013.

The European and Czech energy industry is experiencing a difficult period of transformation associated with massive regulatory interventions at European and national level.

Renewable energy sources and their integration into the power system still present a considerable challenge. Currently customers are profiting from low electricity prices on wholesale markets. Falling energy prices make it possible to balance out the rising network modernisation costs and various increasing charges and contributions. The need for investments and further measures by the distribution network operators to an ever greater extent is also affected by the activities of customers in the field of decentralised generation facilities. This trend contributes to the general increase of distribution network operation costs.

The frequency of legislative changes and frequent fundamental adjustments to the contents of the legal framework cause considerable problems in the planning of the entire sector. A further factor is the uncertainty in determining framework legislative conditions for distribution which do not provide a sufficiently stable foundation for the planning and implementation of essential long-term investments.

Economic Results of 2014

Despite the complicated market environment, in 2014 PRE managed to achieve very good economic results. The consolidated EBITDA amounted to MCZK 4,094. Earnings from regular activity after tax reached MCZK 2,418. The total EBITDA result exceeded the 2014 plan by MCZK 77 (+2%).

These results were achieved, above all, due to cost savings, further increase of revenues from electricity generated from renewable sources and increase of other operating profits thereby compensating the decline in sales margins caused especially by a fall in demand.

Operating costs fell year-on-year particularly due to material and own consumed energy cost savings, as well as repair cost savings. Personnel expenses were significantly affected by the creation of provisions according to IAS 19, due to the significant fall of the interest rate used to calculate long-term discounted liabilities to employees in connection with retirement. There was a total year-on-year increase of an average recalculated number of employees by 7 employees. Gains from the sales and disposal of assets and foreign exchange rate gains significantly contributed to an increase of other profits.

The value of the long-term consolidated assets of the PRE Group increased year-on-year by MCZK 1,051 (+5%) to MCZK 20,908. This increase is associated with intensive investment activity throughout the year, particularly in the PREdi distribution network and in renewable energy sources. Expenses related to the acquisition of fixed assets amounted to MCZK 2,133.

Equity allocated to shareholders of the parent company in 2014 rose to MCZK 14,365 (+4%). Consolidated liabilities fell by MCZK 44 to MCZK 8,926. The share of equity exceeding the 60% limit presents the PRE Group with a good precondition for the implementation of the ambitious growth objectives and related investments.

Net cash flow from operating activity fell to MCZK 3,442 which is caused above all by a lower volume of prepayments as a result of the fall in the price and customer consumption.

The return on capital employed (ROCE) reached just under the 16% limit in 2014 even in the tense competitive environment as indicated by the long-term high performance of the Company.

Trading Activity

2014 saw a further fall in wholesale electricity prices. Electricity is traded in the Czech Republic almost exclusively in EUR; it was for this reason that the Czech National Bank's interventions, beginning in late 2013 and continuing in 2014, to weaken the exchange rate of the Czech crown led to an increase in the costs of the PRE Group for providing electricity. The volume of electricity purchased for customers of the PRE Group fell year-on-year above all due to the weather by approx. 7%.

PRE managed to increase gas supplies year-on-year from 70 GWh to 113 GWh.

Also in 2014 the diversified structure of electricity suppliers was maintained. Namely ČEZ, Alpiq Energy SE and RWE belonged to the main suppliers of PRE in 2014. An appreciable part of required electricity was purchased from local producers of electricity from renewable sources of energy, especially from biogas stations and hydroelectric power plants. Povodí Vltavy, s.p. is an important electricity supplier from renewable sources.

In 2014 an approximate total of 530,000 customers switched their electricity and gas supplier in the Czech Republic according to the data of OTE. As regards electricity this value corresponds to 11% of the year-on-year decrease to 330 thousand switches of a supplier. In terms of gas the year-on-year fall is even more significant, by 33% to 200 thousand switches. This trend does not in any way mean a weakening of competitive pressure, but above all it is the result of strong retention activities by which PRE and its competitors strive for maintaining customers in the segment of households and small businesses and also large customers.



In the B2B segment in 2014 pressure increased on the price, the length of concluded contracts got shorter and customers demanded contracts providing considerably greater flexibility in relation to price and volume of supply. This trend imposes new requirements on the long-term planning and procurement of electricity.

Considerable competitive pressure continues in the B2C on selling prices. Offers made by independent electricity traders are not always transparent and intelligible to customers. Hence, PRE makes consistent use of active contact with its customers to explain the benefits of its offer.

PREdistribuce, a.s.

PREdistribuce, a.s. which is the distribution network operator in the Capital City of Prague and Roztoky is the most important subsidiary of the PRE Group.

The net income after tax of PREdi amounted to MCZK 1,093. The company's EBITDA reached CZK 2,804. The year-on-year fall by 3.3% (211 GWh) of the volume of electricity distributed in the PREdi network had a significant effect on the economic result.

In 2014 PREdi invested a total of MCZK 1,431 in the distribution system. Investments made in the renovation of the existing network and into new constructions are at the level comparable with previous years. Among the most significant investment projects in 2014 was the extensive renovation of overhead 110 kV lines between substations TR Červený vrch and TR Sever and the reconstruction of the 110/22 kV substation in Třeboradice. The construction began of the 110/22 kV Karlín and Uhříněves substations. Then there was the implementation of the new SCADA dispatching control system and the renovation was completed of the control system in the TR Chodov substation.

The volume of funds invested into the distribution network is reflected in the high reliability and quality of electricity supplies. In terms of quality and safety of supplies the PREdi network ranks among the best found in big European cities. There were no system failures or major electricity supply outages in the PREdi network in the past year on the licensed territory of Prague and Roztoky. The operating results of the entire distribution network confirm the trend in the reduction of failures. PREdi is intensively devoted to the modernisation of the network infrastructure for the purpose of creating preconditions for operating intelligent networks which will mean added value for customers in future and will also contribute to an increase in the quality of supplies. The PRE Group supports the development of a reliable infrastructure for the modern concept of electromobility, it currently operates 31 public charging stations and this number will continue to increase.

PREměření, a.s.

The net income of PREm at its EBITDA for 2014 was MCZK 170 almost doubling if compared to 2013. In addition, this result exceeded the company's plan by 50% due to the high growth of generated electricity from renewable sources.

One of the principal activities of PREm continues to be the provision of services to its affiliated company PREdi in the purchase, installation and calibration of electricity meters and meter reading service. The company has also provided this service as up till now to other energy companies and long-term partners which are Pražská plynárenská Distribuce and Pražská teplotárenská.

A major part of the profit is made up of electricity generated from renewable sources owned by the company. The year-on-year increase of this contribution to the net income is due to the increase of generating capacities. During the year the PREm generation portfolio was expanded to include two photovoltaic power plants in Dačice and Mikulov.

The energy services for PRE customers, whose provision has been concentrated within PREm since 2014, are at the stage of development in terms of their contribution to the economy of the company. Thanks to the latest technologies and various types of metering devices we can help customers to reduce electricity costs, check the technical condition of energy equipment, analyse possibilities of energy savings and so on. PREm is also newly developing services concerning EPC projects and decentralised solutions.

eYello CZ, k.s.

The subsidiary eYello CZ, k.s. (eYello) sells electricity and gas to households and small businesses throughout the Czech Republic under the YELLO ENERGY brand. The customers are offered simple and transparent products together with flexible communication without customer centres. Modern and clearly structured products are targeted at active customers looking for new options. To a significant extent in its sales channels the company utilises comparable internet portals that offer customers a transparent overview of offers available on the market. Throughout the year eYello recorded strong growth and concluded more than 10,000 electricity and gas supply contracts. Throughout the year eYello recorded a strong growth and concluded more than 10,000 electricity and gas supply contracts.

Shareholders

In 2014 there was no major change in the shareholder structure. Pražská energetika Holding a.s. controlled by the Capital City of Prague together with EnBW Energie Baden-Württemberg AG (EnBW) and EnBW are the main shareholders. PRE continues to considerably profit from the transfer of know-how between PRE and EnBW.

Expected Economic Situation in 2015

The uncertain situation in the energy sector will also continue in 2015. There are intensive discussions at European Union level concerning the issues of an energy union, energy security, completion of an internal energy market, energy efficiency, decarbonisation of the economy and competitiveness. Extensive and significant amendments to the Energy Act are expected in the Czech Republic which could considerably alter the framework conditions for business in the energy sector.

PRE will actively respond to all challenges associated with amendments to legislation, with changes to framework conditions of business, volatility of the energy markets and strong competition. In 2014 an innovated strategy of the PRE Group was adopted valid for 2015–2020. Based on an analysis of the external environment and internal competences, key strategic initiatives and measures were prepared in individual segments for the purpose of supporting growth. The planned activities are focused on four principal business segments, i.e. distribution, sales, energy services, renewable sources and respond to the most important identified risks and opportunities on the market.

Our objective is to see an increase in EBITDA of more than 10% by 2020. This objective is based on the stabilisation of income from principal activities, i.e. from distribution and sales, and also on a significant increase of results generated by the new sales segments of energy services and renewable sources.

The economic plan for 2015 anticipates an EBITDA result of about BCZK 4.1 at stable revenues from the segment of distribution and sales, and increase of revenues from renewable sources and energy services.

On behalf of the Board of Directors we would like to thank all customers, employees, suppliers and shareholders for the trust and cooperation in 2014, for their contribution to PRE excellent results and for loyalty to our Company in future years.

In Prague, 20 April 2015



Pavel Elis
Chairman of the Board of Directors



Alexander Sloboda
Vice-Chairman of the Board of Directors

BOARD OF DIRECTORS AS AT 31.12.2014

Pavel Elis
Chairman

Alexander Manfred Sloboda
Vice-Chairman

Marián Čalfa
Vice-Chairman (from 10.1.2014)

Marcus Bort
Member

Jaroslav Maroušek
Member

SUPERVISORY BOARD AS AT 31.12.2014

Jiří Baldík
Chairman

Franz Retzer
Vice-Chairman

Bernhard Beck (from 1.10.2014)
Member

Monika Křobová Hášová
Member

Drahomír Ruta
Member

Michal Štěpán
Member

Stefan Theo Webers (from 27.6.2014)
Member

Marc Wolpensinger
Member

MEMBERS OF THE SUPERVISORY BOARD IN THE COURSE OF THE YEAR ALSO WERE:

Ondřej Běhal (until 27.3.2014)
Member

Eva Čančíková (until 27.3.2014)
Member



From left: Aleš Staněk, Pavel Elis, Alexander Sloboda, Milan Hampl

Ivana Grafnetrová (until 27.3.2014)

Member

Hermann Lüschen (until 26.6.2014)

Member

Dirk Mausbeck (until 30.9.2014)

Member

Irena Potěšilová (until 27.3.2014)

Member

WORKS COUNCIL AS AT 31.12.2014

Jan Pokorný (from 13.5.2014)

Chairman

Martin Macháček (from 13.5.2014)

Vice-Chairman

Miroslava Svobodová (from 13.5.2014)

Member

Martin Votava (from 13.5.2014)

Member

In connection with the change of legislation since early 2014, an amendment was required to the PRE Articles of Association which was adopted and approved by the PRE General Meeting on 27 March 2014. It was at this time that the tenure terminated of members of the Supervisory Board elected from the ranks of employees because there was no longer the legal requirement for the participation of employees in the Supervisory Board. PRE reflected this legal change in its Articles of Association by establishing the new body of the Works Council which is engaged in employee affairs and based on its incentives it makes recommendations to the Board of Directors. There are four employees altogether of the PRE Group companies that are representatives of the Works Council and attend the meetings of the PRE Supervisory Board.

In 2014 members of the Company bodies were not subject to conflict of interest or prohibition of competition.

TOP MANAGEMENT OF THE PRE GROUP COMPANIES

Top management of the parent company as at 31.12.2014

Pavel Elis

Chief Executive Officer

Alexander Manfred Sloboda

Sales Director

Directors of subsidiaries as at 31.12.2014

Milan Hampl

PREdistribuce, a.s.

Aleš Staněk

PREměření, a.s.

Michal Kulig

eYello CZ, k.s.

RISK MANAGEMENT

Risk management system is drawn up in all the companies of the PRE Group as a uniform process based on a jointly shared methodical framework.

The key body in the risk management system is the Risk Management Committee which discusses the summary report on risk management in detail and determines the management strategy of the most important risks in view of the Company's risk exposures. The Risk Management Committee approves limits for the management of individual relevant risks and continually evaluates possible impact of risks on PRE Group management.

The main objective of the risk management system is to increase the value of the companies of the PRE Group when undertaking only acceptable risks. Among its further functions is to ensure the early warning function and evaluation of the effectiveness of remedial measures. The focal point of interest is the main monitored risks which, according to the evaluation, represent the potentially biggest threat. A continuous process of identification of current risks that are recorded in a list of risks is carried out.

The monitored risks are evaluated in terms of the expected level of impact and expected probability in three scenarios to ensure their comparability. Further specific methods and indicators are applied for the purpose of the quantification of financial and market risks such as value at risk, maximum impending losses and the like. Binding limits are set for selected indicators.

The processes of the identification, analysis, measurement, monitoring and reporting of individual risks are part of the basic components of the risk management process.

Risks are systematically monitored in the market, credit, legislative-regulatory and operational risk categories as well as in a category of other risks:

- market risks relating to the price development are mostly concentrated in the spheres of trading in electricity and exchange rate,
- credit risks of business partners on the wholesale market are managed on the basis of exposure limits according to evaluation of the credit history of the respective counterparty; the credit risks of end customers are regulated by payment terms and conditions,
- legislative-regulatory risks have the strongest effect on the Company's regulated activities; in the mid-term these risks are particularly associated with possible changes accompanying the fourth regulatory period, in the short-term namely with setting the regulation parameters,
- operational risks, depending on their nature, are decentralised and managed in specialised departments; only the most important are verified within the internal audits.

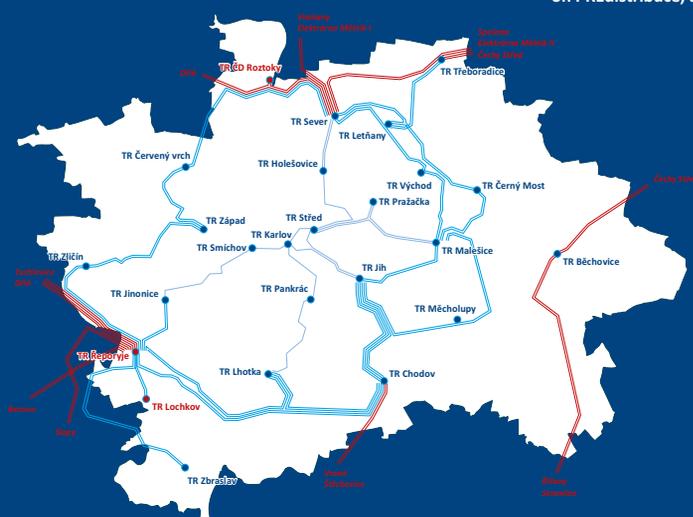
The Risk Management System and its methodology is based on methods and procedures established in the EnBW Group. Monitored risks are reported in a uniform structure and in periods as set by the EnBW corporate group rules.



for our city

Our distribution network supplied our customers with over 6 TWh of electricity in 2014. Households, commercials and big industrial customers in the distribution area of the City of Prague utilised the most reliable supplies of electricity in the Czech Republic.

Topographical chart of 110 kV lines on PRedistribuce, a.s. territory





INTERNAL AUDIT

Independent and expert assessment of the Company internal control and management system, evaluation of compliance with set-up rules and best practice rank among the most significant tasks of the PRE Group internal audit.

The main parameter for setting up internal audit plans is the evaluation of the risk level in respect of individual processes, knowledge of the specific field and the PRE Group management subject matters.

Final reports of internal audits which are discussed with the PRE Group top management can be considered as being the output of the audit investigation. The Internal Audit Report is submitted to the Board of Directors once a year.

Fulfilment of remedial measures are monitored through Audit Tracker web application.

In the framework of executing planned or requested audits, in 2014 the internal audit department focused on selected key processes across the entire PRE Group including measures to strengthen the internal control system. The findings concerned not only setting up of processes and strengthening the control mechanisms but also compliance.

Cooperation continued as part of the internal audits conducted in the PRE Group in 2014 between the Internal Audit and Risk Management Department and the consulting company Ernst & Young.

As in previous years, the internal audit team provided ISO 14 001 system internal audits, internal audits of occupational safety and protection at work system "Safe Enterprise" and also dealt with specific complaints addressed especially to the Energy Regulatory Office.

COMPLIANCE

The Company drew up and adopted the PRE Group's Compliance Rules in the form of a corporate standard and laid down the principles of conduct to prevent and avert the criminal liability of legal entities in the PRE Group.

Not just new, but also the existing employees are trained in this area. They not only become acquainted with the above corporate standard, but also with the PRE Group's Code of Ethics and further relevant corporate standards (security and protection of property, protection of trade secret and classified information, criminal liability of legal entities, handling personal data, dealings with state administrative authorities and unreported investigation by the European Commission, the Office for the Protection of Competition (ÚOHS) and the Energy Regulatory Office (ERÚ), awarding general contracts and rules of participation in public contracts, environmental protection, risk management, internal audit management etc.).

An email address compliance@pre.cz has been set up for the entire PRE Group where it is possible to report a breach of Compliance Rules.

OMBUDSMAN

The position of ombudsman has been established since 1 January 2014 in the PRE Group as that of an impartial person handling complaints related to the contractual relationship between the customer and the PRE Group companies and to services provided by the PRE Group.

The ombudsman handles customers' complaints in cases when a specialised department reaches an integrated and final standpoint, but the customer is still not satisfied with the result of the investigation.

The point of establishing the position of ombudsman is to contribute to improving the quality of services provided to customers, to protect the good reputation of the PRE Group and to emphasise its social responsibility.

PRE GROUP HISTORY

- 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 universally useful 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 was one of the most modern 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 (Dopravní podnik) separated from the Electricity Works; national works Central Bohemian Power Generation Company (Středočeské elektrárny) was established incorporating the former power generation section of the Electricity Works,
- 1959 — foundation of the Central Bohemian Electricity Works (Středočeské energetické závody, n. p.) (STE) and Prague District Administration (Okresní správa Praha),
- 1965 — foundation of the Prague Distribution Enterprise (Rozvodný závod Praha) within STE, n.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.,
- 1996 — foundation of the subsidiary PREleas, a.s.,
— construction of the new Company administration building commences in Na Hroudě street,
- 1997 — 100th anniversary celebrations of the Company existence, construction of the new PRE administration building completed,
- 1998 — foundation of the subsidiary PREměření, a.s. (formerly Cejchovna elektroměrů Praha a.s.),
- 2000 — modernization of all contact points for customers was completed and operation of Call Centre was launched,
- 2002 — PRE successfully dealt with the repercussions of the August floods,
- 2004 — in accordance with the European legislation, the process of separating the regulated and unregulated activities (so called unbundling) was started,
— operation begun of the central dispatch in the building in Nitranská street,
— in the scope of the "Together for Prague" Project, the operation of the joint Adria Customer Centre was commenced in cooperation with the company PP,
- 2006 — as of 1 January the distribution system operator was detached into a separate entity – 100% subsidiary PREdistribuce, a.s. established in 2005,
- 2007 — PRE became a member of the Prague Energy Exchange (PXE),
- 2009 — the operation was commenced of the Energy Advisory Centre (CEP) in Jungmannova 28, (TeTa),
— the Technical and Documentary Museum of Prague power engineering was moved into new premises,
— the construction was completed of the Pankrác high-voltage distribution station,
- 2010 — change in the shareholder structure – repurchase of the shareholder Honor Invest, a.s. share by the existing shareholder EnBW Energie Baden-Württemberg AG thereby becoming the majority shareholder,
— formation of the new long-term strategy of the PRE Group reflecting the market liberalisation and actual trend in the sector,
— in accordance with the new strategy of the PRE Group five photovoltaic power plants (Jinonice, Lhotka, Na Hroudě 19, Pražáčka and Sever) were gradually put into operation during the course of the year, PREm is the licence holder,
— historically maximum load profile of the distribution system (1,209 MW) was achieved on 1 December 2010 at 2 p.m.,
- 2011 — effective from 1 December, based on the previous decision of the General Meeting, the PRE shares were delisted from trading on the regulated market, the delisting process was formally ended as at 28 December,
— acquisition of the ETT Energetika premises in Prague 9 – Vysočany – PREdistribuce, a.s.,
- 2012 — acquisition of photovoltaic power plant Hořovice and photovoltaic power plant Kondrac each with installed capacity of 1 MWp,
— subsidiary PREměření, a.s. introduced to the market a new product - "Servis FVE" which offers a comprehensive care of photovoltaic stations,
— 100% subsidiary PREleas, a.s. was renamed to eYello CZ, a.s. and its line of business was enhanced by trading in electricity and gas,
- 2013 — new Collective Agreement for 2013 – 2015 was concluded,
— in the field of philanthropy, the cooperation commenced with Charta 77 Foundation,
— PREkolo Project – opening of the biggest specialized bike hire service in the Czech Republic,
— acquisition of photovoltaic power plant Pozorka near to Kladruby u Stříbra with installed capacity of 3.99 MWp,
— launching the operation of a Call Centre in the new Garden 11 premises (former building of SKANSKA at Kubánské náměstí),
— PRE defended its certificate of "Safe Enterprise" for the fifth time and PREdi for the third time,

- the PRE Group won the jury award of the Czech Goodwill project in the "Patron" category; this award is annually granted to a company which is considerate towards its business, economic-social and living environment,
- acquisition of photovoltaic power plant Syrovice near to Brno with installed capacity of 6.3 MWp,

IMPORTANT EVENTS OF 2014

- 2014**
- on 27 March amendment to the Articles of Association reflecting the private law recodification effective as of 1 January 2014,
 - Works Council established and consequently the election of its members convened,
 - Motol cable tunnel completed; continuation of boring and additional equipment assembly in Karlín, Rohanský ostrov, Hlávčkův most and Uhřetěves cable tunnels,
 - in April new PRE websites launched offering a whole range of possibilities related to internet services to customers; later the websites ranked in the first place in a prestigious competition Web Top 100,
 - PRE Service Centre (CES) located in TeTa Mall – on 1 May PRE launched operation of the CES which smoothly follows in the activities provided by CEP; apart from the existing services CES also offers new PREm energy services focused on energy savings and decentralized sources, the specialized shop and a bike hire service offering more than 100 types of electric bikes of different brands keep on providing services here; specialized servicing of customers is newly available since September,
 - on 1 May a change was made to the legal form of eYello CZ, k.s. from a joint-stock company (public limited company) to a limited partnership (PRE as the general partner holding a 90% share, PREm as the limited partner holding a 10% share),
 - in September the operation of mobile virtual operator PREmobil was started; there are 3 voice tariffs available which can be supplemented by data packages, the offer is primarily aimed at PRE customers who can thus make use of the benefits of combined electricity and gas supply together with telecommunication services provided by PRE,
 - on 1 December acquisition of photovoltaic power plant Dačice and photovoltaic power plant Mikulov with total installed input of 5.79 MWp,
 - in December the "PRE Christmas Offer" campaign for households and small entrepreneurs was commenced in order to approach the customers who until now have not used any of the PRE special offer products.

POWER ENGINEERING SECTOR

The trend of the slow fall in electricity and gas prices continued also in 2014.

According to the trend in 2014, it can be concluded that the market (at least so far) is decelerating. Energy consumption is stagnating and switching suppliers is less frequent than before. Customers are gradually realising that in addition to prices, they also have to consider service quality – especially sales conditions and customer service.

STATE ENERGY CONCEPT

At the end of 2014 the government of the Czech Republic started the debate on the Updated State Energy Concept (ASEK) submitted by the Ministry of Industry and Trade and further talks will continue in the course of 2015.

The main mission of the ASEK is to ensure reliable, safe and environmental-friendly supply of energy for the needs of the population and economy of the Czech Republic at competitive and affordable prices under standard conditions. It must also ensure a continuous supply of energy during crisis situations.

It defines three top strategic energy objectives in the Czech Republic which are safety, competitiveness and sustainability.

The objective of the ASEK is to ensure a stable and predictable business environment, effective state administration, sufficient and safe infrastructure.

ENERGY REGULATORY OFFICE (ERÚ)

The ERÚ is authorised to perform state regulation including price regulation in the power engineering sector.

2014 was the fifth year of the third regulatory period (1 January 2010 – 31 December 2014). In 2014 the public consultation process was initiated for the fourth regulatory period. The consultation process will end in 2015 with the issue of the "Closing Report on the Methodology of the Regulation of the Fourth Regulatory Period for the Power Engineering and Gas Sector". ERÚ declared the forthcoming fourth regulatory period to last 3-5 years and its principal purpose will be to prepare objective inputs for the next fifth regulatory period which the ERÚ estimates for a period of 7-10 years. Emphasis is placed in the principles of the regulation methodology for the fourth regulatory period on the consistent definition of individual inputs and parameters of regulatory formulas in relation to the prepared amendment of the Energy Act and EU legislative recommendations.

In an effort to increase transparency of trading in the energy sector, the ERÚ drew up a Code of Ethics for Traders in the Energy Industries and PRE adhered to the established rules.

AMENDMENT OF LEGISLATION

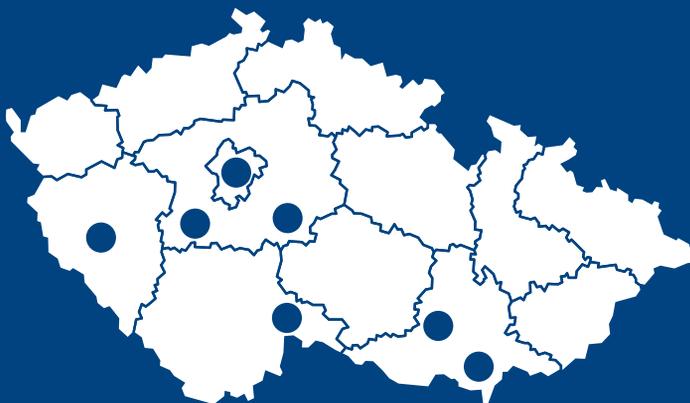
The Energy Act, Act on Supported Sources of Energy and related implementing decrees were also amended in 2014. New implementing regulations and new ERÚ price decisions were issued.

The government regulation determining state budget funds intended for subsidy in the power engineering sector for 2015 came into effect at the end of the year.

An extensive amendment to the Energy Act is expected to be adopted in 2015.



with no emission



We support the development of environmental generation of electricity and creation of decentralised power generation sources. In 2014 we generated almost 13 GWh of green electricity. We offer customers the installation of small photovoltaic power plants, including a complete service, and further modern energy solutions.



S

13



SUPPLIERS AND TRADING IN ELECTRICITY

In 2014 the Company supplied active power to PRE Group customers on the futures and the daily stock market in order to secure procurement of electricity for the PRE Group end customers as cheaply as possible. Given that active power is regularly purchased in Euros on the Czech wholesale market, its cost increased before the start and during the course of 2014 due to the significant weakening of the Czech crown.

The main suppliers of the PRE Group in 2014 were as usual multinational companies such as ČEZ, Alpiq Energy SE, E.ON Global Commodities SE, Vattenfall Energy Trading GmbH and RWE Supply & Trading GmbH. A considerable part of the required electricity was purchased from local producers of electricity from renewable sources, especially from biogas stations, biomass and hydroelectric power plants.

The PRE Group continued to provide its customers with green electricity which was procured directly from producers of energy from renewable sources in the Czech Republic. In 2014 the PRE Group managed to develop cooperation with most of the existing producers and also established cooperation with further producers of energy from renewable sources. Thanks to this it was possible to offer the PRE Group customers greater volume of green electricity. In 2014, to satisfaction of both parties, bilateral cooperation continued with Povodí Vltavy, s.p.* which is a major supplier of green electricity for the PRE Group. A contract for the purchase of green energy for the next three years was renewed in 2014 with Povodí Vltavy, s.p.

Sales of Electricity (Segment B2B)

2014 was a year marked by a characteristically slight price fall on the power exchange for the sales of electricity to B2B segment and also by the fact that throughout the whole year customers organised tender proceedings. Large customers very quickly recognised the risks associated with the choice of the date of electricity purchase and therefore more often chose a model of electricity procurement in parts at various moments, either according to pre-agreed time chart, or, more often, the customer chooses himself moments for procurement of an agreed quantity of electricity.

The fall of the electricity price on the energy exchange is causing greater interest among customers to conclude multiannual contracts. The volume of contracts concluded for the period after 2015 rose by 26% in a year-on-year comparison. On the other hand, in view of the activities of alternative suppliers, advisory firms and organisers of electronic auctions there is a noticeable increase of customer pressure on the sales price. The interventions of the Czech National Bank which led to the weakening of the Czech crown had an impact on the increased interest of export-orientated customers for invoicing of supplies in euros.

Throughout the year almost all entities of state and regional administration were very busy inviting applications for tendering proceedings in the form of electronic auctions in accordance with the Public Procurement Act.

The slight fall of total volume of electricity sold is above all related to the total fall of electricity consumption in the Czech Republic and also by intensive activities of competitors and massive investments of customers to savings programmes.

The size of supplies outside of the territory of PREdi exceeded the value of 1.3 TWh.

During the course of the year the new segmentation took place of customers with consumption verging between individual and bulk service, including the launch of a new service point for customers from the ranks of smaller business entities. In 2014 emphasis was being placed on the development of individual sales channels and new methods of selling electricity and natural gas.

* Photo, page 21 bottom right: Hydroelectric power station Štvanice owned by Povodí Vltavy, s.p.

Sales (Segment B2C)

In the past year the B2C segment was principally engaged in the development of sales retention activities aimed at stabilising and fixing the entire portfolio. An integral part of the retention activities was above all an extensive sales campaign that was held in autumn 2014. These activities included organisational measures which made the entire process of preparation and communication of sales activities within the entire B2C segment more effective. Thanks to these measures, the autumn campaign achieved a success rate of more than 62%.

The expected increase in the number of electronic auctions in the distribution territory of PREdi did not come about in the B2C segment during the course of the year. On the contrary, there was a marked fall of such organised tenders compared to 2013.

In the year-on-year comparison there was a fall in the supplied volume at the LV level by approx. 3.5%. This trend was caused by the warm winter weather and by the significant investments made by customers in electricity consumption cost-savings measures in past years.

The operation of virtual mobile operator PREmobil was launched in September 2014 as part of the Sales B2C. In comparison with the traditional providers of mobile telephone services, PREmobil offers various tariffs with attractive prices.

2014 was the third year in which PRE supplied natural gas to B2C and B2B segment customers. Sales activities continued to develop during the year and in addition to electricity we currently offer natural gas to customers. The gradual sales of gas, just as of electricity, was newly introduced. The volume of gas supplies in 2014 nearly doubled year-on-year.

Sales (eYello CZ, k.s.)

Supplies of electricity and gas are mainly carried out to households and small business customers. On-line servicing of customers is available through portal "Moje Yello". Towards the end of the year the company was supplying electricity and gas to almost 9 thousand consumption points.

LONG-TERM STRATEGY / GROWTH PROJECTS

In 2014 the long-term strategy of the PRE Group was updated and its planning period extended until 2020. The operation of distribution network on the territory of the Capital City of Prague and Roztoky and supply of electric power to customers will remain the core of the strategy.

In the future the PRE Group intends to focus on the needs of its customers even more intensively and to offer to them servicing products and energy services which will enable the customers to utilise the energy easily and more efficiently. Our objective is not only the supply of electricity and gas to customers but we want to become their partner who will provide them active support in the energy consumption management and thus will bring further added value to them. We intend to fulfil this innovative role also in the construction and operation of distribution networks and in cooperation with our partners we want to expand our activities namely in local distribution networks. In addition to these activities, the PRE Group will participate in the development of electricity generation from renewable sources through which it will contribute to fulfilment of the EU emission requirements.

While implementing these ambitious objectives of growth until 2020, the PRE Group will rely not only on reinforcement and enhancement of its existing activities but also on the investments in acquisition projects, especially in the development of new entrepreneurial activities related to renewable sources of energy.

CUSTOMER SERVICES

The Customer Services Department provides services and support to sales departments in relation to all segments of customers, consumers of electricity and gas. Its primary objective in Front Office is to guarantee actual sales of energy products, services and activities related to customer servicing in segment B2C. The department also ensures the activities and support of the Back Office processes for all customer segments, especially billing of energy supplies and services, management of debts collection ensuing from business relations, supplier switching process, administration and customer documentation digitalization etc.

Front Office

During the year several large projects were implemented in customer services in order to increase the efficiency and high quality of services to customers. Construction of a new customer office in TeTa Palace in Prague 1 is considered as a key project realized in 2014. Comfortable and modern workplace was put into operation on 1 September 2014. Location of a part of the PRE Call Centre offices to new premises on the fifth floor of the building Garden 11 in Prague 10 is considered as another significant project implemented in 2014 which has an impact on the quality of customer services. This workplace of the PRE Call Centre was put into operation on 8 September 2014 in connection with launching sales of telecommunication and data products under PREmobil brand name. As regards the evaluation of customer services operational indicators the year 2014 was successful, due to a number of implemented optimization measures a stabilization was achieved not only in the sphere of personal services at the PRE Customer Centre but also at formerly quite busy workplace of the PRE Call Centre.

Back Office

The Back Office ensures support to sales department and also to Front Office internal departments providing services and actual sales. The key processes in Back Office are primarily the change of a supplier for consumption points of customers who belong to B2C segment and consume electricity and natural gas, billing and debt collection from customers of B2C and B2B segments. In the sphere of development and support of customer services, a great emphasis was placed in 2014 on tools for optimising electronic communication with customers. In the first stage, the Non-personal Customer Service Department was established and began to operate on 1 January 2014. It provides an alternative customer service involving the setting up and maintenance of contractual relations for those customers who prefer electronic communication. The second stage followed as of 24 April 2014 with the launch of the parent company's new website. The new PRE website has a moderate graphic image, logically laid out structure and overall user-friendly environment. It is strongly customer-orientated, providing users, i.e. existing and potential PRE customers with the necessary information about the current offer of the parent company's products and services. In a discreet registered zone (Moje PRE / My PRE customer portal) the new PRE website offers users information about their contractual relationship and provides a broad range of services for the user online-service. An indication of the high quality of PRE's new website comes in its excellent ranking in the prestigious Web Top 100 competition in which PRE not only came first in the Field Website (Industry and Energy sector) category, but also became the absolute winner of the entire competition.

The Back Office Departments provide internal support in changes of a supplier and administration of contractual relations, contribute and cooperate in activities and projects of other PRE Group departments especially in the scope of the preparation and implementation of new sales products and in projects with output for strengthening the competitiveness and efficiency of sales.

The Customer Service Department in 2014 also contributed to the implementation of the successful "PRE Autumn Offer" campaign and further projects necessary to secure, maintain and develop the customer portfolio in accordance with the Company's strategic plans.

Number of Visits at the PRE Customer Centre

| Year | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|-------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total | 271,302 | 281,920 | 255,812 | 267,109 | 261,720 | 240,026 | 216,288 | 235,355 |

Number of Enquiries answered by the PRE Call Centre

| Year | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|-------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total | 261,930 | 239,444 | 249,877 | 252,683 | 230,472 | 210,985 | 204,212 | 202,254 |

Number of E-mails answered by the PRE Call Centre

| Year | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|-------|--------|---------|--------|--------|--------|--------|--------|--------|
| Total | 94,362 | 103,923 | 79,723 | 63,363 | 48,834 | 30,369 | 30,193 | 18,214 |

PRE MOBILITY

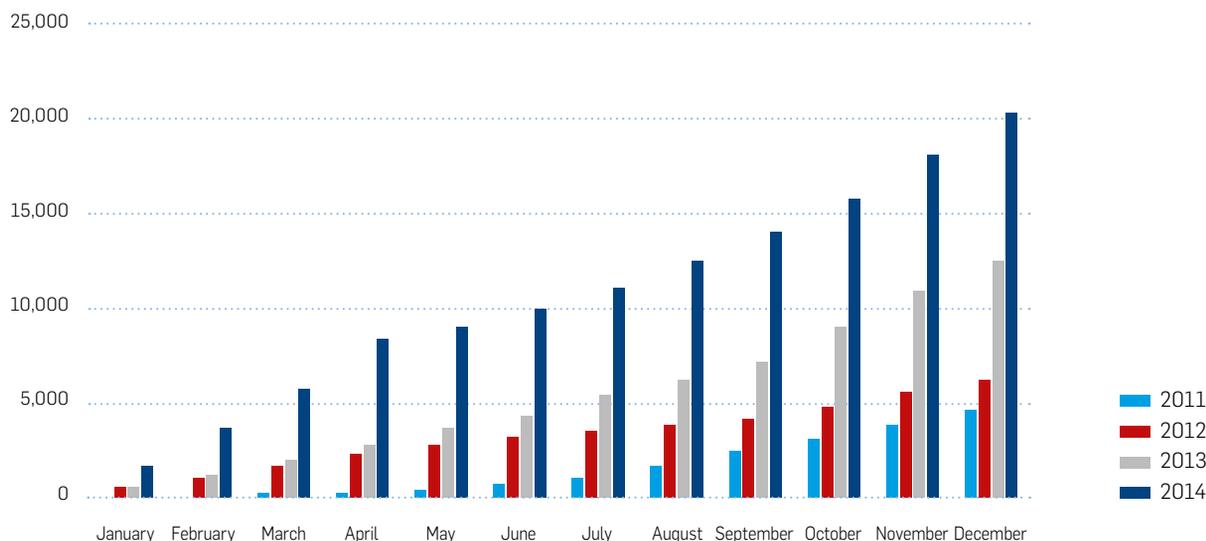


During the course of the year the PRE Group worked intensively on the E-mobility Project which in line with global trends is to safeguard the gradually increasing share of electric means of transport which more and more compete with conventional combustion engines, (especially in big cities) where the resulting benefit to the environment is the most discernible (zero local emissions in the place of the operation of these means of transport). The PREmobility Project may be divided in several interconnected parts which have one common denominator – electricity.

Charging Stations

In the course of 2014 six more public charging points (so called PREpoints) were put into operation in locations such as ČVUT Fakulta dopravní (Albertov), Avion Shopping Park Praha Zličín, KD Mlejn (Stodůlky), ÚMČ Praha 5 (Smíchov), Pražská energetika (Vršovice) and ÚMČ Praha 13 (Stodůlky). In March 2015 a charging point in Fénix Vysočanská shopping mall was put into operation. The PRE Group thus operates a total of 31 charging points in the whole Czech Republic. The stations are equipped with either a “standard socket” 1x16 A or Mennekes 3x32 A sockets which charge the electric cars much faster and are used more and more often. The pilot operation during which electricity was provided free of charge was terminated in April 2014 after more than a three-year period. Since May charging is subject to a fee. The customer pays for the time spent for charging – the bad habit which was discovered during the pilot operation when stations were “unnecessarily blocked” was thus removed. Fluctuation of users increased therefore to a large extent. As at 31 December 2014 more than 90 operators of electric means of transport were interested in this service. In the sphere of public charging the PRE Group cooperates with BMW car factory – customers are enabled to refuel cars with RFID cards which they get together with a new car. Despite of the introduced fees the consumption significantly increased during the year – customers “refuelled” more than 20 MWh of electricity.

Cumulative Electricity Consumption in PREpoints in individual Months from 2011–2014 (kWh)



PREměření, a.s. which provides installation and service of public charging stations was also dealing with non-public charging infrastructure, so called wallboxes. The demand for solution of home (business) charging of a registered number of electric cars and plug-in hybrids has been gradually increasing. In non-public charging we cooperate with Volvo car factory and provide the customers with a check of the electric socket and the network. This check is included in the price of the customer's car.

Electric Cars

The PRE Group currently operates 15 electric cars. Part of the car fleet (for business purposes) are seven Citroën C-Zero electric cars, one Mercedes-Benz Vito E-CELL "electric van" and from 2014 seven Volkswagen eUp electric cars. The mentioned electric cars have run more than 98,000 km of which 44,000 km last year.

Electric Scooters

The actual portfolio of the means of transport of the PRE Group also contains 2 GOVECS electric scooters and 3 ELMOTO electric mopeds which are used as standard means of transport. The speed of transport (apart from zero local emissions and minimum operational costs) is a great advantage namely in well known Prague traffic jams.

Electric Bikes

The Project PREkolo (www.prekolo.cz) is focused on sales and hire of electric bikes. Customers can choose one of the more than 100 types of electric bikes offered in the PRE Service Centre which is located in TeTa Mall in Jungmannova street 747/28. If a customer chooses an electric bike that is not in stock, he can take advantage of the so-called mobility guarantee. Once he makes a 10% deposit, he can borrow one of the more than 20 types of electric bikes that are available in the rental section free of charge until the delivery of the ordered electric bike. In "pilot" season 2014 dozens of electric bikes were delivered to customers. Hundreds of electric bikes were rented as every year. If compared with the previous year, the revenues were again increased. The range of electric bikes sold is complemented by electric scooters, children's electric motorbikes and senior citizens wheelchairs. We provide PRE customers with discounts and advantages for sales and rentals.

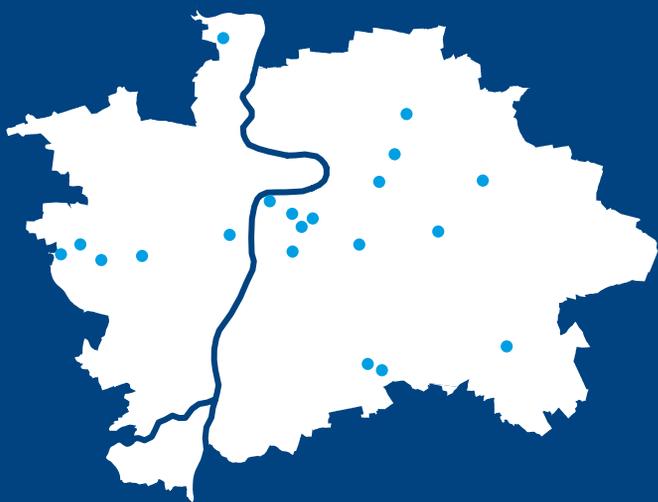
Exhibitions and Events

We plan to hold the 5th e-mobility exhibition at the PRE Service Centre in 2015. This is one of the biggest exhibition of its kind in the Czech Republic when dozens of electric means of transport will be exhibited on the Centre's site. It will be a selling exhibition for the first time – customers will be able to buy an electric bike for a discounted price. In 2014 we participated at a number of events to support ecological transport such as European Mobility Week, Car-Free Day, Prague Bike Ringing Tour (Pražské cyklozvonění) and so on.

Current information about the project is available at www.premobilita.cz.



for clean transp



PRE POINT

Electromobility is also part of our environmentally oriented approach. We operate a total of 31 modern charging points, and we have 15 electric cars and 5 electric motorbikes in our fleet. Our car and electric bike rental service and shop in the very centre of Prague serves the public.



ort

31



INVESTMENT DEVELOPMENT

In compliance with the PRE Group Strategy Plan, the investment programme in 2014 was directed above all at:

- renovation and modernisation of LV and HV network,
- extension and enhancement of the networks 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,
- acquisition of renewable sources of energy for further enhancement of the generation portfolio.

PREdistribuce, a.s.

PREdi annually prepares and implements a long-term and mid-term investment plan which is based on analyses results reflecting the technical condition, transmission ability and achieved reliability of network operations, real physical lifetime of individual network components and possibilities of their efficient maintenance. It also takes into account the further assumed trend in customer demand for new connections, or an increase in consumed output at already existing connection points on already built-up area and in the developing city's locations.

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

Based on the investment plan approved by the shareholders, in 2014 PREdi continued with the needed and careful renovation of the existing VHV and HV networks and equipment which are concurrently a part of the City's critical infrastructure. There also continued systematic optimization of LV networks including constant renovation of the transformer stations.

Taking care of the VHV backbone network, securing the corresponding technical level and maintaining it in working and safe condition is the fundamental means of preventing large breakdowns which could result in large territorial supply cuts.

In 2014 the biggest strategic constructions were:

- continuation of the modernization of standard 110/22 kV substation in Třeboradice which PREdi bought from Pražská teplárenská, a.s. in 2010,
- continuation of the construction of cable ducts from future Karlín substation towards Rohanský ostrov in Libeň for leading 22 kV output and also for looping the 110 kV cable of TR Holešovice – TR Střed,
- completion of the cable tunnel from TR Západ towards Vypich to ensure feeding the new Motol Metro line,
- renovation of 110 kV overhead line from TR Červený vrch towards TR Sever,
- continuation of renovation of ŘS TR Chodov and connection of T 403 400/110 kV,
- start of the construction of Uhřetíněves cable tunnel for connecting the 110 kV TR Uhřetíněves substation by cables and leading the output out from it.

All the constructions on the territory of the Capital City of Prague have been coordinated in the long term with the planning departments of Prague City Council and respect the urban plan.

Work also continues on the implementation of new SCADA dispatching control system.

Based on the adopted strategy, PREdi has been intensively involved in preparation of network and equipment for gradual deployment of smart grids (the so called smart grid) including the intelligent AMM metering in case it will be embodied in the Czech legislation in a corresponding manner. These future trends represent a big challenge for Company employees, especially as regards economic efforts and maximisation of benefits related to energy savings and customer servicing with a significant overlap to asset management. Foreign studies indicate that appropriate combination that involves strengthening of the distribution system and deployment of new technologies leads to significant decrease of demands ensuing from the integration of decentralized generation, charging stations for electric cars and other elements. New technologies have been tested in pilot projects at several places which represent typical locations of PREdi supply area, the outputs of which are applied for creating the concept for our distribution network.

In the forthcoming period the principal objective of PREdi is to fulfil the task of a distributor in the area of renovation and adequate development so that the obsolete equipment of the distribution system, both physically and in accounting terms, will be modernised in time so that the high level of network reliability and security will be achieved on the territory of the Capital City of Prague.

PREměření, a.s.

In 2014 PREm continued to expand its activities in the field of renewable sources of energy. As a result of the invested funds into this segment, it acquired ownership of photovoltaic power plant Dačice and photovoltaic power plant Mikulov with installed input of 5.79 MWp. At the end of the year the total installed input of the PREm generation portfolio reached almost 20 MWp.

SELECTED FINANCIAL INDICATORS

| | Unit | 2014 | 2013 | Calculation formula |
|---|----------------|--------|--------|--|
| Level of liquidity | | | | |
| Total revenues | MCZK | 19,076 | 21,784 | Revenues from sales of electricity, distribution, services and connection contributions received |
| Sales margin | MCZK | 5,896 | 6,354 | Sales margin from income statement |
| Profit after tax | MCZK | 2,418 | 2,713 | 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 | % | 31.5 | 29.6 | Sales margin from sales of electricity and distribution: sales of electricity x 100 |
| Profit before tax per CZK 1 of total revenues | % | 15.8 | 15.5 | Profit/loss from regular activity before tax: total revenues x 100 |
| Other indicators | | | | |
| Regular liquidity | % | 63.0 | 71.6 | Short-term assets: short-term ayables x 100 |
| Equity interest in total invested capital | % | 61.7 | 60.6 | Equity: total invested capital x 100 |
| Return on equity employed – ROCE | % | 15.9 | 18.5 | ROCE = EBIT: (total assets – short-term payables) |
| Total revenues labour productivity | CZK / employee | 13,616 | 15,627 | Total revenues: average adjusted number of employees |
| EBIT – Operating profit/loss before interest and tax | MCZK | 3,050 | 3,399 | Operating profit/loss before interest and tax |
| EBITDA – profit before tax, interest and depreciation | MCZK | 4,094 | 4,420 | EBITDA = EBIT + depreciation |
| Net cash flow after tax | MCZK | 1,636 | 1,303 | NCF from operating activity decreased by NCF from investments |

ESTIMATED ECONOMIC RESULTS IN 2015–2016

The consolidated financial plan of the PRE Group was drawn up using IFRS standards; all 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 third and fourth Regulatory Period; however in addition it reflects the anticipated changes of the economic and legislative environment in the future. Due to further rise in the PRE Group's overall performance, the Company will at the same time look for suitable investment opportunities in the energy industry, in compliance with its long-term strategy it will search for new entrepreneurial activities outside the regulated sphere of power industry etc. The Company will systematically monitor fulfilment of planning preconditions and will flexibly respond to the changing conditions of the external environment by possible correction of its strategy.



for our customer

The PRE Service Centre offers services related to energy saving, electrothermal equipment, rental and retail service for electric bikes sold under the PREkolo (PRE bike) brand and the utilisation of modern energy solutions resulting in money savings. 511 customers rented measuring and detection sets to accurately assess their energy losses in 2014.





S

511



HUMAN RESOURCES MANAGEMENT

Complete personal paperwork and wage calculation for the PRE Group has been carried out centrally in the parent company including work safety and environment services.

The Company uses the module SAP HR for the administration of personnel paperwork.

Within the whole PRE Group, there are clearly determined rules of remuneration based on the Collective Agreement in force (with the exception of eYello which is not its signatory). A wage regulation forms, among others, a part of the Collective Agreement; specific applications of the remuneration system are set forth by relevant corporate standards. Tariff and non-tariff wages are enforced in the Group.

Number of Employees – Full Time Average

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|-----------|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| PRE | 643 | 643 | 636 | 620 | 615 | 617 | 611 | 618 | 610 |
| PREdi | 514 | 515 | 511 | 507 | 504 | 514 | 515 | 555 | 583 |
| PREm | 239 | 221 | 226 | 209 | 193 | 199 | 212 | 95 | 93 |
| PRE Group | 1,401 ¹ | 1,394 | 1,375 | 1,338 | 1,314 | 1,332 | 1,338 | 1,391 | 1,392 |

¹ Other members of the PRE Group have the following full time average number of employees – eYello: 5 persons.

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

A unified Collective Agreement (with the above mentioned exception) for the period 2013–2015 was valid within the PRE Group. Comprehensive works medical and dental care is ensured for employees. A programme of preventive healthcare is taking place in the PRE Group which meets the requirements of the National Health Promotion Programme. Above this scope, the Company has implemented the following projects for its employees:

- oncology (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.

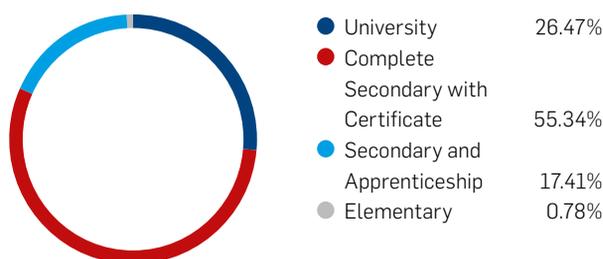
A managerial health programme is provided to senior managers at the hospital Na Homolce.

The concept of the employer's social policy is based on many years of endeavour about high quality care of its employees and takes the form of a strong social programme anchored in the Collective Agreement for the period of 2013–2015. This programme, focusing on employee care involving employee benefits, bonuses, financial contributions and other forms of employee appraisal, clearly contributes to the motivation and integrity of employees. The employee benefit system focuses, above all, on improving working and living conditions of employees, housing, catering, occupational medical care, preventive healthcare programmes and other social benefits such as interest-free loans, recreation, cultural and sports events, etc. Great attention is devoted to all these areas of social care and most of these social programmes are contained in the collective agreement.

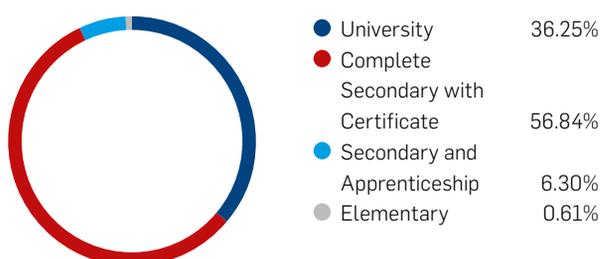
The PRE Group also actively supports the systematic development and education of employees focusing on their key expertise and required competence. The development of employees focuses on professional training in the field of power engineering essential for performing highly specialised jobs and stemming from legislation, as well as on the continuous improvement of expert knowledge and interpersonal skills, knowledge of new decrees and regulations in economics, law and human resources. The PRE Group's corporate Recruitment Programme supports the recruitment of graduates of vocational schools of secondary and tertiary education. In the sphere of professional internships and recruitment of new employees, there exists a long-term cooperation with the Faculty of Electrical Engineering of the Czech Technical University and Prague electrotechnical vocational schools (Secondary Electrical Vocational School (SOU energetické), Prague 9, Poděbradská 12; Technical Business Vocational Training Centre, Prague 9, Poděbradská 1a) and secondary schools such as 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.

The parent company at its own costs operates a training and educational centre Polygon which is used for further training of own employees, employees of cooperating companies and also for professional internship of pupils and students of electrotechnical schools of all educational levels. In 2014 a total of 880 persons, of whom 345 were students, passed the professional internship here.

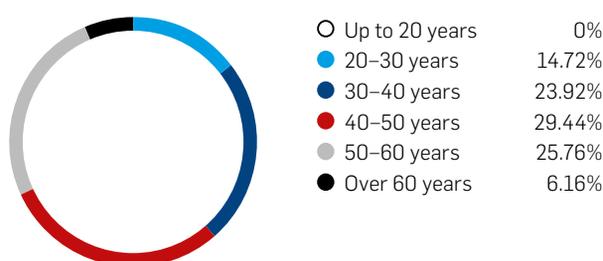
PRE Group Qualification Structure



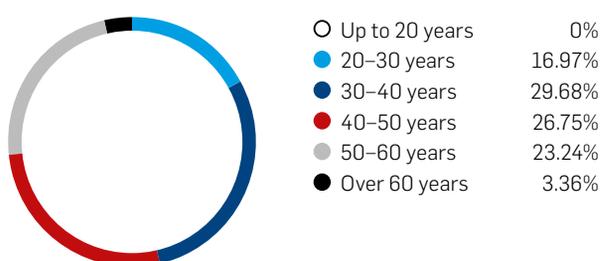
PRE Qualification Structure



PRE Group Age Structure



PRE Age Structure



ENVIRONMENTAL PROTECTION POLICY

Companies of PRE Group rank among modern corporations that take responsibility for the environment as their priority and attempt to constantly improve the conditions of its protection.

Considerable funds are provided as part of the environmental protection policy to modernisation of distribution network technology equipment which is used e.g. for protection of wild birds. In order to reduce the risk of possible contamination of surface and ground water, older oil transformers are constantly being replaced by hermetically sealed transformers or dry ones (without oil tanks). Thanks to modernisation and reconstruction of 110/22 kV distribution stations the noise pollution is being lowered and also the security in case of an accident is being enhanced.

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

The ISO 14 001 – EMS system has been introduced in PRE and PREdi since 2006. This system, which decides whether the licence will be retained or withdrawn, is subject to recertification process every three years. In March 2015 both companies defended this certificate for the third time.

Following principals in the sphere of environmental protection were defined within the Company:

- observe legal regulation in all areas of environmental protection; devote maximum attention to new regulation and apply them in the whole PRE Group,
- observe the sorting of communal waste including dangerous components; sorting of all other kinds of waste and packaging; and also sorting selected kinds of rejected products which can be freely returned for recollection,
- consistently observe the system of handling of dangerous substances and dangerous waste; return this 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.

POLICY OF OCCUPATIONAL HEALTH AND SAFETY

The Company is a holder of "Safe Enterprise" Award. The 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 PRE Group. In 2013 the recertification of the "Safety Enterprise" system was carried out in PRE and PREdi. The programme and its objectives relate to all employees and improve the approach to health protection. Employees healthcare at the PRE Group means not just the fulfilment of legal obligations, but also an important part of the corporate culture.

The certificate "Safe Enterprise" and the title "Third Level Health Supporting Enterprise" guarantee the professional approach. High level of safety at work is ensured above all by mutual communication between the PRE Group management and employees and by solving even small problems together. Besides occupational medical services, further above-standard health and medical services, sports activities, recreational stays etc. are provided as a part of employee benefits.

The Policy of Occupational Health and Safety Prioritizes above all:

- safety and protection of health at work as an integral part of Company activities management,
- common objective of the PRE Group members' management and all employees – avoid risk situations and threat by applying consistent observance of safety of work rules,
- system of corporate norms related to health protection, preventive checks, personal protective work means and risk analysis of individual work activities which ensures that legislation is upheld and the obligations of the employer and employees are observed.





for our children

We are fully aware of our social responsibility. Our philanthropic activity includes social care, healthcare, education and sport projects. Last year we made 33 direct and dozens other donations through the Barriers Account of the Charter 77 Foundation; the total value of all donations came to over CZK 5 million.





PUBLIC RELATIONS

Consistent customer orientation is a constant top priority of the PRE Group. Together with an extensive investment programme and creation of qualitatively higher level of external and internal communication, the PRE 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 PRE in the eyes of the broad 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, donor activities etc. An appreciable part of creating a public positive image lies with advisory services for customers and marketing, which significantly contribute to creating positive and friendly external image of the Company as a serious business partner. In line with its donation activities the PRE Group came together with the Charta 77 Foundation within which it established its own PRE Foundation through which amounts for individual projects approved in advance are covered.

Websites

The newly operating websites of the PRE Group were also created in an aim to move as many customer contacts from Commercial Centres to the Internet, eventually to the Call Centre. The level of elaboration and user comfort of the websites was objectively assessed during the annual competition Web Top 100, in this competition Pražská energetika, a.s. was awarded for the best websites of 2014. PRE has built on the success of past years because the parent company's website annually achieves top rankings even in the category of Power Industry (from 2007 to 2012 the corporate web presentation www.pre.cz was always placed in third place).

PRE Service Centre

PRE Service Centre (Centrum služeb PRE) continually followed up its activity in 2014 from the Energy Advisory Centre (Centrum energetického poradenství) which had started its activities in 2009. It specialises more in providing advisory services (for households and small businesses) on how to save energy, utilise renewable sources, use electricity economically and presents the latest technology. Specialists of CES focus on providing advice and practical activity of how to reconstruct electric boiler rooms, electrical installations, arrange for a complex plan, implementation and service of small photovoltaic power plants, offer lighting replacement services and so on. An important part of the activity of the Centre is also the renting of consumption meters, detection sets and thermal cameras. The PRE Service Centre operates the PRE Energy Advisor website (www.energetikyporadce.cz) offering the simplest way of making savings in all areas of electricity consumption. Another important internet address is www.PREkolo.cz. The PRE Service Centre also operates as an electric bike sales PREkolo (PREbike). The rental service offers the broadest selection of brands and types of bikes in the Czech Republic (revenues from the renting of electric bikes in 2014 increased by one third compared with the previous year). There is a shop in the same premises where electrical thermal equipment and light saving sources for advantaged prices can be bought.

Philanthropy

The PRE Group Sponsor and Donor Activities are considered an important part for building its positive image and reputation. The purpose of the sponsored activities is to present the PRE Group as a dynamic entity, positively and openly communicating with the public. It must be stated that the sponsorship philosophy of the PRE Group serves the publicly beneficial needs and at the same time it plays an important communication role. The PRE Group strictly adheres to the rules and principles of donorship such as giving preference to applications from the region of the Capital City – local presence, the social aspect of providing donations, focusing, as appropriately, on charity, healthcare, social care, education, environment, culture and sport. The importance is increasing of creating a positive image of the PRE Group through philanthropy.

As a Company of a well-marked municipal character, PRE strives to provide support particularly in the region of its sphere of activity, i.e. in the Capital City. We have been working for a long time with schools such as František Křižík Technical College and Secondary Technical School in Prague, with hospitals, various foundations and civic associations. It is worth mentioning our work with Nadace Naše dítě (Our Child Foundation), Fond ohrožených dětí (The Fund of Endangered Children), Sdružení linka bezpečí (Safety Line Association), Babybox, Dětské centrum Sulická (Sulická Children's Centre), keramická dílna A MANO (A MANO Pottery Workshop), Život 90 (Life 90) or the General University Hospital in Prague. In 2014 the PRE Group donated a total of 34 donations worth over 5 million crowns. In 2012 we began working closely with Nadace Charty 77 (Charter 77 Foundation) in which PRE Endowment Fund has been established. PRE contributes two million crowns to this endowment fund which was distributed among 58 approved applicants in 2014 with whom the Charter 77 Foundation had subsequently concluded deeds of donations. The maximum possible financial contribution for individual projects is CZK 200,000. In 2014 the average amount for one implemented project was approx. CZK 35,000. Each deed of donation stipulates that the donation is provided from the funds of the "PRE Endowment Fund" of Pražská energetika, a.s. The cooperation with the Charter 77 Foundation is highly beneficial and effective. The staff of the foundation has a perfect overview of the handicapped by working with doctors and other specialists in the field. They see a genuine and specific story behind every application and this gives PRE the guarantee that our financial aid really does reach those who currently need it the most.

Membership in National/Multinational Organisations/Associations

Companies of the PRE Group are members of ČSRES, World Energy Council – CR Energy Committee, ČK CIRED, Czech Company Lawyers Association (Unie podnikových právníků ČR o.s.), Electricity Market operator (OTE), Czech-German Chamber of Commerce and Industry (Česko-německá obchodní a průmyslová komora), Czech Institute of Internal Auditors (Český institut interních auditorů), Chamber of Commerce of the Capital City of Prague (Hospodářská komora hlavního města Prahy), Czech Association of Energy Sector Employers (Český svaz zaměstnavatelů v energetice), Association of Electronic Commerce (Asociace pro elektronickou komerci), Club of Friends of the National Technical Museum (Klub přátel Národního technického muzea v Praze) and Eco-carsharing Centre.

ICT SERVICES

ICT services (informatics, telecommunications) are provided centrally within the PRE Group. On the long-term basis the Group is thus able to maintain and develop a uniform strategy in this field where the ICT investment policy is an integral part. 2014 was a year of large changes in terms of information technology during which the informatics support of business and distribution processes significantly changed.

Main projects of the year were as follows:

- project Point of Delivery Prices (continues in 2015),
- support for the project of the new SCADA control system,
- enhancement of Call Centre support,
- project of customer servicing optimization,
- ICSS project implementation (internet services for customers),
- GIS systems upgrade,
- implementation of project involving minor services for PREm,
- increase of activities efficiency and optimisation of IT costs.

A series of development changes is planned as part of the adopted PRE Group strategy for 2015 that will require significant informatics support. This principally involves:

- completion of SCADA project,
- further optimisation of services provided in Customer Centres and Call Centres,
- significant support of new business processes,
- further enhancement of internet services including new PREdi and PREm websites which will provide a whole range of new services,
- continuation of the development of smart technologies utilisation and others.

PREdistribuce, a.s.

PREdistribuce, a.s. was established as a separate subsidiary on 7 September 2009 in accordance with the legal requirement to separate the distribution system operator.

Therefore, PREdi entered into all rights and obligations of PRE as of 1 January 2006 in the area of securing and operation of the distribution system on the licensed territory of the Capital City of Prague, Roztoky and Žalov and became the owner of the technical equipment and part of immovable property used for electricity distribution. The Company is electricity distribution licence holder No. 120504769 (in force as of 1.1.2006 for 25 years) on the mentioned above territory.

The subsidiary performs following activities:

- providing distribution services, management of contractual relations with customers, network connection management,
- planning, concepts, development and maintenance of the distribution network, substations and cable tunnels,
- construction of the distribution network, management of contractual relations with contractors,
- administration and recording of assets designed for electricity distribution,
- archiving materials for technical and operational documentation,
- inspection and continuous checking activities of the existing equipment and equipment in construction,
- network operation management in real time, power flow management and loss optimization and mass remote control management,
- management of planned shutdowns, solution of breakdown situations, management of emergency service,
- preparation of frequency and disconnection plans and mid-term and short-term disconnection plans,
- diagnostics and measuring of technical qualities of the distribution network,
- administration and operation of communication metallic cables,
- administration and operation of network control 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 Company and regulatory reporting,
- technical controlling,
- execution of constructions, their alterations and demolitions.

Distribution Network

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 is formed by the system of 110 kV, 22 kV and 0.4 kV lines and cable lines, distribution stations with 110/22 kV transformation and 22/0.4 kV network transformation stations. 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 failures, 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; in 2014 a total of 6 TWh was distributed through the networks 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. 540/2005 Coll. as amended.

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

Comparison of the Development of Selected Network Indicators (as at 31.12. of given Year)

| Indicator | Units | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Achieved maximum load | MW | 1,149 | 1,156 | 1,198 | 1,205 | 1,209 | 1,207 | 1,147 | 1,141 | 1,090 |
| Length of VHV network | km | 207 | 206 | 206 | 202 | 202 | 206 | 206 | 196 | 196 |
| Number of VHV/HV stations | pieces | 22/24 | 22/24 | 22/24 | 22/24 | 22/24 | 21/24 | 21/24 | 20/23 | 20/23 |
| Length of HV lines | km | 3,854 | 3,872 | 3,865 | 3,863 | 3,829 | 3,780 | 3,701 | 3,670 | 3,584 |
| Number of HV stations | pieces | 4,835 | 4,834 | 4,833 | 4,839 | 4,778 | 4,796 | 4,783 | 4,750 | 4,693 |
| Number of distribution stations | pieces | 3,246 | 3,261 | 3,274 | 3,295 | 3,254 | 3,277 | 3,281 | 3,272 | 3,258 |
| Length of LV network | km | 7,945 | 7,834 | 7,850 | 7,836 | 7,750 | 7,693 | 7,645 | 7,678 | 7,557 |

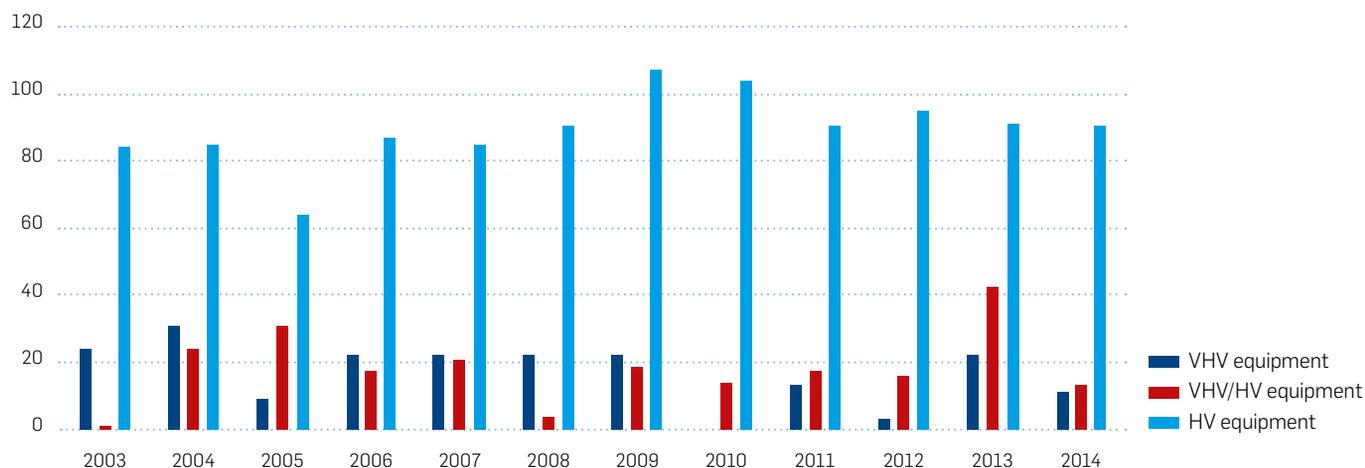
Number of Enquiries answered by the Distribution Emergency Line

| Year | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total | 41,371 | 52,789 | 41,782 | 38,484 | 32,860 | 28,800 | 34,260 | 31,200 |
| of which breakdowns | 13,900 | 22,943 | 15,935 | 17,364 | 22,160 | 18,650 | 23,300 | 22,300 |

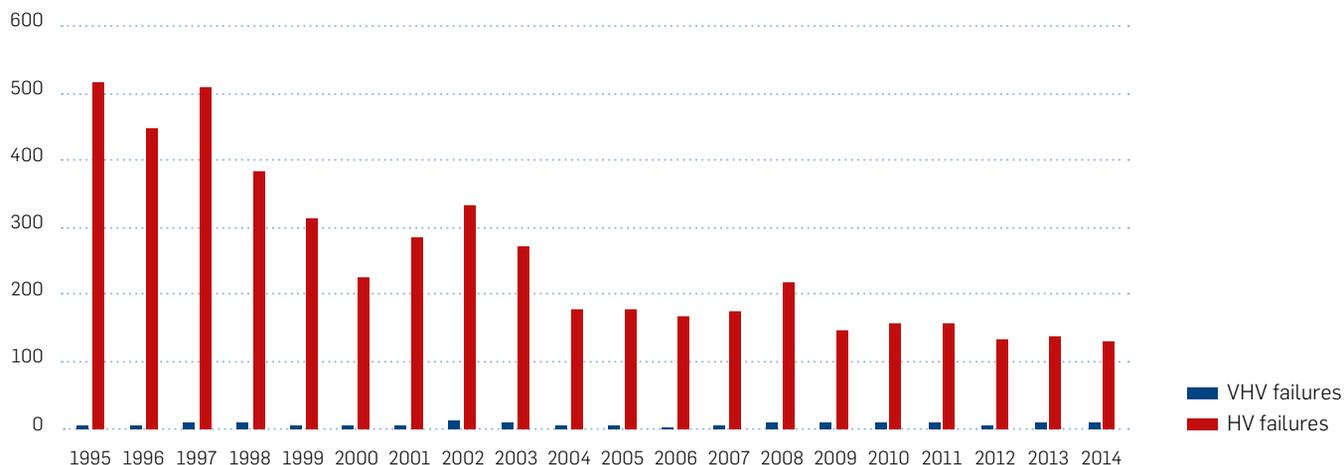
Number of E-mails answered by the Distribution Emergency Line

| Year | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|-------|-------|-------|-------|-------|-------|-------|------|------|
| Total | 5,722 | 4,916 | 2,860 | 1,156 | 1,577 | 1,230 | 679 | 100 |

Average Time of Electricity Supply Disconnection on VHV, VHV/HV and HV Equipment (min.)



Number of VHV and HV Failures



PREměření, a.s.

The Company was established in 1998 and its initial name was Cejchovna elektroměrů Praha, a.s. having registered capital in the amount of MCZK 35. Originally its main subject of business activities was 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 November 2005 it was decided to change the name of the Company to PREměření, a.s.

Further to the decision to introduce annual readings, it was decided within the PRE Group to consolidate all activities associated with LV electricity metering to PREměření, a.s. As of 1 January 2008 the organisational structure was adapted in line with requirements for ensuring the optimum function of processes associated with electric meters (administration of metering instruments, reading service and installation) including provision of these services to external entities.

The decision on strategic acquisitions in the area of electricity generation and on extension of the line of business by electricity generation was a significant step in the PREm history. Based on the ERÚ decision, PREm was granted a licence to generate electricity which will be in force until 17 May 2035.

As mentioned below, the PREm activities diversified over the years in the main subject of business and also in related activities.

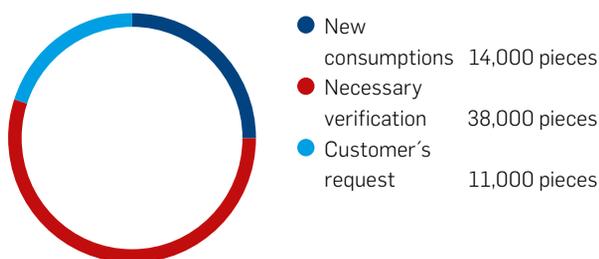
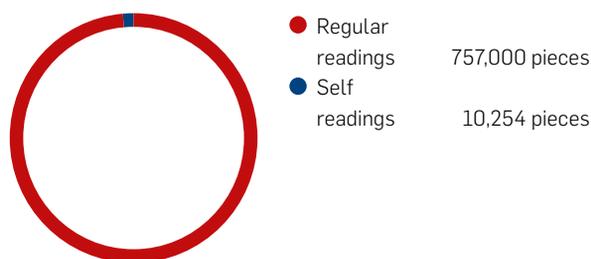
Primarily, PREm secured purchase of metering equipment, its testing and assembly for a sister company PREdi and in a smaller extent sales of metering equipment and selected range of electrical appliances to external customers. Readings were carried out specifically within the PRE Group, but also for external customers – Pražská plynárenská Distribuce and Pražská teplárenská. Apart from these activities the Company was also involved in electricity supply being cut off to debtors and debt collection.

In the scope of its business activities the subsidiary PREm was selling services related to work at the consumption point, inspection of LV lines and transformer stations, thermovision services, construction and servicing the photovoltaic power plants etc. In 2014 the Company took over activities provided by the Energy Advisory Centre and integrated them to a new department. As of mid 2014 further energy services (decentralised energy sources, lighting, energy audits, construction of transformer stations etc.) are offered on the free market through this department. Generation of electric power in own photovoltaic power plants has also been an important development activity of the Company. As of 1 December 2014 the PREm generation portfolio was enlarged by two generation stations – photovoltaic power plant Dačice and photovoltaic power plant Mikulov of total installed output ca. 5.8 MWp and increased to 14 photovoltaic power plants. The total annual generation of photovoltaic power plants operated by PREm was more than 12.645 GWh of electric power.

Photovoltaic Power Plants operated by PREm

| Photovoltaic power plants | Capacity [kWp] |
|---------------------------|----------------|
| Jinonice | 173 |
| Lhotka | 60 |
| Hrouda | 28 |
| Pražáčka T002 | 90 |
| Pražáčka T003 | 18 |
| Pražáčka T004 | 30 |
| Sever | 204 |
| Kondrac | 1,109 |
| Hořovice | 1,087 |
| Pozorka | 3,998 |
| Syrovce – Rajhradská | 3,168 |
| Syrovce – Ořechovská | 3,168 |
| Dačice | 4,848 |
| Mikulov | 941 |
| TOTAL | 18,922 |

The PREm accounting is kept in accordance with CAS.

Number of Meter Installations carried out in 2014**Overview of Meter Readings in 2014****eYello CZ, k.s.**

Company eYello CZ, k.s., (formally eYello CZ, a.s. or PREleas, a.s.) was established in 1996. As at 1.5.2014 the legal form of the Company was changed from a joint stock company to a limited partnership (PRE as the general partner, PREm as the limited partner). The Company is engaged in electricity and gas trading. Through the "YELLO ENERGY" brand the Company provides for electricity and gas supplies on the whole Czech Republic territory. The Company facilitates financial leasing of technologies for members of the PRE Group.

If compared to other suppliers on the market, eYello is differentiated by simplicity of offered products, flexible communication without customer centres, flexible feedback, all at a reasonable and appropriate price. Thus it enhances the successful offer of PRE products. The product "YELLO ENERGY" is based on the experience of Yello Strom (a subsidiary of EnBW Energie Baden-Württemberg AG) which is a successful supplier of electricity and gas in neighbouring Germany where it has been operating since 1999 and so far acquired over one million customers.

SHAREHOLDERS

All shareholders have access to all important information on the Company which is available either directly on the Company websites or upon request from the Shareholder Administration Department (Section Strategic Development and Relations with Shareholders).

No significant change in the shareholder's structure occurred during the year.

Thanks to information published on the Company websites, shareholders have in fact immediate access to information on important changes in the Company.

Tables stated below contain details on shareholder structure development since the time public negotiability of shares was cancelled.

Main PRE Shareholders (%)

| Status as at 31.12. | 2014 | 2013 | 2012 | 2011 |
|-----------------------------------|-------|-------|-------|-------|
| Pražská energetika Holding a.s. | 58.05 | 58.05 | 58.05 | 58.05 |
| EnBW Energie Baden-Württemberg AG | 41.40 | 41.40 | 41.40 | 41.40 |
| Other persons | 0.55 | 0.55 | 0.55 | 0.55 |

Structure of PRE Shareholders

| Status as at 31.12. | 2014 | | 2013 | | 2012 | | 2011 | |
|-----------------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|
| | Number of shareholders | Nominal value (TCZK) |
| Domestic shareholders | 5,523 | 2,266,204 | 5,583 | 2,266,205 | 5,599 | 2,266,221 | 5,650 | 2,266,222 |
| Foreign shareholders | 10 | 1,603,239 | 10 | 1,603,238 | 9 | 1,603,222 | 8 | 1,603,221 |
| Total shareholders | 5,533 | 3,869,443 | 5,593 | 3,869,443 | 5,608 | 3,869,443 | 5,658 | 3,869,443 |
| Natural persons | 5,514 | 21,408 | 5,576 | 21,414 | 5,590 | 21,412 | 5,641 | 21,414 |
| Legal entities | 19 | 3,848,035 | 17 | 3,848,029 | 18 | 3,848,031 | 17 | 3,848,029 |



for a modern ser

We continue to improve the quality of our customer services. Newly launched PRE websites, which ranked in the 1st place in a prestigious competition Web TOP 100, offer customers a broad option of services and settings that can be made from the comfort of your home. So we can make it easy for our customers to communicate not only with us, we also offer services of the PREmobil mobile virtual operator as of September 2014.



vice



1



GENERAL MEETINGS

During the year two ordinary general meetings were convened and held on 27 March and 26 June 2014.

The General Meeting held on 27 March 2014 decided to change the Articles of Association and to submit the Company to Act No. 90/2012 Coll. (Act on Business Corporations).

The General Meeting held on 26 June 2014

discussed:

- the Report of the Supervisory Board together with the statement on the Report on Relations between the connected Persons,

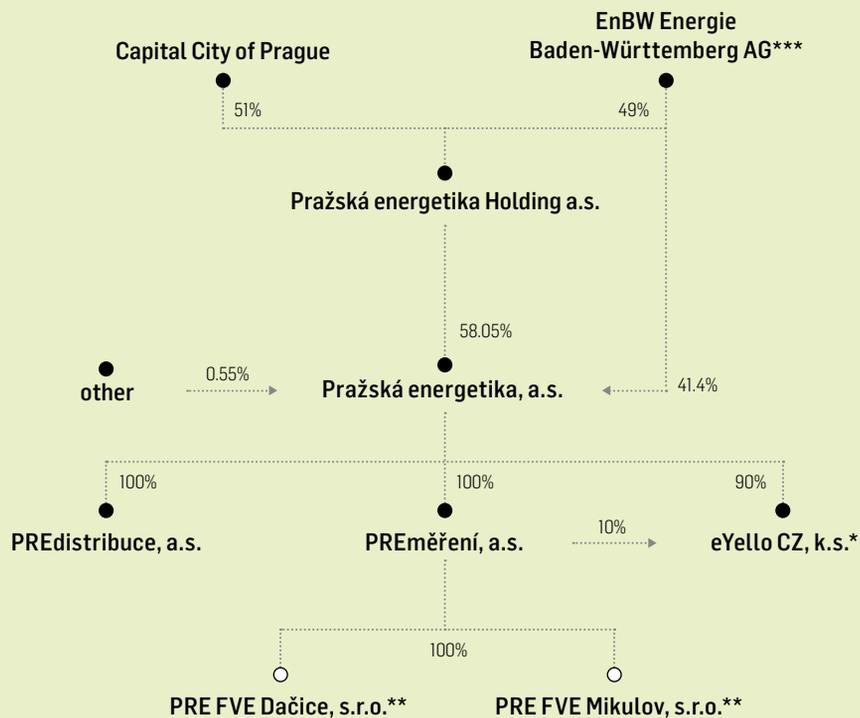
approved:

- the permanent rules of procedure of the General Meeting,
- the Report of the Board of Directors on the business activity and on the state of its assets for 2013 in the wording presented by the Company's Board of Directors,
- the consolidated financial statements for 2013 in the wording presented by the Board of Directors,
- the regular (separate) financial statements for 2013 in the wording presented by the Board of Directors,
- the proposal of distribution of profit for 2013 including fixing the level and method of paying out the dividends and director's fees for 2013,
- contracts on performance of the office of the Supervisory Board and Company Works Council members, including provided fees and other benefits,
- the presented proposal of the total gift amount for 2015.

elected Stefan Theo Webers a new member of the Supervisory Board and approved his contract on performance of the office of the Supervisory Board member, including provided fees and other benefits,

granted Michal Štěpán, the Supervisory Board member, the required approval to perform activity applying to prohibition of competition according to Section 451 of Act No. 90/2012 Coll.,

appointed the company Deloitte Audit, s.r.o., with the registered office Prague 8, Karolinská 654/2, PCN 186 00, the auditor of the financial statements for the years 2014–2016.



* As of 1.5.2014 eYello CZ, k.s. (until 30.4. eYello CZ, a.s.); until 7.3. 100% subsidiary of PRE.

** As of 1.12.2014 100% subsidiary of PREm.

*** Controlled and connected persons of EnBW are stated in the Report on Relations.

REPORT ON RELATIONS

of Pražská energetika, a.s. for 2014

(hereinafter referred to as the **Report on Relations**) drawn up in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter referred to as the **ZOK**). The relations are described in a manner bearing in mind the need to respect the provisions of Section 504 of Act No. 89/2012 Coll., the Civil Code concerning trade secret and by analogy with the provisions of Section 359 of ZOK concerning restrictions of information provision.

1. The structure of relations between the controlled and controlling person, role of the controlled person and manner and means of control

I. Relations Structure

Controlling persons:

Pražská energetika Holding a.s. with registered office Na Hroudě 1492/4, Prague 10, PCN 100 05, ID No.: 26428059, registered in the Commercial Register kept at the Municipal Register in Prague, File ref. B 7020 (**PREH**)

EnBW Energie Baden-Württemberg AG with registered office Durlacher Allee 93, 76131 Karlsruhe, the Federal Republic of Germany, registered in the Commercial Register kept at the District Court in Mannheim under number 107956 (**EnBW**), at the same time the managing person in accordance with Section 79, (1) of ZOK

Controlled Person:

Pražská energetika, a.s. with registered office Na Hroudě 1492/4, Prague 10, PCN 100 05, ID No.: 60193913, registered in the Commercial Register kept at the Municipal Register in Prague, File ref. B 2405 (**PRE**)

For Structure Diagram see previous chapter.

II. Role of PRE; method and means of control

PRE ensures stable, ecological and efficient supply of electric power in the Capital City of Prague and contributes to the development and improvement of the energy infrastructure. Among the PRE and the PRE Group main activities belongs trading in electricity and gas on the territory of the Czech Republic, electricity distribution, its generation from renewable sources and complementary energy services.

PREH is jointly controlled by the City of Prague (with a 51% share) and EnBW (with a 49% share). PREH holds PRE shares which represent a 58.05% share of the PRE registered capital and exercises a decisive influence on PRE according to Section 74 (1) of the Business Corporations Act (ZOK).

EnBW holds a share of 41.40% of the PRE registered capital and performs a decisive control of PRE according to Section 74 (1) and (3) of the Business Corporations Act. In compliance with the provisions of Section 79 of ZOK, PRE is part of the EnBW corporate group and operates on the Czech market within its framework. The control and management of PRE is implemented through EnBW representatives in the Board of Directors and Supervisory Board.

The control is carried out through the controlling companies PREH and EnBW based on the shareholder's contracts at PRE level and this above all involves the control of PRE activities. The unified management does not apply to the activities of PRE subsidiaries which are managed only by PRE as their majority partner. The PRE Board of Directors manages the subsidiary and sub-subsidary companies separately.

2. Overview of the proceedings in the last accounting period carried out at the incentive or in the interest of the controlling person or its controlled persons if such proceedings concerned property exceeding 10% of equity of the controlled person ascertained according to the last financial statement

In 2014 no proceedings concerning property exceeding 10% of the equity of PRE were carried out at the incentive or in the interest of the controlling persons or their controlled persons.

3. Overview of mutual contracts between the controlled and controlling person or between controlled persons

The overview of mutual contracts between the controlled persons was prepared based on the list of the controlled persons provided by the controlling persons of PRE.

I. Contracts entered into and concluded between PRE and PREH or with the persons controlled by PREH

- Contract on Lease of Non-residential Premises with PREH – in force as of 1.4.2001 for indefinite period, in the wording of the amendments
- Contract on Financial and Personnel Agenda with PREH – in force as of 15.8.2001 for indefinite period, in the wording of the amendments
- Agreement on Creation of Websites for PREH – in force from 10.12.2013 to 1.1.2014
- Contract on Provision of Short-term Loan No. 1/2013 with PREH – in force from 28.6.2013 to 30.7.2014
- Contract on Provision of Short-term Loan No. 1/2014 with PREH – in force from 27.6.2014 to 31.7.2015

II. Contracts entered into and concluded between PRE and EnBW or with the persons controlled by EnBW

- General Contract on the Exchange of Employees between PRE and EnBW Energie Baden-Württemberg AG – in force as of 23.10.2012 for indefinite period
- Contract on the Handling of Matters and Provision of Services with EnBW CZ spol. s r.o. – in force as of 1.2.2012 for indefinite period
- Contract on the Handling of Matters and Provision of Advisory and Administrative Services with EnBW CZ spol. s r.o. – in force from 1.2.2012 to 31.12.2017, in the wording of the amendments
- Licence Contract with Yello Strom GmbH – in force from 5.11.2012 to 5.11.2017
- Contract on Providing Access to the Market by Means of IMC No. G4400/2012/0003 with EnBW Trading GmbH (as of 1.5.2014 EnBW) – in force as of 20.12.2012 for indefinite period
- Contract on Provision of Service No. G4100/2013/0001 with Sales & Solutions GmbH – in force from 1.1.2013 to 31.5.2014
- Contract on Providing Access to OTE No. G4400/2013/0002 with EnBW Trading GmbH (as of 1.5.2014 EnBW) – in force as of 25.4.2013 for indefinite period
- Contract on the Creation of a Supply Consortium between PREdi and EnBW Regional AG (as of 1.2.2014 Netze BW GmbH) – in force as of 23.8.2013 until execution of a potential public contract
- Agreement on the Implementation of the Contract to create a Supply Consortium between PREdi and EnBW Regional AG (as of 1.2.2014 Netze BW GmbH) – in force as of 23.8.2013 until execution of a potential public contract, in the wording of the amendment
- Contract on Cooperation for Provision of EMIR Transaction Reporting No. G4400/2014/0001 with EnBW Trading GmbH (as of 1.5.2014 EnBW) – in force as of 23.4.2014 for indefinite period
- EFET Contract with EnBW Trading GmbH (from 1.5.2014 EnBW) – in force as of 20.1.2005 for indefinite period
- Order for Delivery of Advertising Material No. G4169/2014/0129 with Yello Strom GmbH – in force from 6.11.2014 to 31.12.2014

III. Contracts with Subsidiaries

1. Contracts with Subsidiaries

i) Contracts between PRE and PREdi

- Contract on Provision of Services No. P200006/01 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
- Lease Contract No. PS20000007/003 – in force as of 1.1.2007 for indefinite period, in the wording of the amendments
- Lease Contract No. PS20000007/004 – in force as of 1.1.2007 for indefinite period, in the wording of the amendments
- Lease Contract No. P200006/05 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
- Lease Contract No. P200006/06 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
- Contract on Lease of Non-residential Premises No. P200006/09 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
- Contract on Lease of Garage Parking Lot No. P200006/10 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
- Contract on Lease of Non-residential Premises No. P200006/11 – in force as of 1.1.2006 for indefinite period, in the wording of the amendments
- 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 own Needs of the Distribution System Operator 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, in the wording of the amendments
- General Mandate Contract on Construction of Telecommunication Facilities No. P200006/27 – in force as of 2.5.2006 for indefinite period
- Licence Contract No. PS20000011/029 – in force as of 3.1.2011 for indefinite period
- Lease Contract No. NO21106/015 – in force as of 2.1.2006 for indefinite period, in the wording of the amendments
- Lease Contract – Plastic Advertisement Billboards No. NO21106/001 – in force as of 30.12.2005 for indefinite period, in the wording of the amendments
- 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, in the wording of the amendment
- Lease Contract No. NO21109/001 – in force as of 1.3.2009 do 31.2.2015
- 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 22.1.2007 for indefinite period
- Contract on Establishment of Easement No. VV/G33/03502/07/4849 – in force as of 22.1.2007 for indefinite period
- Contract on Establishment of Easement No. VV/G33/03665/07/4394 – in force as of 16.11.2007 for indefinite period
- Contract on Establishment of Easement No. VV/G33/03938/08/5562 – in force as of 31.3.2008 for indefinite period
- Contract on Establishment of Easement No. VV/G33/04067/07/6065 – in force as of 9.11.2007 for indefinite period
- Contract on Establishment of Easement No. VV/G33/04295/08 – in force as of 4.2.2008 for indefinite period
- Contract on Establishment of Easement No. VV/G33/04449/08/5877 – in force as of 10.10.2008 for indefinite period
- Contract on Establishment of Easement No. VV/G33/04457/08 – in force from 31.3.2008 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
- Agreement on a Future Contract on Establishment of Easement No. VB/S24/1320548 – in force as of 8.3.2013
- Contract on Establishment of Easement No. VV/G33/06487/1006936 – in force as of 21.5.2010 for indefinite period
- Contract on Establishment of Easement No. VV/G33/07210/1110903 – in force as of 12.5.2011 for indefinite period
- Contract on Establishment of Easement No. VV/G33/08100/1215718 – in force as of 6.6.2012 for indefinite period
- Contract on Establishment of Easement No. VV/G33/08212/1216021 – in force as of 20.4.2012 for indefinite period
- Contract on Establishment of Easement No. VV/G33/09086/1321312 – in force as of 13.5.2013 for indefinite period
- Lease Contract No. NO21111/011 – in force as of 1.4.2011 for indefinite period
- Contract on Sub-lease of the Distribution System No. N21112/012 – in force from 1.2.2012 to 31.12.2013, in the wording of the amendment
- Lease Contract No. NO21112/016 – in force from 1.11.2012 to 30.6.2013
- Lease Contract No. NO21112/017 – in force from 1.12.2012 to 31.3.2013
- Lease Contract No. NVS24/1321673 – in force from 1.5.2013 to 30.11.2013
- Contract on Loan No. 1/2011 No. PS20000011/028 – in force from 28.11.2011 to 30.11.2014, in the wording of the amendments
- Contract on Loan No. 1/2012 No. PS20000012/032 – in force from 28.6.2012 to 29.6.2015, in the wording of the amendment
- General Contract on Provision of GPRS Module Installation Service No. PS20000013/033 – in force as of 25.10.2013 for indefinite period

- Contract on Long-term Loan No. PS20000014/021 – in force from 18.6.2014 to 18.6.2026
- Contract on Long-term Loan No. PS20000014/030 – in force from 26.11.2014 to 28.11.2026

ii) Contracts between PRE and PREm

- Lease Contract (C00241/06) – in force as of 1.9.2006 in the wording of the amendments, terminated as at 31.3.2014
- Lease Contract (C00242/06) – in force as of 1.9.2006 for indefinite period, in the wording of the amendments
- Lease Contract (C00310/08) – in force as of 1.1.2008 for indefinite period, in the wording of the amendments
- Contract on Lease of Garage Parking Lot 62/35300/07/Ni (C00312/08) – in force as of 1.1.2008 for indefinite period
- Contract on Lease of a Part of Real Estate (C00441/10) – in force from 1.10.2010 to 31.12.2035, in the wording of the amendment
- Contract on Lease of a Part of Real Estate (C00453/10) – in force from 1.11.2010 to 31.12.2035, in the wording of the amendment
- Lease Contract (C00523/11) – in force as of 1.9.2011 for indefinite period, in the wording of the amendments
- Contract on Lease of Non-residential Premises (C00581/12) – in force as of 1.6.2012 for indefinite period, in the wording of the amendments
- Contract on Lease of Non-residential Premises, PG3530/05/2013/04 (C00621/13) – in force as of 1.1.2008 for indefinite period
- Contract on Lease of Non-residential Premises for Business, NG3530/05/2014/14 (M5000/N/2014/0001) – in force as of 1.6.2014 for indefinite period
- Contract on Provision of Short-term Loans (C00186/05) – in force as of 30.11.2005 for indefinite period, in the wording of the amendment
- 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 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 on Provision of Services (C00267/06) – in force as of 1.1.2007 for indefinite period, in the wording of the amendments
- Contracts on Take-over 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, in the wording of the amendment
- Contract on Personal Data Processing (C00426/10) – in force as of 22.6.2010 for indefinite period
- Licence Agreement to use Trademark (C00470/11) – in force as of 3.1.2011 for indefinite period
- General Contract for Work (C00500/11) – in force as of 24.6.2011 for indefinite period
- Contract on Combined Services related to Electricity Supply – type MO No. SoSSE/6254022 (C00503/11) – in force as of 14.6.2011 for indefinite period
- Contract on Combined Services related to Electricity Supply – type MO No. SoSSE/6250517 (C00504/11) – in force as of 14.6.2011 for indefinite period
- Contract on Combined Services related to Electricity Supply – type MO No. SoSSE/6282725 (C00505/11) – in force as of 14.6.2011 for indefinite period
- Contract on Combined Services related to Electricity Supply – type MO No. SoSSE/6279473 (C00506/11) – in force as of 14.6.2011 for indefinite period
- Contract on Combined Services related to Electricity Supply – type MO No. SoSSE/6283505 (C00507/11) – in force as of 14.6.2011 for indefinite period
- Contract on Combined Services related to Electricity Supply – type MO No. SoSSE/6207319 (C00508/11) – in force as of 14.6.2011 for indefinite period
- Contract on Combined Services related to Electricity Supply – type MO No. SoSSE/6253998 (C00509/11) – in force as of 14.6.2011 for indefinite period
- Amendment to Contracts on Combined Services related to Electricity Supply – type MO (C00731/13) – in force from 1.1.2014 to 31.12.2015
- General Contract for Work (C00519/11) – in force as of 29.9.2011 for indefinite period
- General Contract for Work (C00522/11) – in force as of 19.9.2011 for indefinite period
- Mandate Contract (C00542/11) – in force as of 5.12.2011 for indefinite period, in the wording of the amendments
- Contract for Work (C00586/12) – in force as of 13.7.2012 for indefinite period, in the wording of the amendments
- Contract on Electricity Supply from Contract on Electricity Supply from supported Sources (C00605/12) – in force as of 1.1.2013 for indefinite period
- Contract on Mid-term Loan No. 1/2013 (C00653/13) – in force as of 26.4.2013 do 29.4.2016 (repaid on 28.2.2014)
- General Contract for Work (C00788/14) – in force as of 15.1.2014 for indefinite period
- Contract on provision of Services (C00803/14) – in force as of 1.1.2014 for indefinite period
- Contract on Long-term Loan No. 1/2014 (C00806/14) – in force from 28.2.2014 to 28.2.2022
- Contract on Long-term Loan No. 2/2014 (C00807/14) – in force from 28.2.2014 to 28.2.2023
- Contract on Long-term Loan No. 3/2014 (C00808/14) – in force from 28.2.2014 to 29.2.2024
- Contract on Long-term Loan No. 4/2014 (C00809/14) – in force from 28.2.2014 to 29.2.2024

- Contract on Long-term Loan No. 5/2014 (M5000/O/2015/0004) – in force from 8.12.2014 to 31.12.2021
- Contract on Transfer of Shares for Consideration (C00812/14) – in force as of 7.3.2014
- Purchase Contract (M5100/K/2014/0001) – in force from 30.4.2014 to 30.4.2014
- Purchase Contract (M5100/K/2014/0017) – in force from 30.4.2014 to 30.4.2014
- Brokerage Contract (M5100/SL/2014/0053) – in force from 4.10.2014 to 30.4.2015
- Contract on Mutual Marketing Support (M5100/SL/2015/0007) – in force from 10.12.2014 to 1.12.2016
- Contract on Long-term Loan No. 1/2014 (with PRE FVE Dačice) – in force from 8.12.2014 to 18.12.2024

iii) Contracts between PRE and eYello

- Contract No. ZBA/2005/36 on Provision of Factual Unidirectional Cash Pooling, in force as of 1.12.2005 for indefinite period, in the wording of the amendments
- Contract on Provision of Services – in force as of 19.12.2012 for indefinite period, in the wording of the amendments
- Sub-licence Contract – in force from 19.12.2012 to 5.11.2017
- Contract on Sub-lease – in force from 1.6.2013 to 31.3.2021
- Contract on Electricity Supply – in force from 1.2.2013 to 31.1.2014
- General Contract on Electricity Supply – in force as of 1.2.2014 for indefinite period
- General Contract on Gas Supply – in force as of 1.7.2013 for indefinite period
- Contract on Marketing Costs Allocation – in force as of 1.7.2014 for indefinite period, in the wording of the amendment

2. Contracts with Subsidiaries

i) Contracts between PREdi and PREm

- Contract on Provision of Services No. S252007/002, C00270/07 – in force as of 1.1.2007 for indefinite period in the wording of the amendments
- 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 in the wording of the amendments
- Contract on Lease of Land No. N21110/016, C00418/10 – in force from 1.4.2010 to 31.12.2030
- Contract on Lease of Land No. N021110/004, C00438/10 – in force from 1.9.2010 to 31.12.2030
- Contract on Lease of Land No. N21110/039, C00436/10 – in force from 1.10.2010 to 31.12.2035 in the wording of the amendments
- Contract on Lease of Part of Real Estate No. N021110/005, C00439/10 – in force from 1.10.2010 to 31.12.2035 in the wording of the amendment
- Contract on Delivery of Metering Equipment No. KV/S21/1424665, C 00773/13 – in force from 1.1.2014 to 31.12.2014
- Contract on Connection to the Distribution System on LV Level No. 6149169/2010 (C00422/10) – in force as of 26.5.2010 for indefinite period
- Contract on Connection to the Distribution System on LV Level No. 6168552/2010 (C00442/10) – in force as of 4.8.2010 for indefinite period
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200013/002, C00632/13 – in force from 1.3.2013 to 3.12.2015
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200013/003, C00628/13 – in force from 1.3.2013 to 16.4.2014
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200013/004, C00623/13 – in force from 18.2.2013 to 28.2.2016
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200013/005, C00629/13 – in force from 1.3.2013 to 28.2.2016
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200013/006, C00630/13 – in force from 1.3.2013 to 28.2.2016
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200013/007, C00631/13 – in force from 1.3.2013 to 28.2.2016
- Contract on Personal Data Processing No. PS20000013/038, C00627/13 – in force from 1.3.2013 until the time of the effect of the contracts on cooperation
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200014/001, C00785/14 – in force from 14.1.2014 to 28.2.2016
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200014/002, M5100/O/2014/0005 – in force from 2.5.2014 to 28.2.2016
- Contract on Cooperation to perform Work on unmetered parts of electricity consumption equipment No. PS20200014/003, M5100/O/2014/0006 – in force from 2.5.2014 to 28.2.2015
- Contract on Personal Data Processing No. PS20000014/031, C00783/14 – in force from 14.1.2014 to 28.2.2016

ii) **Contracts between PREDi and eYello**

- Leasing Contract No. 0400006 – in force from 1.2.2004 to 1.2.2014
- Leasing Contracts No. 0500001 to 0500003 – in force from 1.2.2005 to 1.2.2015

4. Review of whether the controlled person incurred damage and a review of its settlement

PRE or its controlled persons did not incur from the relationship with the controlling persons or persons controlled by any of the controlling persons and from the abovementioned binding relations any damage. According to the abovementioned binding relations, considerations are negotiated in prices usual at the site and time for given contract type, and no preferential treatment was provided to one or the other party.

5. Advantages and disadvantages arising from relations between the controlled person and controlling person and between the controlled person and persons controlled by the controlling person, and the risks that arise from them. Information on the potential settlement of damages.

PRE did not incur any damage or any risk, beyond the degree usual in business relations between independent persons, from relations with the controlling persons or persons controlled by any of the controlling persons, or from the abovementioned contracts.

Cooperation between PRE and the controlling persons, or as appropriate with their controlled persons, means considerable advantages for PRE thanks to the know-how acquired and numerous synergic effects which PRE can also achieve. PRE now has access to the knowledge and experience that the EnBW corporate group has at its disposal, as well as to the technology used and the advantages this brings. There are no disadvantages arising for PRE from cooperation within the corporate group.

The Board of Directors, as the statutory body of Pražská energetika, a.s. declares that the data contained in this Report on Relations are correct and complete, and that the procedure taken when drawing up the Report on Relations according to Section 82 et seq. of the ZOK was in the full scope of all information and data at the disposal of the statutory body or as ascertained by it when acting with due diligence.

In Prague, 31 March 2015



Pavel Elis
Chairman of the Board of Directors



Alexander Sloboda
Vice-Chairman of the Board of Directors

Appendix No. 1 to the Report on Relations PRE 2014

CONTROLLED AND CONNECTED PERSONS of EnBW**Area of Generation and Trade**

| Area of Generation and Trade | Company registered office |
|---|--|
| AWISTA Logistik GmbH, Düsseldorf | Höherweg 222, 40233 Düsseldorf |
| EnBW Biomasse GmbH, Karlsruhe | Am Erlengraben 5, 76275 Ettlingen |
| EnBW Etzel Speicher GmbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| EnBW Grundstücksverwaltung Rheinhafen GmbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| EnBW Kraftwerk Lippendorf Beteiligungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Rückbauservice GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Speicher GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| Gemeinschaftsheizkraftwerk Fortuna GmbH, Düsseldorf | Höherweg 100, 40233 Düsseldorf |
| Gesellschaft für nukleares Reststoffrecycling mbH, Neckarwestheim | Im Steinbruch, 74382 Neckarwestheim |
| Heizkraftwerk Stuttgart GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| Kernkraftwerk Obrigheim GmbH, Obrigheim | Kraftwerkstr. 1, 74847 Obrigheim |
| KMS Kraftwerke Grundbesitzmanagement und -service GmbH & Co. KG, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| MSE Mobile Schlammwässerungs GmbH, Karlsbad-Ittersbach | Auf der Hub 35-39, 76307 Karlsbad |
| NWS Energiehandel GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| TAE Thermische Abfallentsorgung Ansbach GmbH, Ansbach | Durlacher Allee 93, 76131 Karlsruhe |
| TPLUS GmbH, Karlsruhe | Am Erlengraben 5, 76275 Ettlingen |
| TWS Kernkraft GmbH, Gemmrigheim | Schelmenwasenstr. 15, 70567 Stuttgart |
| U-plus Umweltservice AG, Karlsruhe | Am Erlengraben 5, 76275 Ettlingen |
| EnBW Kernkraft GmbH, Obrigheim | Kraftwerkstr. 1, 74847 Obrigheim |
| Kraftwerk Bexbach Verwaltungsgesellschaft mbH, Bexbach/Saar | c/o Saar Energie GmbH, Trierer Str. 1, 66111 Saarbrücken |
| AWISTA Gesellschaft für Abfallwirtschaft und Stadtreinigung mbH, Düsseldorf | Höherweg 100, 40233 Düsseldorf |
| KNG Kraftwerks- und Netzgesellschaft mbH, Rostock | Am Kühlturm 1, 18147 Rostock |

| Connected but unconsolidated companies | Company registered office |
|--|---------------------------------------|
| Südwestdeutsche Nuklear-Entsorgungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| Zentraldeponie Hubbelrath GmbH, Düsseldorf | Höherweg 100, 40233 Düsseldorf |
| Nahwärme Düsseldorf GmbH, Düsseldorf | Höherweg 100, 40233 Düsseldorf |
| KWO Rückbau GmbH i.L., Obrigheim | Kraftwerkstr. 1, 74847 Obrigheim |

Area of renewable sources

| Fully consolidated companies | Company registered office |
|--|---|
| Aletsch AG, Mörel/Switzerland | c/o EnAlpin AG, Litternaring 2, CH-3930 Visp |
| EnAlpin AG, Visp/Switzerland | Litternaring 2, CH-3930 Visp |
| EnBW Baltic 2 GmbH & Co. KG, Rostock (formerly EnBW Baltic 2 GmbH, Börgerende-Rethwisch) | Am Kühlturm 1, 18147 Rostock |
| EnBW Biogas GmbH, Stuttgart | Kronenstrasse 26, 70173 Stuttgart |
| EnBW He Dreiht GmbH, Varel | Kronenstrasse 26, 70173 Stuttgart |
| EnBW Hohe See GmbH, Stuttgart | Kronenstrasse 26, 70173 Stuttgart |
| EnBW Offshore 1 GmbH, Stuttgart (formerly EnBW Omega Siebzehte Verwaltungsgesellschaft mbH, Karlsruhe) | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Offshore 2 GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Offshore Service GmbH, Klausdorf-Barhöft | Kronenstrasse 26, 70173 Stuttgart |
| EnBW Omega Siebenundvierzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Solar GmbH, Stuttgart | Kronenstr. 26, 70173 Stuttgart |
| EnBW Wind Onshore 1 GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Wind Onshore 2 GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Windkraftprojekte GmbH, Stuttgart | Kronenstrasse 26, 70173 Stuttgart |
| EnBW Windpark Eisenach II GmbH, Stuttgart | Kronenstrasse 26, 70173 Stuttgart |
| Energiedienst AG, Rheinfelden | Schönenbergerstraße 10, 79618 Rheinfelden |
| Grünwerke GmbH, Düsseldorf | Höherweg 200, 40233 Düsseldorf |
| Northern Energy OWP Albatros GmbH, Aurich | Reeperbahn 1, 20359 Hamburg |
| PRE FVE Mikulov, s.r.o., Prague/Czech Republic | Prague 10, Na Hroudě 2149/19 |
| PRE FVE Dacice, s.r.o., Prague/Czech Republic | Prague 10, Na Hroudě 2149/19 |
| Windfarm Neuruppin GmbH & Co. KG, Leer | Am Nesseufer 40, 26789 Leer |
| Windkraft FiT GmbH, Hamburg | Reeperbahn 1, 20359 Hamburg |
| Windpark Niederlinxweiler GmbH & Co. KG, Leinfelden-Echterdingen | Kronenstrasse 26, 70173 Stuttgart |
| EnBW Holding A.S., Gümüssuyu-Istanbul/Turkey | Inonu Cad. 53/9 Gümüssuyu, TR- 34437 Istanbul |
| Neckar Aktiengesellschaft, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| Geothermie-Gesellschaft Bruchsal GmbH, Bruchsal | Schnabel-Henning-Str. 1a, 76646 Bruchsal |
| Energiedienst Holding AG, Laufenburg/Switzerland | Baselerstr. 44, CH-5080 Laufenburg |
| Rheinkraftwerk Neuhausen AG, Neuhausen/Switzerland | Laufengasse, CH- 8212 Neuhausen |
| EnBW Baltic 1 GmbH & Co. KG, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Onshore Portfolio GmbH, Stuttgart | Kronenstrasse 26, 70173 Stuttgart |
| Kraftwerk Lötchen AG, Steg/Switzerland | Litternaring 2, CH- 3940 Steg VS |

| Connected but unconsolidated companies | Company registered office |
|--|--|
| Baltic 2 Windpark Beteiligungen GmbH & Co. KG, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| CarbonBW (Thailand) Ltd., Bangkok/Thailand | Thailand |
| EnBW Baltic 1 Verwaltungsgesellschaft mbH, Stuttgart (formerly EnBW Baltic 1 Verwaltungsgesellschaft mbH, Karlsruhe) | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Baltic 2 Windpark Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Baltic Windpark Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Wind Onshore Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| ZEAG Erneuerbare Energien GmbH, Heilbronn | Weipertstraße 41, 74076 Heilbronn |
| BürgerEnergie Königheim GmbH & Co. KG, Königheim | Kirchplatz 2, 97953 Königheim |
| Bürgerenergie Widdern GmbH & Co. KG, Widdern | Rathausplatz 7, 74259 Widdern |
| EE BürgerEnergie Boxberg GmbH & Co. KG, Boxberg | Kurpfalzstraße 29, 97944 Boxberg |
| EE Bürgerenergie Braunsbach GmbH & Co. KG, Braunsbach | Geislinger Straße 11, 74542 Braunsbach |
| EE Bürgerenergie Bühlerzell GmbH & Co. KG, Bühlerzell | Heilberger Straße 4, 74426 Bühlerzell |
| EE BürgerEnergie Forchtenberg GmbH & Co. KG, Forchtenberg | Hauptstraße 14, 74670 Forchtenberg |
| EE Bürgerenergie Frankenhardt GmbH & Co. KG, Frankenhardt | Crailsheimer Straße 3, 74586 Frankenhardt |
| EE BürgerEnergie Jagsthausen GmbH & Co. KG, Jagsthausen | Hauptstraße 3, 74249 Jagsthausen |
| EE BürgerEnergie Krautheim GmbH & Co. KG, Krautheim | Burgweg 5, 74238 Krautheim |
| EE BürgerEnergie Möckmühl GmbH & Co. KG, Möckmühl | Hauptstraße 23, 74219 Möckmühl |
| EE BürgerEnergie Neudenau GmbH & Co. KG, Neudenau | Hauptstraße 27, 74861 Neudenau |
| EE Bürgerenergie Sulzbach-Laufen GmbH & Co. KG, Sulzbach-Laufen | Eisbachstraße 24, 74429 Sulzbach-Laufen |
| EE Bürgerenergie Hardthausen GmbH & Co. KG, Hardthausen am Kocher | Lampoldshauser Straße 8, 74239 Hardthausen am Kocher |
| Holzkraft Plus GmbH, Düsseldorf | Höherweg 100, 40233 Düsseldorf |
| Solarpark Leutkirch GmbH & Co. KG, Leutkirch im Allgäu | Markstraße 26, 88299 Leutkirch im Allgäu |
| Solarpark Leutkirch Verwaltungsgesellschaft mbH, Leutkirch im Allgäu | Markstraße 26, 88299 Leutkirch im Allgäu |
| Alb-Windkraft Verwaltungs GmbH, Geislingen/Steige | Eybstr. 98-100, 73312 Geislingen |
| JatroSolutions GmbH, Stuttgart | Echterdinger Str. 30, 70599 Stuttgart |
| Alb-Windkraft GmbH & Co. KG, Geislingen/Steige | Eybstr. 98-100, 73312 Geislingen |

Area of networks

| Fully consolidated companies | Company registered office |
|---|---|
| ED Netze GmbH, Rheinfelden (formerly Energiedienst Netze GmbH, Rheinfelden) | Schildgasse 20, 79618 Rheinfelden Baden |
| EnBW Kommunale Beteiligungen GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW REG Beteiligungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EVGA Grundstücks- und Gebäudemanagement GmbH & Co. KG, Obrigheim | Kraftwerkstr. 1, 74847 Obrigheim |
| NeckarCom Telekommunikation GmbH, Stuttgart | Stöckachstr.48, 70190 Stuttgart |
| Netze BW GmbH, Stuttgart (formerly EnBW Regional AG, Stuttgart) | Schelmenwasenstr. 15, 70567 Stuttgart |
| Netze-Gesellschaft Südwest mbH, Karlsruhe (formerly Erdgas Südwest Netz GmbH, Karlsruhe) | Nobelstraße 18, 76275 Ettlingen |
| Netzgesellschaft Düsseldorf mbH, Düsseldorf (formerly Stadtwerke Düsseldorf Netz GmbH, Düsseldorf) | Höherweg 200, 40233 Düsseldorf |
| Netzgesellschaft Ostwürttemberg DonauRies GmbH, Ellwangen Jagst (formerly Netzgesellschaft Ostwürttemberg GmbH, Ellwangen Jagst) | Unterer Brühl 2, 73479 Ellwangen |
| NHF Netzgesellschaft Heilbronn-Franken mbH, Heilbronn | Weipertstr. 39, 74076 Heilbronn |
| NWS Grundstücksmanagement GmbH & Co. KG, Obrigheim | Kraftwerkstr. 1, 74847 Obrigheim |
| NWS REG Beteiligungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| PREdistribuce, a.s., Prague, Czech Republic | Prague 5, Svornosti 3199/19a |
| PREměření a.s., Prague, Czech Republic | Prague 10, Na Hroudě 2149/19 |
| RBS wave GmbH, Stuttgart | Kronenstr. 24, 70173 Stuttgart |
| terranets bw GmbH, Stuttgart | Am Wallgraben 135, 70565 Stuttgart |
| TransnetBW GmbH, Stuttgart | Pariser Platz, Osloer Str. 15-17, 70173 Stuttgart |
| EnBW Ostwürttemberg DonauRies AG, Ellwangen | Unterer Brühl 2, 73479 Ellwangen |
| ZEAG Energie AG, Heilbronn | Weipertstraße 41, 74076 Heilbronn |
| Erdgas Südwest GmbH, Karlsruhe | Siemensstraße 9, 76275 Ettlingen |
| NetCom BW GmbH, Ellwangen (formerly ODR Technologie Services GmbH, Ellwangen) | Unterer Brühl 2, 73479 Ellwangen |
| Stadtwerke Düsseldorf AG, Düsseldorf | Höherweg 100, 40233 Düsseldorf |
| Stromnetzgesellschaft Heilbronn GmbH & Co. KG, Heilbronn | Weipertstraße 41, 74076 Heilbronn |
| Neckar Netze GmbH & Co. KG, Esslingen am Neckar | Rennstraße 6, 73728 Esslingen am Neckar |

Connected but unconsolidated companies**Company registered office**

| | |
|--|---|
| Elektrizitätswerk Aach GmbH, Aach | Eltastr. 1-5, 78532 Tuttlingen |
| Energieversorgung Gaildorf OHG der EnBW Kommunale Beteiligungen GmbH und NWS REG Beteiligungsgesellschaft mbH, Gaildorf | Burg 2, 74405 Gaildorf |
| Energieversorgung Raum Friedrichshafen GmbH & Co. KG, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| Energieversorgung Raum Friedrichshafen Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| HEV Hohenloher Energie Versorgung GmbH, Ilshofen-Obersteinach (formerly EBT Elektrizitätswerk Braunsbach-Tullau GmbH, Ilshofen-Obersteinach) | Orlacher Str. 1, 74532 Ilshofen |
| Neckar Netze Verwaltungsgesellschaft mbH, Esslingen am Neckar | Rennstraße 6, 73728 Esslingen am Neckar |
| SWS Netzbetreiber GmbH, Stuttgart (vormals EnBW Omega Fünzigste Verwaltungsgesellschaft mbH, Stuttgart) | Hackstr. 31, 70190 Stuttgart |
| Rieger GmbH & Co. KG, Lichtenstein Kreis Reutlingen | Friedrichstr. 16, 72805 Lichteinstein |
| Rieger Beteiligungs-GmbH, Lichtenstein Kreis Reutlingen | Friedrichstr. 16, 72805 Lichteinstein |
| Elektrizitätswerk Weißenhorn AG, Weißenhorn | Illberberger Str. 6a, 89264 Weißenhorn |
| Gasnetzgesellschaft Laupheim GmbH & Co. KG, Laupheim | Marktplatz 1, 88471 Laupheim |
| Gasnetzgesellschaft Laupheim Verwaltungs GmbH, Laupheim | Marktplatz 1, 88471 Laupheim |
| Netzgesellschaft Elz-Neckar GmbH & Co. KG, Obrigheim | Hauptstraße 7, 74847 Obrigheim |
| Netzgesellschaft Elz-Neckar Verwaltungs GmbH, Obrigheim | Hauptstraße 7, 74847 Obrigheim |
| Stromnetzgesellschaft Albershausen GmbH & Co. KG, Albershausen | Kirchstraße 1, 73095 Albershausen |
| Stromnetzgesellschaft Albershausen Verwaltungs GmbH, Albershausen | Kirchstraße 1, 73095 Albershausen |
| Stromnetzgesellschaft Heilbronn Verwaltungs-GmbH, Heilbronn (formerly EnBW Omega Dreiundvierzigste Verwaltungsgesellschaft mbH, Stuttgart) | Weipertstr. 41, 74076 Heilbronn |
| Stromnetzgesellschaft Laupheim GmbH & Co. KG, Laupheim | Marktplatz 1, 88471 Laupheim |
| Stromnetzgesellschaft Laupheim Verwaltungs GmbH, Laupheim | Marktplatz 1, 88471 Laupheim |

Area of sales

| Fully consolidated companies | Company registered office |
|---|---|
| ED GrünSelect GmbH, Rheinfelden | Rheinbrückstr. 5/7, 79618 Rheinfelden Baden |
| EnBW EnergyWatchers GmbH, Stuttgart | Birkenwaldstraße 34, 70191 Stuttgart |
| EnBW Gas Verwaltungsgesellschaft mbH, Karlsruhe (formerly EnBW Eni Verwaltungsgesellschaft mbH; Karlsruhe) | Durlacher Allee 93, 76131 Karlsruhe |
| EnBW Mainfrankenpark GmbH, Dettelbach | Mainfrankenpark 2, 97337 Dettelbach |
| EnBW Propower GmbH, Eisenhüttenstadt | Oderlandstraße 109, 15890 Eisenhüttenstadt |
| EnBW Vertriebsbeteiligungen GmbH, Stuttgart (formerly SüdBest GmbH, Stuttgart) | Schelmenwasenstr. 15, 70567 Stuttgart |
| energieNRW GmbH, Düsseldorf | Höherweg 100, 40233 Düsseldorf |
| ESD Energie Service Deutschland AG, Offenburg | Zeller Straße 38, 77654 Offenburg |
| eYello CZ, k.s., Prague, Czech Republic | Prague 10, Kubánské náměstí 1391/11 |
| GasVersorgung Süddeutschland GmbH, Stuttgart | Schulze-Delitzsch-Straße 7, 70565 Stuttgart |
| Gasversorgung Unterland GmbH, Heilbronn | Weipertstraße 41, 74076 Heilbronn |
| NaturEnergie AG, Grenzach-Wyhlen | Am Wasserkraftwerk 49, 79639 Grenzach-Wyhlen |
| NaturEnergie+ Deutschland GmbH, Rheinfelden | Schönenbergerstraße 10, 79618 Rheinfelden Baden |
| Sales & Solutions GmbH, Frankfurt am Main | Lyoner Str. 44-48, 60528 Frankfurt am Main |
| Thermogas Gas- und Gerätevertriebs-GmbH, Stuttgart | Talstr. 117, 70188 Stuttgart |
| Watt Synergia GmbH, Frankfurt am Main | Lyoner Str. 44-48, 60528 Frankfurt am Main |
| Yello Strom GmbH, Köln | Am Grauen Stein 27, 51105 Köln |
| ZEAG Immobilien GmbH & Co. KG, Heilbronn | Weipertstr. 41, 74076 Heilbronn |
| grünES GmbH, Esslingen am Neckar | Fleischmannstr. 50, 73728 Esslingen am Neckar |
| Energiedienstleistungen Rhein-Neckar GmbH, Ludwigshafen | Donnersbergweg 2, 67059 Ludwigshafen am Rhein |
| Energie- und Medienversorgung Sandhofer Straße GmbH & Co. KG, Mannheim | Sandhofer Str. 116, 68305 Mannheim |
| Pražská energetika, a.s., Prague, Czech Republic | Prague 10, Na Hroudě 1492/4 |
| Connected but unconsolidated companies | Company registered office |
| EZG Operations GmbH, Wismar | Am Haffeld 2, 23970 Wismar |
| WECO Flüssiggas Verwaltungsgesellschaft mbH, Stuttgart | Talstraße 117, 70188 Stuttgart |
| ZEAG Immobilien Verwaltungsgesellschaft mbH, Heilbronn | Weipertstr. 41, 74076 Heilbronn |
| WECO Flüssiggas GmbH & Co. KG, Stuttgart | Talstraße 117, 70188 Stuttgart |
| Energie- und Medienversorgung Sandhofer Straße Verwaltungs GmbH, Mannheim | Sandhofer Str. 116, 68305 Mannheim |

Other

| Fully consolidated companies | Company registered office |
|--|---|
| ED Immobilien GmbH & Co. KG, Rheinfelden | Rheinbrückstr. 5/7, 79618 Rheinfelden Baden |
| ED Immobilien Verwaltungsgesellschaft mbH, Rheinfelden | Rheinbrückstr. 5/7, 79618 Rheinfelden Baden |
| EnBW City GmbH & Co. KG, Obrigheim | Kraftwerkstr. 1, 74847 Obrigheim |
| EnBW Immobilienbeteiligungen GmbH, Stuttgart | Eichwieserling 14, 70567 Stuttgart |
| EnBW International Finance B.V., Rotterdam/Netherlands | Schouwburgplein 30-34, NL- 3012CL Rotterdam |
| EnBW Perspektiven GmbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| Energiedienst Support GmbH, Rheinfelden | Rheinbrückstr. 5-7, 79618 Rheinfelden Baden |
| Facilma Grundbesitzmanagement und -service GmbH & Co. Besitz KG, Obrigheim | Kraftwerkstr. 1, 74847 Obrigheim |
| Neckarwerke Stuttgart GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| NWS Finanzierung GmbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| SBZ Beteiligungen GmbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| symbiotic services GmbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| Teweratio GmbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| MURVA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald | Tölzer Str. 15, 82031 Grünwald |
| EnBW Versicherungsvermittlung GmbH, Stuttgart | Calwer Straße 7, 0173 Stuttgart |
| Connected but unconsolidated companies | Company registered office |
| EBAG Omega Dritte Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW CZ spol. s r.o., Prague, Czech Republic | Na Hroudě 1492/4, Prague 10 |
| EnBW Omega Dreiundfünfzigste Verwaltungsgesellschaft mbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| EnBW Omega Dreiundsechzigste Verwaltungsgesellschaft mbH, Karlsruhe | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Einundfünfzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Einundsechzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Fünfundfünfzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Fünfundsechzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Neununddreißigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Neunundfünfzigste Verwaltungsgesellschaft mbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| EnBW Omega Sechsunfünfzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Vierundfünfzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Vierundsechzigste Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Omega Zweiundfünfzigste Verwaltungsgesellschaft mbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| EnBW Omega Zweiundsechzigste Verwaltungsgesellschaft mbH, Karlsruhe | Schelmenwasenstr. 15, 70567 Stuttgart |
| EnBW Real Estate GmbH, Obrigheim | Kraftwerkstraße 1, 74847 Obrigheim |
| EnBW Senergi Immobilien GmbH, Karlsruhe | Durlacher Allee 93, 76131 Karlsruhe |
| KMS Verwaltungsgesellschaft mbH, Stuttgart | Schelmenwasenstr. 15, 70567 Stuttgart |
| SSG Verwaltungsgesellschaft mbH i.L., Kornwestheim | Stammheiner Str. 10, 70806 Kornwestheim |

INFORMATION REQUIRED IN ACCORDANCE WITH THE LEGAL REGULATION

Information about facts which occurred after the balance sheet day

The data are continuously presented in the text of the Annual Report.

Information about the estimated activity development of the accounting unit

The data are presented in the chapter "Financial Analysis".

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 whose participation in the total turnover accounts for less than 10%.

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

The data are presented in chapters "Environmental Protection and OHS" and "Human Resources".

Information about objectives and risk management methods in the Company

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

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

The data are stated in the chapter "Financial Report" and in the financial statements.

Information about interruption of business

The company did not interrupt its business during the year.

SUPERVISORY BOARD REPORT

In 2014, in accordance with legislation and Company's Articles of Association, the Supervisory Board supervised the activities of the Board of Directors, its performance of business activities, fulfilment of the instructions of the Company's General Meeting and assessment of the business plan. In 2014 the Supervisory Board met five times.

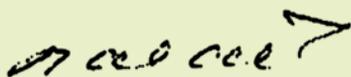
The Board of Directors regularly informed the Supervisory Board of the current events in the Company, the economic results and financial situation of the Company. To this end, the Board of Directors submitted written materials to which a verbal comment by members of the Board of Directors was always added during discussions held by the Supervisory Board.

In 2014 the Supervisory Board among others:

- discussed and reviewed the proposal for distribution of profit for 2013 together with submitted proposals of the consolidated and regular (separate) financial statements; became acquainted with the reports of the auditor concerning these statements,
- assessed fulfilment of the top management objectives for 2013,
- discussed the Report on Relations between connected persons,
- discussed the Annual Report for 2013,
- discussed the preparation of the General Meetings held on 27 March 2014 and 26 June 2014,
- approved the new wording of the contracts on performance of office of the Board of Directors members resulting from a change in legislation and the Company's new Articles of Association,
- approved the economic plan for 2015 and took account of the plan for 2016-2017,
- approved the draft contract with the auditor of the financial statements for 2014-2016 elected by the General Meeting,
- took account of the resignation of two members of the Supervisory Board (Mr. Lüschen and Mr. Mausbeck),
- appointed Bernhard Beck a substitute member of the Supervisory Board up until the General Meeting is convened,
- approved the updated strategy of the PRE Group for 2015-2020,
- approved the conclusion of guarantee agreements with Komerční banka, a.s. in connection with acquisition of Dačice and Mikulov photovoltaic power plants,
- approved the top management objectives for 2015.

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

In Prague, 18 February 2015



Jiří Baldík
Chairman of the Supervisory Board

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pražská energetika, a.s.

Having its registered office at: Na Hroudě 1492/4, 100 05 Praha 10
Identification number: 601 93 913

Report on the Separate Financial Statements

Based upon our audit, we issued the following audit report dated 20 February 2015 on the financial statements which are included in this annual report in the Chapter "Separate Financial Statements for 2014":

"We have audited the accompanying financial statements of Pražská energetika, a.s. which comprise the statement of financial position as of 31 December 2014, 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 system 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 2014, and of its financial performance and 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 20 February 2015 on the consolidated financial statements which are included in this annual report in the Chapter "Consolidated Financial Statements for 2014":

"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 2014, 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 2014, and of its financial performance and 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 2014 which is included in this annual report in the Chapter "Report on Relations". This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Pražská energetika, a.s. for the year ended 31 December 2014 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 2014 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.

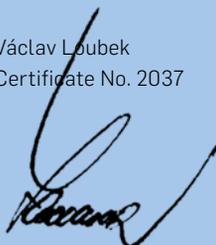
In Prague, 20 April 2015

Audit firm:

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

Statutory auditor:

Václav Loubek
Certificate No. 2037



CONSOLIDATED FINANCIAL STATEMENTS

prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU

Consolidated Income Statement (CZK thousand)

| | Note | 2014 | 2013 |
|--|----------|------------------|------------------|
| Revenues from electricity produced | | 169,238 | 56,458 |
| Revenues from electricity and gas sold | | 18,540,318 | 21,376,680 |
| Costs of electricity and gas sold | | (12,813,862) | (15,079,414) |
| Gross profit from the sale of electricity and gas | (4) | 5,895,694 | 6,353,724 |
| Other operating income | (4) | 407,850 | 391,218 |
| Personnel expenses | (5) | (1,186,185) | (1,133,531) |
| Amortisation and depreciation | (12, 13) | (1,043,376) | (1,021,129) |
| Costs of purchased services, material and energy | (6) | (1,065,337) | (1,098,524) |
| Borrowing costs | (7) | (44,552) | (33,166) |
| Other gains and losses | (8) | 41,781 | (92,432) |
| Profit from ordinary activity before tax | | 3,005,875 | 3,366,160 |
| Income tax | (9) | (587,815) | (652,817) |
| Profit from ordinary activity after tax | | 2,418,060 | 2,713,343 |
| Earnings per share attributable to ordinary shares (CZK) | (11) | 625 | 701 |

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

| | Note | 2014 | 2013 |
|---|------|-------------------|-------------------|
| Assets | | | |
| Property, plant and equipment | (12) | 20,572,770 | 19,656,265 |
| Intangible assets | (13) | 297,573 | 168,917 |
| Trade receivables and other receivables | (15) | 37,959 | 32,564 |
| Non-current assets | | 20,908,302 | 19,857,746 |
| Inventories | (16) | 51,005 | 49,979 |
| Tax receivables | | 155,677 | 135,787 |
| Trade receivables and other receivables | (15) | 1,969,880 | 2,473,074 |
| Cash and cash equivalents | (17) | 206,214 | 265,546 |
| Current assets | | 2,382,776 | 2,924,386 |
| Total assets | | 23,291,078 | 22,782,132 |
| Liabilities | | | |
| Share capital | (22) | 3,869,443 | 3,869,443 |
| Funds from profit | (23) | 1,162,035 | 1,278,542 |
| Retained earnings | | 9,333,397 | 8,664,289 |
| Shareholder's equity attributable to the parent company's shareholders | | 14,364,875 | 13,812,274 |
| Loans | (18) | 2,988,596 | 2,836,740 |
| Trade payables and other payables | (19) | 335,611 | 299,237 |
| Provisions | (21) | 38,725 | 64,800 |
| Deferred tax liability | (9) | 1,784,045 | 1,687,057 |
| Long-term payables | | 5,146,977 | 4,887,834 |
| Loans | (18) | 1,050,721 | 878,139 |
| Tax payables | | 115,258 | 141,942 |
| Trade payables and other payables | (19) | 2,519,533 | 2,969,207 |
| Provisions | (21) | 93,714 | 92,736 |
| Short-term payables | | 3,779,226 | 4,082,024 |
| Total liabilities | | 23,291,078 | 22,782,132 |

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 2012 | 3,869,443 | 1,190,078 | 7,700,750 | 12,760,271 |
| Dividends and director's fees paid | -- | -- | (1,749,804) | (1,749,804) |
| Other comprehensive income | -- | 88,464 | -- | 88,464 |
| Net profit for 2013 | -- | -- | 2,713,343 | 2,713,343 |
| Balance at 31 Dec 2013 | 3,869,443 | 1,278,542 | 8,664,289 | 13,812,274 |
| Dividends and director's fees paid | -- | -- | (1,748,952) | (1,748,952) |
| Other comprehensive income | -- | (116,507) | -- | (116,507) |
| Net profit for 2014 | -- | -- | 2,418,060 | 2,418,060 |
| Balance at 31 Dec 2014 | 3,869,443 | 1,162,035 | 9,333,397 | 14,364,875 |

Consolidated Statement of Comprehensive Income (CZK thousand)

| | 2014 | 2013 |
|--|------------------|------------------|
| Profit from ordinary activity after tax | 2,418,060 | 2,713,343 |
| Revaluation of other financial assets | (213) | -- |
| Cash flow hedging | (116,294) | 88,464 |
| Total other comprehensive income after tax | (116,507) | 88,464 |
| Comprehensive income attributable to shareholders of the parent company | 2,301,553 | 2,801,807 |

Consolidated Cash Flow Statement (CZK thousand)

| | Note | 2014 | 2013 |
|--|---------|--------------------|--------------------|
| Opening balance of cash and cash equivalents | | 265,546 | 127,172 |
| Operating activity | | | |
| Income from the sale of electricity and gas | | 18,193,733 | 20,603,223 |
| Expenses related to purchases of electricity and gas | | (12,551,356) | (14,385,620) |
| Net income from the sale of electricity and gas | | 5,642,377 | 6,217,603 |
| Other operating income* | (4,8) | 391,463 | 358,952 |
| Operating expenses | (6,8) | (927,322) | (1,142,430) |
| Short-term changes in working capital | | 39,276 | 27,900 |
| Personnel expenses | (5) | (1,099,835) | (1,100,711) |
| Direct tax | (9) | (538,941) | (508,827) |
| Financial income and expenses | (7) | (64,966) | (51,550) |
| Net cash flow from operating activity | | 3,442,051 | 3,800,937 |
| Investment activity | | | |
| Income from the sale of fixed assets | (8) | 129,280 | 12,992 |
| Expenses related to the acquisition of fixed assets* | (12,13) | (1,935,050) | (2,510,663) |
| Net cash flow from investment activity | | (1,805,770) | (2,497,671) |
| Financial activity | | | |
| External loans repaid | (18) | (628,916) | (200,008) |
| Dividends and director's fees paid | (10) | (1,746,649) | (1,750,132) |
| External loans received* | (18) | 677,759 | 778,249 |
| Other financial operations | | 2,192 | 6,999 |
| Net cash flow from financial activity | | (1,695,614) | (1,164,892) |
| Change in cash and cash equivalents | | (59,332) | 138,374 |
| Closing balance of cash and cash equivalents | (17) | 206,214 | 265,546 |

*) In the comparative period, the cash flows relating to the acquisition of the Syrovice photovoltaic power plant were reclassified.

Content of the Notes to the Financial Statements

1. General Information
2. Adoption of New and Revised International Financial Reporting Standards
3. Significant Accounting Policies
4. Revenues
5. Personnel Expenses
6. Costs of Services, Material and Energy
7. Borrowing Costs
8. Other Gains and Losses
9. Income Tax
10. Dividends
11. Earnings per Share
12. Property, Plant and Equipment
13. Intangible Assets
14. Subsidiaries
15. Trade Receivables and Other Receivables
16. Inventories
17. Cash and Cash Equivalents
18. Loans
19. Trade Payables and Other Payables
20. Finance Lease Payables
21. Provisions
22. Share Capital
23. Funds from Profit
24. Contingent Liabilities and Contingent Assets
25. Financial Instruments
26. Operating Leases
27. Related Party Transactions
28. Post Balance Sheet Events

(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 Commercial Register 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 Rožtoky, covering an area of approximately 505 km². These activities generate a major part of the Group's income. The Group also strengthens its activities related to solar energy generation.

In 2012, the Group expanded its principal activities to include gas supplies and started to offer supplies of electricity and gas to households and small businesses under the Yellow Energy trademark.

Electricity is distributed in public interest and rights and obligations relating to this activity, as well as trading with, and supplies of, electricity and gas, except for general legal regulations, are stipulated in Energy Act No. 458/2000 Coll. as amended, and the related implementation guidance.

| PRE's principal shareholders | 2014 | 2013 |
|---------------------------------|----------------|----------------|
| Pražská energetika Holding a.s. | 58.05% | 58.05% |
| Energie Baden-Württemberg AG | 41.40% | 41.40% |
| Other | 0.55% | 0.55% |
| Total | 100.00% | 100.00% |

The Capital City of Prague owns 51 percent of Pražská energetika Holding a.s. and Energie Baden-Württemberg AG holds 49 percent. The ultimate controlling entity is Energie Baden-Württemberg AG.

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

Standards and Interpretations Effective in the Current Period

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

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 "Financial instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014);

- Amendments to **IAS 36 "Impairment of Assets"** – Recoverable Amounts Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to **IAS 39: "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amended standards resulted in no significant changes in the accounting policies of the Group.

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:

- **IFRIC 21 "Levies"**, interpretation adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 January 2014).

The Group decided not to apply these standards, revisions and interpretations before their effective dates. The Group anticipates that compliance with these standards, revisions and interpretations in the period of their first adoption will have no impact on the Group's financial statements.

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017);
- Amendments to **IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014);
- Amendments to **IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards "**Improvements to IFRSs (cycle 2010–2012)**" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- Amendments to various standards "**Improvements to IFRSs (cycle 2011–2013)**" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014); and
- Amendments to various standards "**Improvements to IFRSs (cycle 2012–2014)**" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Group anticipates that the adoption of these standards, amended standards and interpretations will have no material impact on the financial statements of the Group in the period of their first time adoption.

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

The Group estimates that the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"**, would not significantly impact the financial statements, if applied at the balance sheet date.

(3) Significant Accounting Policies

Statement of Compliance

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

Basis of the Preparation of Financial Statements

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The Company exercises control over its subsidiaries and it is the Company's intention to exercise it in the following year. The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue Recognition

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable if significant risks and rewards arising from the ownership of the relevant goods have been transferred to the buyer. Revenues arising from contracts for the provision of services are recognised by reference to the stage of completion.

Revenues from electricity and distribution are recognised in the period when the electricity is consumed by customers. Revenues from other provided services are recognised when the services are rendered.

Revenue from leasing (primarily fibre-optics) are recognised evenly over the lease period.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever all the substantial risks and rewards of ownership of the relevant assets transfer to the lessee. All other leases are classified as operating leases.

Assets acquired under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Lease payables are included in "Trade payables and other payables" within short-term and long-term payables.

Foreign Currency Translation

The financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Czech crowns are the functional currency of all Group entities and the presentation currency for the consolidated financial statements.

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

Borrowing Costs

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

Income Tax

Income tax expense reported in the income statement represents the sum of the tax currently payable and a change in the deferred tax balance.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised and are recognised in profit or loss except when associated with items charged directly to equity in which case it is also dealt with in equity.

Property, Plant and Equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost reduced by accumulated depreciation and recognised impairment loss. Cost includes the purchase price and costs associated with acquisition and is presented net of investment contributions (see below). Property, plant and equipment with a cost over CZK 40 thousand are reported on the face of the balance sheet.

Customers pay part of the cost incurred reasonably by the Group upon being connected to the required power supply. The customers' obligation to pay this charge is stipulated in Act No. 458/2000 Coll. and Regulation 51/2006, as subsequently amended. The Group recognises investment contributions as income for the period.

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

Depreciation on plant and equipment is charged to profit or loss.

Properties in the course of construction for production or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. The cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

| Asset category | Depreciation in years |
|--|----------------------------|
| Buildings, halls and other constructions | 15, 20, 25, 30, 40, 50, 70 |
| Cable tunnels, cable and overhead lines | 40 |
| Fibre-optics | 30 |
| Power structures | 15, 25, 30 |
| Working machinery and equipment | 5, 8, 10, 12, 20 |
| Telecommunication equipment | 4-33 |
| Machinery and special technology equipment, communication cables | 3, 4, 6, 8, 10 |
| Vehicles | 4, 8, 10 |
| Electricity meters | 10, 12 |
| Furniture and fixtures | 4, 5, 6, 8, 10 |
| Hardware | 3, 4 |
| Photovoltaic power stations – construction part *) | 20 |
| Photovoltaic power stations – technology *) | 5, 10, 20 |

*) The depreciation period is calculated from bringing the photovoltaic power station 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 selected types of minor electricity equipment and electrical machines 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. Goodwill arising on business acquisitions is reported at cost as determined at the business acquisition date net of cumulative impairment losses, if any. 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.

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.

Impairment of Goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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 derivative contracts.

Commodity derivatives for the purchase and sale of electricity are predominantly settled by physical supplies of electricity intended for consumption or sale within the Group's common activities. Such contracts therefore do not fall within the scope of IAS 39. The Group also enters into commodity derivatives within its trading portfolio.

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 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.

Cash Flow Statement

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

Significant Accounting Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the 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 Group 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 Group'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)

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Income and expenses relating to the sale of electricity and gas | | |
| Income from electricity produced | 175,820 | 76,146 |
| Payment for solar energy | (6,582) | (19,688) |
| Total income from electricity production | 169,238 | 56,458 |
| Sale of electricity B2B | 4,313,445 | 5,485,346 |
| Sale of distribution and system services B2B | 4,823,709 | 5,482,145 |
| Sale of electricity B2C | 2,984,172 | 3,365,346 |
| Sale of distribution and system services B2C | 6,064,978 | 6,774,808 |
| Sale of gas including distribution services | 115,349 | 64,165 |
| Other income *) | 225,261 | 192,725 |
| Gross profit from trading | 13,404 | 12,145 |
| Total income | 18,540,318 | 21,376,680 |
| Purchases of sold electricity | (6,616,850) | (7,932,096) |
| Purchases of distribution and system services | (6,084,699) | (7,082,892) |
| Purchases of gas | (112,313) | (64,426) |
| Total costs | (12,813,862) | (15,079,414) |
| Gross profit from the sale and production of electricity and gas. | 5,895,694 | 6,353,724 |

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

| | 2014 | 2013 |
|---|----------------|----------------|
| Other operating income | | |
| Income from provided services *) | 148,276 | 162,489 |
| Received investment contributions | 217,696 | 188,156 |
| Compensation for unauthorised consumption | 24,280 | 24,887 |
| Other | 17,598 | 15,686 |
| Total | 407,850 | 391,218 |

*) The income includes revenues from the lease of land, real estate and other operating equipment, freight transport, IT support, reading of heat and gas meters and electrical assembly work.

(5) Personnel Expenses (CZK thousand)

| | 2014 | 2013 |
|--|-------------------------------|-------------------------------|
| | Staff including management | Staff including management |
| Average headcount | 1,401 | 1,394 |
| Payroll costs | 683,798 | 693,920 |
| Salaries paid depending on the fulfilment of the plan | 64,543 | 63,547 |
| Insurance | 274,023 | 269,838 |
| Remuneration to the members of the Group's statutory bodies *) | 33,659 | 12,624 |
| Other social costs **) | 130,162 | 93,602 |
| Total | 1,186,185 | 1,133,531 |

*) The increase is attributable to the change in reporting, as since 1 January 2014, no statutory body members have been in an employment relationship with the Group and the aggregate remuneration is paid to them based on a contract for performing a function.

***) Primarily costs of severance pays and employee benefits defined by the Collective Agreement, specifically catering contributions, bonuses paid to employees in relation to work or life anniversaries, retirement, contributions to additional pension insurance and medical care. The increase in social costs is attributable to a significant drop in the interest rate applied in calculating long-term discounted payables to employees.

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

| | 2014 | 2013 |
|------------------------------------|------------------|------------------|
| Material and own consumed energy | 101,430 | 130,090 |
| Repairs of tangible fixed assets | 244,439 | 286,492 |
| Consulting services | 47,852 | 46,531 |
| Rental charges | 184,847 | 179,301 |
| Postage and telecommunication fees | 38,901 | 48,270 |
| IT support | 144,286 | 109,394 |
| Marketing | 95,014 | 95,032 |
| Training and conferences | 7,047 | 7,249 |
| Other *) | 201,521 | 196,165 |
| Total | 1,065,337 | 1,098,524 |

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

(7) Borrowing Costs (CZK thousand)

| | 2014 | 2013 |
|---------------------------------------|---------------|---------------|
| Interest on loan | 41,501 | 28,616 |
| Interest expense on employee benefits | 2,041 | 3,412 |
| Interest on leases | 1,010 | 1,138 |
| Total | 44,552 | 33,166 |

(8) Other Gains and Losses (CZK thousand)

| | 2014 | 2013 |
|--|---------------|-----------------|
| Write-offs of doubtful debt and creation of allowances | (39,455) | (44,360) |
| Taxes and charges | (10,538) | (10,616) |
| Insurance premium | (7,303) | (6,450) |
| Foreign exchange rate gains (losses) | 6,186 | (21,374) |
| Profit from the sale and disposal of assets | 82,559 | (4,987) |
| Other | 10,332 | (4,645) |
| Total | 41,781 | (92,432) |

(9) Income Tax (CZK thousand)

The current income tax payable is calculated at 19 percent of the estimated taxable profit. Deferred tax is calculated using the income tax rates anticipated in future periods, i.e. 19 percent.

| | 2014 | 2013 |
|-------------------------|----------------|----------------|
| Current tax payable | 453,140 | 537,779 |
| Deferred tax | 134,675 | 115,038 |
| Total income tax | 587,815 | 652,817 |

| | 2014 | | 2013 | |
|--|------------------|---------------|------------------|---------------|
| Effective tax rate | | | | |
| Profit before tax | 3,005,875 | | 3,366,160 | |
| Income tax using the effective income tax rate | 571,116 | 19.00% | 639,570 | 19.00% |
| Impact of items that are never tax-deductible | 16,699 | 0.56% | 13,247 | 0.39% |
| Total income tax/effective tax rate | 587,815 | 19.56% | 652,817 | 19.39% |

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

| | 2014 | Recorded in profit or loss | Recorded in equity | 2013 | Recorded in profit or loss | Recorded in equity | 2012 |
|---|------------------|-------------------------------|-----------------------|------------------|-------------------------------|-----------------------|------------------|
| Fixed assets | 1,881,421 | 136,704 | -- | 1,744,717 | 125,392 | -- | 1,619,325 |
| Provisions and allowances against receivables | (35,980) | 175 | -- | (36,155) | (8,369) | -- | (27,786) |
| Inventories | (548) | (67) | -- | (481) | 14 | -- | (495) |
| Obligation under the Collective Agreement | (55,176) | (4,033) | -- | (51,143) | (1,998) | -- | (49,145) |
| Cash flow hedge | (5,672) | -- | (35,791) | 30,119 | -- | 20,751 | 9,368 |
| Total deferred tax liability | 1,784,045 | 132,779 | (35,791) | 1,687,057 | 115,039 | 20,751 | 1,551,267 |

(10) Dividends (CZK thousand)

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

| | 2014 | 2013 |
|--|-----------|-----------|
| Final dividend for 2013 of CZK 442 (2012: CZK 442) per share | 1,710,294 | 1,710,294 |

The proposed final dividend for 2014 must be approved by shareholders at the General Meeting. It has not been included in liabilities in these financial statements.

(11) Earnings per Share (CZK thousand)

Earnings per share are calculated from the net profit for distribution of CZK 2,418,060 thousand (2013: CZK 2,713,343 thousand) attributable to 3,869,443 shares, i.e. the earnings per share amount to CZK 625 (2013: CZK 701). The Group has issued no instruments that would dilute the basic earnings per share.

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

| | Land | Power structures | Cables and overhead lines | Tele-communication technologies and IT | Administrative buildings | Photo-voltaic power stations | Electricity metres | Other | Assets under construction | Total |
|---------------------------------------|--------------|------------------|---------------------------|--|--------------------------|------------------------------|--------------------|----------------|---------------------------|-------------------|
| Cost | | | | | | | | | | |
| Balance at 31 Dec 2012 | 735.6 | 10,092.7 | 11,178.0 | 2,146.4 | 1,691.0 | 238.4 | 1,803.3 | 679.3 | 485.1 | 29,049.8 |
| Additions | 42.2 | 527.8 | 585.7 | 138.9 | 7.3 | 875.2 | 51.3 | 64.1 | 536.5 | 2,829.0 |
| Disposals | (0.2) | (78.0) | (82.9) | (120.6) | -- | -- | (68.2) | (56.1) | (0.6) | (406.6) |
| Reclassification | -- | 71.6 | 57.8 | 44.9 | 2.1 | -- | 31.7 | 13.4 | (201.4) | 20.1 |
| Balance at 31 Dec 2013 | 777.6 | 10,614.1 | 11,738.6 | 2,209.6 | 1,700.4 | 1,113.6 | 1,818.1 | 700.7 | 819.6 | 31,492.3 |
| Accumulated depreciation | | | | | | | | | | |
| Balance at 31 Dec 2012 | (1.2) | (4,075.8) | (3,603.0) | (1,551.8) | (377.5) | (19.6) | (1,316.1) | (354.3) | -- | (11,299.3) |
| Depreciation | -- | (272.8) | (263.1) | (149.1) | (35.6) | (36.0) | (116.8) | (53.7) | -- | (927.1) |
| Accumulated depreciation on disposals | -- | 76.8 | 82.9 | 120.6 | -- | -- | 67.7 | 42.4 | -- | 390.4 |
| Balance at 31 Dec 2013 | (1.2) | (4,271.8) | (3,783.2) | (1,580.3) | (413.1) | (55.6) | (1,365.2) | (365.6) | -- | (11,836.0) |
| Net book value 2012 | 734.4 | 6,016.9 | 7,575.0 | 594.6 | 1,313.5 | 218.8 | 487.2 | 325.0 | 485.1 | 17,750.5 |
| Net book value 2013 | 776.4 | 6,342.3 | 7,955.4 | 629.3 | 1,287.3 | 1,058.0 | 452.9 | 335.1 | 819.6 | 19,656.3 |

| | Land | Power structures | Cables and overhead lines | Tele-communication technologies and IT | Administrative buildings | Photovoltaic power stations | Electricity metres | Other | Assets under construction | Total |
|---------------------------------------|--------------|------------------|---------------------------|--|--------------------------|-----------------------------|--------------------|----------------|---------------------------|-------------------|
| Cost | | | | | | | | | | |
| Balance at 31 Dec 2013 | 777.6 | 10,614.1 | 11,738.6 | 2,209.6 | 1,700.4 | 1,113.6 | 1,818.1 | 700.7 | 819.6 | 31,492.3 |
| Additions | 28.0 | 448.9 | 572.0 | 131.1 | 18.0 | 384.7 | 60.7 | 38.4 | 239.3 | 1,920.9 |
| Disposals | (39.8) | (30.2) | (64.4) | (27.1) | (28.0) | -- | (136.1) | (33.4) | (0.2) | (359.2) |
| Reclassification | 30.2 | 237.9 | 53.2 | 79.3 | 50.6 | -- | 25.2 | 19.8 | (496.1) | -- |
| Balance at 31 Dec 2014 | 795.9 | 11,270.6 | 12,299.4 | 2,392.9 | 1,741.0 | 1,498.3 | 1,767.8 | 725.5 | 562.7 | 33,054.1 |
| Accumulated depreciation | | | | | | | | | | |
| Balance at 31 Dec 2013 | (1.2) | (4,271.8) | (3,783.2) | (1,580.3) | (413.1) | (55.6) | (1,365.2) | (365.6) | -- | (11,836.0) |
| Depreciation | -- | (289.4) | (270.5) | (139.7) | (37.3) | (91.7) | (78.2) | (53.2) | -- | (960.0) |
| Accumulated depreciation on disposals | -- | 33.2 | 64.4 | 27.1 | 24.4 | -- | 136.1 | 29.6 | -- | 314.7 |
| Balance at 31 Dec 2014 | (1.2) | (4,527.9) | (3,989.3) | (1,693.0) | (426.0) | (147.3) | (1,307.3) | (389.3) | -- | (12,481.3) |
| Net book value 2013 | 776.4 | 6,342.3 | 7,955.4 | 629.3 | 1,287.3 | 1,058.0 | 452.9 | 335.1 | 819.6 | 19,656.3 |
| Net book value 2014 | 794.7 | 6,742.7 | 8,310.1 | 700.0 | 1,314.9 | 1,351.0 | 460.5 | 336.2 | 562.7 | 20,572.8 |

As of 31 December 2013, photovoltaic power stations had the output of 13,133 kWp.

| Photovoltaic power plants | Installed output (kWp) | Licence | Acquisition |
|---|------------------------|-----------|-------------|
| PRE Mikulov, s.r.o. photovoltaic power plant *) | 941 | 2010 | 2014 |
| PRE Dačice, s.r.o. photovoltaic power plant *) | 4,848 | 2009/2010 | 2014 |
| Kondrac photovoltaic power plant | 1,109 | 2009 | 2011 |
| Hořovice photovoltaic power plant | 1,087 | 2010 | 2011 |
| Pozorka photovoltaic power plant | 3,998 | 2010 | 2013 |
| Syrovce photovoltaic power plant | 6,336 | 2009 | 2013 |
| Other photovoltaic power plants **) | 603 | 2010 | |
| Total | 18,922 | | |

*) The equipment of photovoltaic power plants is owned by subsidiaries.

***) These are small power plants installed in Prague (own construction).

The ownership title to the photovoltaic power stations in the Syrovce, Dačice and Mikulov cadastral areas is restricted by the pledge corresponding to the amount of the loan (refer to the Note "Loans").

(13) Intangible Assets (CZK million)

| | Software | Goodwill | Other | Assets under construction | Total |
|---------------------------------------|----------------|-----------|---------------|---------------------------|----------------|
| Cost | | | | | |
| Balance at 31 Dec 2012 | 449.5 | -- | 39.6 | 74.0 | 563.1 |
| Additions | 9.6 | -- | 1.8 | 64.5 | 75.9 |
| Disposals | (50.3) | -- | (0.4) | (0.6) | (51.3) |
| Reclassification*) | 45.9 | -- | 1.9 | (67.9) | (20.1) |
| Balance at 31 Dec 2013 | 454.7 | -- | 42.9 | 70.0 | 567.6 |
| Accumulated amortisation | | | | | |
| Balance at 31 Dec 2012 | (332.6) | -- | (23.2) | -- | (355.8) |
| Amortisation | (86.0) | -- | (7.4) | -- | (93.4) |
| Accumulated amortisation on disposals | 50.1 | -- | 0.4 | -- | 50.5 |
| Balance at 31 Dec 2013 | (368.5) | -- | (30.2) | -- | (398.7) |
| Net book value 2012 | 116.9 | -- | 16.4 | 74.0 | 207.3 |
| Net book value 2013 | 86.2 | -- | 12.7 | 70.0 | 168.9 |

| | Software | Goodwill | Other | Assets under construction | Total |
|---------------------------------------|----------------|--------------|---------------|---------------------------|----------------|
| Cost | | | | | |
| Balance at 31 Dec 2013 | 454.7 | -- | 42.9 | 70.0 | 567.6 |
| Additions | 9.1 | 139.0 | 0.9 | 63.0 | 212.0 |
| Disposals | (1.3) | -- | (3.7) | -- | (5.0) |
| Reclassification | 58.6 | -- | 0.5 | (59.1) | -- |
| Balance at 31 Dec 2014 | 521.0 | 139.0 | 40.6 | 73.9 | 774.6 |
| Accumulated amortisation | | | | | |
| Balance at 31 Dec 2013 | (368.5) | -- | (30.2) | -- | (398.7) |
| Amortisation | (78.0) | -- | (5.4) | -- | (83.4) |
| Accumulated amortisation on disposals | 1.3 | -- | 3.8 | -- | 5.1 |
| Balance at 31 Dec 2014 | (445.2) | -- | (31.9) | -- | (477.0) |
| Net book value 2013 | 86.2 | -- | 12.7 | 70.0 | 168.9 |
| Net book value 2014 | 75.9 | 139.0 | 8.8 | 73.9 | 297.6 |

*) The amount of CZK 20 million represents the proportional share in costs related to connecting as well as ensuring the reserved input of TR Chodov which is a part of its purchase price and which was reclassified under tangible fixed assets in 2013.

The Group has no intangible assets developed internally.

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

| | 2014 | 2013 |
|-----------------|------------------|------------------|
| Depreciation | (1,043.4) | (1,021.1) |
| Impairment Loss | -- | 0.6 |
| Total | (1,043.4) | (1,020.5) |

The Group anticipates incurring total capital expenditure of CZK 2 billion in 2015. Approximately CZK 1 billion has been contracted as of the balance sheet date.

In accordance with accounting policies (refer to "Significant Accounting Policies"), low value fixed assets are recognised in expenses upon acquisition.

Acquisition Cost of Low Value Fixed Assets in Use as of the Balance Sheet Date:

| | 2014 | 2013 |
|-----------------------------|----------------|----------------|
| Low value fixed assets | | |
| Low value tangible assets | 307,201 | 295,339 |
| Low value intangible assets | 50,327 | 46,770 |
| Total | 357,528 | 342,109 |

(14) Subsidiaries (CZK thousand)

| Company | Principal activity | Country of origin | Ownership percentage | Share in voting rights |
|---------------------------|---|-------------------|----------------------|------------------------|
| PREdistribuce, a.s. | Distribution | Czech Republic | 100% | 100% |
| eYello CZ, k.s. | Electricity and gas trading, provision of leases in the Group | Czech Republic | 100% | 100% |
| PREměření, a.s. | Purchase, sale and installation of electricity meters, generation of solar energy | Czech Republic | 100% | 100% |
| PRE FVE Mikulov s.r.o. *) | Generation of electricity using solar energy | Czech Republic | 100% | 100% |
| PRE FVE Dačice s.r.o. *) | Generation of electricity using solar energy | Czech Republic | 100% | 100% |

*) The sole owner of these entities is PREměření a.s.

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 financial statements of the subsidiaries are included in the consolidated financial statements.

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

| | 2014 | 2013 |
|---|---------------|---------------|
| Trade receivables and other long-term receivables | | |
| Principal amounts paid | 37,095 | 29,791 |
| Receivables from sold apartments | 734 | 2,643 |
| Other | 130 | 130 |
| Total | 37,959 | 32,564 |

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

| | 2014 | 2013 |
|---|------------------|------------------|
| Trade receivables and other short-term receivables | | |
| Receivables from electricity and gas supplies | 1,262,334 | 1,525,445 |
| Margin deposit with power exchanges | 33,270 | 57,593 |
| Receivables from the revaluation of commodity contracts (trading portfolio) | 316,750 | 427,529 |
| Receivables from cash flow hedges | 14,492 | 169,467 |
| Other assets | 343,034 | 293,040 |
| Total | 1,969,880 | 2,473,074 |

Short-term trade receivables past their due date totalled CZK 433,159 thousand on a gross basis (2013: CZK 515,847 thousand). Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

| | |
|--|----------------|
| Balance at 31 Dec 2012 | 270,374 |
| Charge and drawing in the current year | 7,375 |
| Balance at 31 Dec 2013 | 277,749 |
| Charge and drawing in the current year | 85 |
| Balance at 31 Dec 2014 | 277,834 |

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.

(16) Inventories (CZK thousand)

| | 2014 | 2013 |
|--------------|---------------|---------------|
| Inventories | | |
| Material | 32,723 | 30,543 |
| Goods | 18,282 | 19,436 |
| Total | 51,005 | 49,979 |

Costs of purchased and consumed material reported in the income statement amounted to CZK 209,837 thousand (2013: CZK 199,214 thousand).

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

| | |
|--|--------------|
| Balance at 31 Dec 2012 | 2,757 |
| Charge and drawing in the current year | 43 |
| Balance at 31 Dec 2013 | 2,800 |
| Charge and drawing in the current year | 434 |
| Balance at 31 Dec 2014 | 3,234 |

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

(17) 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.

| | 2014 | 2013 |
|-----------------------|----------------|----------------|
| Current bank accounts | 202,361 | 262,650 |
| Cash on hand | 2,252 | 1,121 |
| Stamps and vouchers | 1,601 | 1,775 |
| Total | 206,214 | 265,546 |

(18) Loans (CZK thousand)

| | 2014 | | | 2013 | | |
|--|------------------|---------------|---------------|------------------|---------------|---------------|
| | Amount | Interest rate | Maturity date | Amount | Interest rate | Maturity date |
| Loan No. 1 | -- | Fix 5.69% | 31.12.2024 | 69,094 | Fix 5.69% | 31.12.2024 |
| Loan No. 2 | 701,029 | PRIBOR+0.88% | 22.5.2015 | 701,066 | PRIBOR+0.88% | 22.5.2015 |
| Loan No. 3 | 600,873 | PRIBOR+0.90% | 30.6.2015 | 600,927 | PRIBOR+0.90% | 30.6.2015 |
| Loan No. 4 | 1,200,109 | PRIBOR+0.68% | 29.6.2015 | 1,200,193 | PRIBOR+0.68% | 29.6.2015 |
| Loan No. 5 | 95,227 | Fix 0.55% | 31.7.2015 | -- | -- | -- |
| Loan No. 6 | -- | Fix 0.95% | 30.7.2014 | 125,593 | Fix 0.95% | 30.7.2014 |
| Loan No. 7 | -- | PRIBOR+0.56% | 22.7.2014 | 500,013 | PRIBOR+0.56% | 22.7.2014 |
| Loan No. 8 – 1st part | 132,960 | Fix 5.93% | 31.10.2024 | 141,120 | Fix 5.93% | 31.10.2024 |
| Loan No. 8 – 2nd part | 18,118 | PRIBOR+2.35% | 31.10.2024 | 20,159 | PRIBOR+2.35% | 31.10.2024 |
| Loan No. 9 – 1st part | 67,200 | PRIBOR+2.86% | 31.10.2024 | 72,000 | PRIBOR+2.86% | 31.10.2024 |
| Loan No. 9 – 2nd part | 54,009 | PRIBOR+2.35% | 31.10.2024 | 58,809 | PRIBOR+2.35% | 31.10.2024 |
| Loan No. 10 | 51,079 | PRIBOR+2.3% | 28.3.2023 | | | |
| Loan No. 11 | 165,604 | PRIBOR+2.3% | 15.12.2024 | | | |
| Loan No. 12 | 48,444 | PRIBOR+2.3% | 30.6.2023 | | | |
| Authorised overdraft of current accounts | 904,665 | PRIBOR+0.35% | -- | 225,905 | PRIBOR+0.40% | -- |
| Total | 4,039,317 | | | 3,714,879 | | |
| Long-term loans | 2,988,596 | | | 2,836,740 | | |
| Short-term loans | 1,050,721 | | | 878,139 | | |
| Total | 4,039,317 | | | 3,714,879 | | |

Loan no. 1 was repaid prematurely in line with the conditions of the loan, the fee for the premature repayment amounts to CZK 1,289 thousand.

Loans nos. 2, 3 and 4 – management of the Company decided to refinance the loans as of their maturity dates during 2015 by newly received loans with maturities between 3 and 10 years.

Loans nos. 5 and 6 is the loan from the parent company, Pražská energetika Hoding a.s.

Loans nos. 8, 9, 10, 11 and 12 are collateralised by the pledge of tangible assets forming the functional system of photovoltaic power stations located in the Syrovice, Dačice and Mikulov cadastral areas. The Group uses interest rate swaps to hedge the interest rate from loans which are accounted for as cash flow hedges.

Banks do not require loan collateral with regard to the Group's rating. Undrawn bank loans amounted to CZK 1,195 million as of 31 December 2014 (2013: CZK 3,442 million).

Loans are carried at their amortised cost which does not significantly differ from their fair value. The Group has capitalised borrowing costs using the capitalisation rate in accordance with IAS 23.

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

| | | |
|---|----------------|----------------|
| Trade payables and other long-term payables | 2014 | 2013 |
| Payables to employees *) | 288,806 | 248,754 |
| Other financial payables | 46,805 | 50,483 |
| Total | 335,611 | 299,237 |

*) 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 | 2014 | 2013 |
| Trade payables*) | 1,917,014 | 2,260,697 |
| Payables from the revaluation of commodity contracts (trading portfolio) | 289,451 | 390,291 |
| Payables from revaluation of interest rate derivatives | 51,188 | 27,075 |
| Payables to employees **) | 72,916 | 65,218 |
| Payables from social security and health insurance | 26,948 | 24,483 |
| Other payables | 162,016 | 201,443 |
| Total | 2,519,533 | 2,969,207 |

*) Includes received electricity prepayments net of an estimated payable for the supplied but not yet billed electricity of CZK 604,305 thousand (2013: CZK 600,286 thousand).

***) Includes unpaid December salaries and payables to employees under the Collective Agreement.

The Group reports overdue trade payables in the amount of CZK 21 thousand (2013: CZK 1,918 thousand). All overdue payables were settled during January 2015.

The Group's payables are carried at amortised cost which corresponds to their fair value.

(20) Finance Lease Payables (CZK thousand)

| Lease payables | Minimum lease payables | | Present value of minimum lease payments | |
|---|------------------------|---------------|---|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Lease payments due within 1 year | 18,167 | 19,850 | 17,984 | 19,645 |
| Lease payments due from 1 to 5 years | 45,890 | 41,241 | 43,510 | 39,034 |
| Lease payments due in over 5 years | 1,456 | 4,340 | 1,295 | 3,871 |
| Total lease payments | 65,513 | 65,431 | 62,789 | 62,550 |
| Future lease payments | (2,724) | (2,881) | | |
| Present value of minimum lease payments | 62,789 | 62,550 | 62,789 | 62,550 |
| Long-term trade payables and other payables | | | 44,805 | 42,905 |
| Short-term trade payables and other payables | | | 17,984 | 19,645 |
| Total | | | 62,789 | 62,550 |
| Tangible fixed assets | | | | |
| Carrying amount of assets held under finance leases | | | 62,789 | 62,550 |

The Group holds cars under finance lease contracts. All contracts have a fixed payment schedule and the Group did not enter into any contracts on contingent lease payments.

All lease payables are denominated in Czech crowns. The fair value of lease payables corresponds to their carrying value.

(21) Provisions (CZK thousand)

| | Business risks | Salaries | Other | Total |
|--|----------------|---------------|--------------|----------------|
| Balance at 31 Dec 2012 | 68,029 | 83,382 | 1,086 | 152,497 |
| Creation of provisions in the current year | 778 | 92,736 | 172 | 93,686 |
| Use of provisions in the current year | (2,720) | (83,382) | (288) | (86,390) |
| Release of provisions in the current year | (2,257) | -- | -- | (2,257) |
| Balance at 31 Dec 2013 | 63,830 | 92,736 | 970 | 157,536 |
| Creation of provisions in the current year | -- | 93,714 | 100 | 93,814 |
| Use of provisions in the current year | (1,284) | (86,369) | -- | (87,653) |
| Release of provisions in the current year | (24,891) | (6,367) | -- | (31,258) |
| Balance at 31 Dec 2014 | 37,655 | 93,714 | 1,070 | 132,439 |
| Long-term payables – provisions | 37,655 | -- | 1,070 | 38,725 |
| Short-term payables – provisions | -- | 93,714 | -- | 93,714 |
| Total | 37,655 | 93,714 | 1,070 | 132,439 |

The provision for salaries includes salaries paid in dependence on fulfilment of the plan. The provisions for business risks arise from the operation of fixed assets.

(22) Share Capital (CZK thousand)

Share capital

There are 3,869,443 registered shares in the nominal value of CZK 1,000 per share (2013: 3,869,443 shares). These shares are in the book-entry form and carry no right for the regular payment of dividends.

The Company's share capital has been paid in full.

(23) Funds from Profit (CZK thousand)

| | 2014 | 2013 |
|---|------------------|------------------|
| Reserve fund | 773,889 | 773,889 |
| Other funds from profit | 382,711 | 382,711 |
| Cash flow hedge | 12,108 | 128,402 |
| Fund from the revaluation of current other financial assets | (6,673) | (6,460) |
| Total | 1,162,035 | 1,278,542 |

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 general meeting decides on the use of the reserve fund and the fund is used to offset the Group's loss.

Other funds from profit represent part of the capital of the former state enterprise, the legal predecessor of the Company. As a result of the privatisation project, the state enterprise's capital was divided into share capital, reserve fund and capital funds as of the date of incorporation of the joint stock company (1 January 1994). As of that date, the balance of the capital funds was CZK 390,390 thousand. The Board of Directors decides on the use of these discretionary funds as part of the rules for the fund management approved by the general meeting. Subject to the approval of the general meeting, the Company may establish other discretionary funds.

The fund from the revaluation of other financial assets is used to record gains and losses from the revaluation of securities available for sale.

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

At the request of the Group, banks issued payment bank guarantees of CZK 172 million (CZK 137 million as of 31 December 2013) in favour of OTE, a.s., Organizátor krátkodobého trhu s elektřinou, a.s. as well as for public contracts for the supply of electricity and gas in favour of the Capital City of Prague, Letiště Praha a.s. and Dopravní podnik hl. m. Prahy, a.s.

The Company issued a guarantee in favour of Československá obchodní banka, a.s. for debts of the Group of up to CZK 272 million and in favour of Komerční banka, a.s. for the debts of the Group of up to CZK 265 million.

(25) Financial Instruments (CZK thousand)

Categories of Financial Instruments

| Financial Assets | 2014 | 2013 |
|--|-----------|-----------|
| (a) Financial assets at fair value through profit or loss (revaluation of commodity contracts) | 316,750 | 427,529 |
| (b) Financial derivatives under hedge accounting | 14,492 | 169,467 |
| (c) Loans and receivables (including cash and cash equivalents) | 1,595,568 | 1,895,047 |
| (d) Financial assets available for sale | 5,822 | 6,035 |

The loans and receivables predominantly include receivables from electricity supplies.

| Financial Liabilities | 2014 | 2013 |
|---|-----------|-----------|
| (e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts) | 289,451 | 390,291 |
| (f) Financial liabilities at fair value through profit or loss (revaluation of interest rate swaps) | 6,846 | 22,082 |
| (g) Financial derivatives under hedge accounting | 44,343 | 4,993 |
| (h) Financial liabilities at amortised cost | 5,596,551 | 5,685,217 |

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 (level 1). Financial assets and liabilities (b, f, g) were valued by valuation models using market data (level 2).

| | | 2014 | 2013 |
|--|--------|-------------|-------------|
| Gains or losses on financial instruments reported in the period | | | |
| Gain from revaluation of commodity derivatives in the trading portfolio (included in "Profit from trading") | (a, e) | 13,404 | 12,145 |
| Gain from securities held | (c, d) | -- | 1,240 |
| Borrowing costs (except for the interest on employee benefits) | (h) | (42,511) | (29,754) |
| Other | (c, h) | (12,357) | (41,591) |
| Hedge accounting | | 2014 | 2013 |
| Creation of the equity fund from the cash flow hedge | (b, g) | (29,851) | 164,474 |
| Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased") | (b, g) | (164,474) | (58,711) |

Capital Risk

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

| | 2014 | 2013 |
|--|------------|------------|
| Total assets | 23,291,078 | 22,782,132 |
| Shareholders' equity | 14,364,875 | 13,812,274 |
| Shareholders' equity/total assets | 62% | 61% |

Market Risk

In view of its activities, the Group is predominantly exposed to the market risks related to the changing prices of commodities (electricity and gas), currency risk and the risk of changes in interest rates.

For the hedging of financial risks, the Group uses the following financial instruments with derivative characteristics:

- commodity forwards and futures to hedge the changes in prices of these commodities,
- currency forwards to hedge the changes in exchange rates,
- interest rate swaps to hedge the risk of changing interest rates.

The Group's exposure to market risks is measured using various methods, the most important being the sensitivity analysis which reflects potential impacts of changes in prices defined in individual scenarios on the Group's results. The VaR methodology (Value at Risk) is used to measure short-term business exposure. The Group's exposure to market risks is monitored on a regular basis and its approach to managing these risks has 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 and gas 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 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 Group's customers. Under the current circumstances, with the Czech National Bank influencing the foreign exchange market, risks are measured using defined scenarios for foreign exchange rate developments. The open exposure is established based on the annual plan of exchange currency requirements and the amount of agreed hedging.

The position is hedged using forwards. Hedge effectiveness is monitored under hedge accounting by the Group. Hedging has been substantially effective so far, with the ineffective portion of hedges being insignificant.

The carrying value of foreign currency assets and liabilities:

| | Assets (CZK thousand) * | | Liabilities (CZK thousand) * | |
|-----------------------------------|-------------------------|----------------|------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Contracts for the purchase of EUR | 14,492 | 169,055 | 2,753 | 32,120 |
| Other assets and liabilities | 728,911 | 785,243 | 948,369 | 1,163,057 |
| Total EUR | 743,403 | 954,298 | 951,122 | 1,195,177 |
| Other currencies | 192 | 204 | -- | -- |
| Total | 743,595 | 954,502 | 951,122 | 1,195,177 |

*) 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 | |
|---------------|-------------------------------|--------------|-----------------------|---------------|-----------------------|------------------|----------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| EUR purchased | | | | | | | | |
| Up to 1 month | 27.49 | 25.67 | 10,000 | 15,000 | 274,895 | 384,975 | 2,378 | 26,400 |
| 1-3 months | 27.62 | 25.74 | 20,000 | 31,500 | 552,480 | 810,930 | 2,230 | 53,025 |
| 3-12 months | 27.56 | 25.64 | 50,000 | 50,000 | 1,377,820 | 1,281,970 | 9,884 | 89,630 |
| Total | 27.56 | 25.68 | 80,000 | 96,500 | 2,205,195 | 2,477,875 | 14,492 | 169,055 |

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.

| (CZK thousand) | 2014 | 2013 |
|------------------------|---------|---------|
| Profit (+) or loss (-) | (2,194) | (3,782) |
| Shareholders' equity | 17,958 | 21,408 |

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, usually linked to the market reference interest rate PRIBOR. The Group mitigates the risk related to the increase in interest rates; therefore, it established a hedge against interest rate risks by way of interest rate swaps maintained under hedge accounting.

Interest rate derivatives open at the balance sheet date:

| | Average fixed interest rate | | Agreed principal in CZK thousand | | Fair value in CZK thousand | |
|---------------------|-----------------------------|-------|----------------------------------|-----------|----------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Interest rate swaps | 1.47% | 1.21% | 2,760,031 | 2,500,000 | (40,083) | (27,075) |

The contracts will mature in 2015 and before 2022. Pursuant to concluded interest rate swap 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) * | |
|------------------------------|-------------------------|----------------|------------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest rate swaps | -- | -- | 51,188 | 27,075 |
| Other assets and liabilities | 17,004 | 173,517 | 279,695 | 393,302 |
| Total | 17,004 | 173,517 | 319,776 | 420,377 |

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

| (CZK thousand) | 2014 | 2013 |
|------------------------|------|-------|
| Profit (+) or loss (-) | 489 | (106) |
| Shareholders' equity | (44) | (467) |

Risk of Changing Prices of Commodities

The Company is exposed to the risk related to the development of electricity and gas prices, the amount of gas is relatively low. Electricity for end customers is purchased in order to achieve the optimisation of purchase prices within the position limited in terms of volume. Exposure management is based on limits for the maximum permissible size of outstanding exposures, the possible financial impact is derived from defined scenarios for price developments.

Price Risk related to Trading Transactions

A maximum loss limit for the entire monitored period as well as for individual quarters is determined with regard to trading transactions. This limit is determined as the market value of the realised transactions, the open positions and VaR.

Credit Risk

The Company is exposed to the credit risk in terms of both relations to end customers and customers in the supplies and distribution of electricity and gas and in the exposure on the wholesale market with commodities and in relation to concluded hedging derivatives for OTC. The standard practice of the Company is not to require collateral for trade receivables.

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. If a customer fails to settle the debt within an additional time period, the electricity supply is suspended.

The solvency of business partners on the wholesale market with commodities is verified; depending on the achieved solvency, the partners are allocated exposure limits. Financial derivatives on the OTC basis are agreed only with partners with a sufficient level of solvency derived from international rating.

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.

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 – 2014 | Note | Up to 1 month | 1–3 months | 3–12 months | More than 12 months | Total |
|----------------------------------|------|------------------|----------------|---------------|------------------------|------------------|
| Trade balances | | 1,088,349 | 144,840 | 26,356 | -- | 1,259,545 |
| Margin deposits, principals paid | | 33,270 | -- | 4,153 | 35,546 | 72,969 |
| Other receivables | | 4,497 | 198 | 50,479 | 1,703 | 56,877 |
| Total | (15) | 1,126,116 | 145,038 | 80,988 | 37,249 | 1,389,391 |

| Receivables – 2013 | Note | Up to 1 month | 1–3 months | 3–12 months | More than 12 months | Total |
|---|------|------------------|----------------|---------------|------------------------|------------------|
| Trade balances | | 1,354,362 | 143,783 | 27,300 | -- | 1,525,445 |
| Margin deposits, principals paid | | 57,593 | -- | 4,253 | 29,790 | 91,636 |
| Other receivables including receivables from sold apartments | | 5,506 | 223 | 2,957 | 3,948 | 12,634 |
| Total | (15) | 1,417,461 | 144,006 | 34,510 | 33,738 | 1,629,715 |

| Payables – 2014 | Note | Up to 1 month | 1–3 months | 3–12 months | More than 12 months | Total |
|--------------------------|------|------------------|---------------|------------------|---------------------|------------------|
| Trade payables | (19) | 1,247,707 | 22,973 | 42,397 | 3 | 1,313,080 |
| Other financial payables | (19) | 80,851 | 11,155 | 60,092 | 2,000 | 154,098 |
| Bank loans * | (18) | -- | 8,950 | 3,576,303 | 554,666 | 4,139,919 |
| Provisions | (21) | -- | -- | -- | 38,725 | 38,725 |
| Total | | 1,328,558 | 43,078 | 3,678,792 | 595,394 | 5,645,822 |

*) Management of the Company decided to refinance the loans at their maturity dates during 2015 through newly received long-term loans with maturities of 3 to 10 years. These loans are disclosed in Note (19). The above table includes loan maturities according to the currently valid contracts.

| Payables – 2013 | Note | Up to 1 month | 1–3 months | 3–12 months | More than 12 months | Total |
|--------------------------|------|------------------|---------------|----------------|---------------------|------------------|
| Trade payables | (19) | 1,522,708 | 24,770 | 112,934 | -- | 1,660,412 |
| Other financial payables | (19) | 90,334 | 2,395 | 90,499 | 7,577 | 190,805 |
| Bank loans | (18) | 225,913 | 2,230 | 698,023 | 2,922,337 | 3,848,503 |
| Provisions | (21) | -- | -- | -- | 64,800 | 64,800 |
| Total | | 1,838,955 | 29,395 | 901,456 | 2,994,714 | 5,764,520 |

Payables from leases – refer to the Note “Finance Lease Payables.”

(26) Operating Leases (CZK thousand)

The minimum operating lease payments expensed in the current period:

| | 2014 | 2013 |
|----------------------------------|----------------|----------------|
| Rental charges | | |
| Non-residential premises | 55,198 | 53,371 |
| Cable conduits | 98,449 | 96,486 |
| Cars | 358 | 857 |
| Other rented assets of all types | 11,977 | 11,130 |
| Total | 165,982 | 161,844 |

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 108 million per year for contracts concluded as of 31 December 2014.

| Liabilities arising from irrevocable lease agreements | 2014 | 2013 |
|---|----------------|----------------|
| Less than 1 year | 7,840 | 8,076 |
| from 1 to 5 years | 29,072 | 28,914 |
| 5 years and more | 70,612 | 77,493 |
| Total | 107,524 | 114,483 |

Irrevocable lease agreements are concluded for the lease of land under distribution points. The probability of termination is minimal.

(27) 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. Related parties also include subsidiaries and transactions with related parties are eliminated upon consolidation.

Movements in receivables and payables of related parties:

| | Sales to related parties | | Purchases from related parties | |
|--|--------------------------|------------------|--------------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Relations to parent companies | 779,324 | 81,896 | 660,426 | 27,458 |
| Pražská energetika Holding a.s. | 349 | 326 | -- | -- |
| Capital City of Prague | 202,900 | 77,942 | 34,689 | 27,458 |
| EnBW Energie Baden-Württemberg AG | 576,075 | 3,628 | 625,737 | -- |
| Relations to fellow-subsidiaries | 1,242,130 | 1,163,283 | 340,987 | 259,031 |
| EnBW Trading GmbH *) | 244,124 | 87,400 | 234,511 | 155,804 |
| EnBW Systeme Infrastruktur Support GmbH *) | 145 | 6,895 | -- | -- |
| EnBW Regional AG **) | -- | 8,565 | -- | -- |
| Dopravní podnik hl.m. Prahy, a.s. | 957,100 | 1,014,531 | 2,190 | 1,245 |
| Kolektory Praha, a.s. | 6,978 | 7,270 | 98,182 | 96,205 |
| Obecní dům, a.s. | 8,008 | 10,361 | -- | -- |
| TRADE CENTRE PRAHA a.s. | 6,803 | 7,399 | 3,836 | 3,394 |
| Pražská vodohospodářská společnost a.s. | 18,972 | 20,862 | 2,268 | 2,383 |
| Total | 2,021,454 | 1,245,179 | 1,001,413 | 286,489 |

*) On 30 April 2014, EnBW Trading GmbH and EnBW Systeme Infrastruktur Support GmbH merged with EnBW Energie Baden-Württemberg AG and ceased to exist.

***) On 1 February 2014 EnBW Regional AG was transformed to Netze BW GmbH.

Total receivables from and payables to related parties

| | Receivables | | Payables | |
|---|---------------|---------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Relations to parent companies | 36,809 | 5,879 | 109,187 | 132,149 |
| Pražská energetika Holding a.s. *) | 25 | 25 | 95,227 | 125,593 |
| Capital City of Prague | 36,749 | 5,854 | 4,933 | 6,556 |
| EnBW Energie Baden-Württemberg AG | 35 | -- | 9,027 | -- |
| Relations to fellow-subidiaries | 40,287 | 52,398 | 4,479 | 18,572 |
| EnBW Trading GmbH **) | -- | -- | -- | 11,438 |
| EnBW Systeme Infrastruktur Support GmbH **) | -- | 112 | -- | -- |
| EnBW Regional AG ***) | -- | 1,192 | -- | -- |
| Dopravní podnik hl.m. Prahy, a.s. | 36,639 | 47,027 | 1,487 | 3,260 |
| Kolektory Praha, a.s. | 676 | 392 | 1,224 | 1,200 |
| Obecní dům, a.s. | 877 | 1,078 | -- | -- |
| TRADE CENTRE PRAHA a.s. | -- | -- | 1,518 | 2,377 |
| Pražská vodohospodářská společnost a.s. | 2,095 | 2,597 | 250 | 297 |
| Total | 77,096 | 58,277 | 113,666 | 150,721 |

*) The payable of CZK 95,227 (2013: CZK 125,593 thousand) is a loan received from the parent company Pražská energetika Holding a.s. – refer to the Note "Loans".

**) On 30 April 2014, EnBW Trading GmbH and EnBW Systeme Infrastruktur Support GmbH merged with EnBW Energie Baden- Württemberg AG and ceased to exist.

***) On 1 February 2014 EnBW Regional AG was transformed to Netze BW GmbH.

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

| | 2014 | 2013 |
|---------------------------------|---------|---------|
| Pražská energetika Holding a.s. | 992,754 | 992,754 |
| Energie Baden-Württemberg AG | 707,989 | 707,989 |

Remuneration for executive management

| | 2014 | 2013 |
|------------------------------|--------|--------|
| Number of persons | 39 | 40 |
| Remuneration in CZK thousand | 80,463 | 79,900 |

Executive management includes the Company's management (i.e. the CEO and the Sales Director) and the members of the Board of Directors. Members of the company council elected from among the Company's staff also enter into a standard employment contract adequate to their job.

Managers can use company cars for private purposes.

Receivables from Executive Management

As of 31 December 2014, the Group reported receivables from the members of executive management in the total amount of CZK 47 thousand (CZK 221 thousand as of 31 December 2013). These receivables are reported in "Trade receivables and other receivables" and were collected during January 2015.

(28) 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.

In Prague, 20 February 2015



Pavel Elis
Chairman of the Board of Directors



Alexander Sloboda
Vice-Chairman of the Board of Directors

SEPARATE FINANCIAL STATEMENTS

prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU

Income Statement (CZK thousand)

| | Note | 2014 | 2013 |
|--|---------|------------------|------------------|
| Revenues from electricity and gas sold | | 15,934,326 | 18,960,674 |
| Costs of electricity and gas sold | | (14,612,404) | (17,298,018) |
| Gross profit from the sale of electricity and gas | (4) | 1,321,922 | 1,662,656 |
| Other operating income | (4) | 940,492 | 918,871 |
| Personnel expenses | (5) | (571,353) | (556,788) |
| Depreciation | (12,13) | (187,678) | (207,662) |
| Costs of services, material and energy | (6) | (614,474) | (581,061) |
| Borrowing costs | (7) | (42,298) | (41,023) |
| Dividends received | | 1,160,999 | 929,000 |
| Other gains and losses | (8) | 106,465 | (6,465) |
| Profit from ordinary activity before tax | | 2,114,075 | 2,117,528 |
| Income tax | (9) | (189,658) | (234,246) |
| Profit from ordinary activity after tax | | 1,924,417 | 1,883,282 |
| Earnings per share attributable to ordinary shares (CZK) | (11) | 497 | 487 |

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

| | Note | 2014 | 2013 |
|--|------|-------------------|-------------------|
| Assets | | | |
| Property, plant and equipment | (12) | 1,929,760 | 1,957,900 |
| Intangible assets | (13) | 150,181 | 158,297 |
| Equity investments | (14) | 9,835,801 | 9,736,801 |
| Trade receivables and other receivables | (15) | 32,347 | 32,061 |
| Loans | (16) | 3,198,438 | 2,340,000 |
| Non-current assets | | 15,146,527 | 14,225,059 |
| Inventories | (17) | 45,495 | 45,170 |
| Tax receivables | | 135,917 | 133,114 |
| Trade receivables and other receivables | (15) | 1,846,950 | 2,336,346 |
| Loans | (16) | 167,020 | 1,024,852 |
| Cash and cash equivalents | (18) | 180,149 | 216,570 |
| Current assets | | 2,375,531 | 3,756,052 |
| Total assets | | 17,522,058 | 17,981,111 |
| Liabilities | | | |
| Share capital | (23) | 3,869,443 | 3,869,443 |
| Funds from profit | (24) | 1,159,848 | 1,278,542 |
| Retained earnings | | 4,785,886 | 4,594,831 |
| Equity attributable to the Company's shareholders | | 9,815,177 | 9,742,816 |
| Loans | (19) | 2,500,000 | 2,500,000 |
| Trade payables and other payables | (20) | 169,392 | 149,057 |
| Provisions | (22) | 2,270 | 2,211 |
| Deferred tax liability | (9) | 72,022 | 100,336 |
| Long-term payables | | 2,743,684 | 2,751,604 |
| Loans | (19) | 1,009,473 | 853,697 |
| Tax payables | | 16,794 | 17,765 |
| Trade payables and other payables | (20) | 3,891,102 | 4,569,463 |
| Provisions | (22) | 45,828 | 45,766 |
| Short-term payables | | 4,963,197 | 5,486,691 |
| Total liabilities | | 17,522,058 | 17,981,111 |

Statement of Changes in Equity (CZK thousand)

| | Share capital | Funds from profit | Retained earnings | Equity attributable to the Company's shareholders |
|------------------------------------|------------------|-------------------|-------------------|---|
| Balance at 31 Dec 2012 | 3,869,443 | 1,190,078 | 4,444,794 | 9,504,315 |
| Dividends and director's fees paid | | | (1,733,245) | (1,733,245) |
| Other comprehensive income | | 88,464 | | 88,464 |
| Net profit for 2013 | | | 1,883,282 | 1,883,282 |
| Balance at 31 Dec 2013 | 3,869,443 | 1,278,542 | 4,594,831 | 9,742,816 |
| Dividends and director's fees paid | | | (1,733,362) | (1,733,362) |
| Other comprehensive income | | (118,694) | | (118,694) |
| Net profit for 2014 | | | 1,924,417 | 1,924,417 |
| Balance at 31 Dec 2014 | 3,869,443 | 1,159,848 | 4,785,886 | 9,815,177 |

Statement of Comprehensive Income (CZK thousand)

| | 2014 | 2013 |
|--|------------------|------------------|
| Profit from ordinary activities after tax | 1,924,417 | 1,883,282 |
| Revaluation of other financial assets | (212) | - |
| Cash flow hedging | (118,482) | 88,464 |
| Total other comprehensive income after tax | (118,694) | 88,464 |
| Comprehensive income attributable to the Company's shareholders | 1,805,723 | 1,971,746 |

Cash Flow Statement (CZK thousand)

| | Note | 2014 | 2013 |
|--|-------|--------------|--------------|
| Opening balance of cash and cash equivalents | | 216,570 | 123,373 |
| Operating activity | | | |
| Income from the sale of electricity and gas | | 15,319,006 | 18,227,752 |
| Expenses related to purchases of electricity and gas | | (14,498,133) | (16,623,815) |
| Net profit from the sale of electricity and gas | (4) | 820,873 | 1,603,937 |
| Income in the Group | (28) | 1,049,580 | 1,018,442 |
| Other operating income | (4,8) | 63,038 | 66,861 |
| Operating expenses | (6,8) | (678,814) | (793,522) |
| Changes in short-term working capital | | 35,921 | (16,825) |
| Personnel expenses | (5) | (537,066) | (545,225) |
| Direct tax | (9) | (226,956) | (250,093) |
| Financial income and expenses | (7) | (49,545) | (47,930) |
| Net cash flow from operating activity | | 477,031 | 1,035,645 |
| Investment activity | | | |
| Income from the sale of fixed assets | (8) | 123,595 | 8,761 |
| Expenses related to the acquisition of fixed assets | (13) | (289,819) | (418,891) |
| Intercompany loans | | (905,053) | (118,000) |
| Interest received in the Group | | 57,107 | 61,860 |
| Dividend received and shares in profit | (10) | 1,160,999 | 930,382 |
| Net cash flow from investment activity | | 146,829 | 464,112 |
| Financial activity | | | |
| External loans repaid | (19) | (533,584) | (195,624) |
| Dividends and director's fees paid | | (1,731,049) | (1,733,571) |
| Financial operations in the Group | (28) | 924,400 | (262,613) |
| External loans received | (19) | 677,760 | 778,249 |
| Other financial operations | | 2,192 | 6,999 |
| Net cash flow from financial activity | | (660,281) | (1,406,560) |
| Change in cash and cash equivalents | | (36,421) | 93,197 |
| Closing balance of cash and cash equivalents | (18) | 180,149 | 216,570 |

The loans provided to subsidiaries and their repayment including interest is included in "Intercompany loans" and "Interest received in the Group" in cash flow from investment activity. The comparative period is adjusted accordingly.

Content of the Notes to the Financial Statements

1. General Information
2. Adoption of New and Revised International Financial Reporting Standards
3. Significant Accounting Policies
4. Revenues
5. Personnel Expenses
6. Costs of Services, Material and Energy
7. Borrowing Costs
8. Other Gains and Losses
9. Income Tax
10. Dividends
11. Earnings per Share
12. Property, Plant and Equipment
13. Intangible Assets
14. Equity Investments
15. Trade Receivables and Other Receivables
16. Loans Granted
17. Inventories
18. Cash and Cash Equivalents
19. Loans Received
20. Trade Payables and Other Payables
21. Finance Lease Payables
22. Provisions
23. Share Capital
24. Funds from Profit
25. Contingent Liabilities and Contingent Assets
26. Financial Instruments
27. Operating Leases
28. Related Party Transactions
29. Post Balance Sheet Events

(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 Commercial Register 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. In 2012, the Company expanded its activities to include supplies of gas.

| PRE's principal shareholders | 2014 | 2013 |
|---------------------------------|----------------|----------------|
| Pražská energetika Holding a.s. | 58.05% | 58.05% |
| Energie Baden-Württemberg AG | 41.40% | 41.40% |
| Other | 0.55% | 0.55% |
| Total | 100.00% | 100.00% |

The Capital City of Prague owns 51% of Pražská energetika Holding a.s. and Energie Baden-Württemberg AG holds 49%. The ultimate controlling entity is Energie Baden-Württemberg AG.

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

Standards and Interpretations Effective in the Current Period

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 "Financial instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 "Impairment of Assets" – Recoverable Amounts Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014); and
- Amendments to IAS 39: "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amended standards resulted in no significant changes in the accounting policies of the Company.

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:

- **IFRIC 21 "Levies"**, interpretation adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 January 2014).

The Company decided not to apply these standards, revisions and interpretations before their effective dates. The Company anticipates that compliance with these standards, revisions and interpretations in the period of their first adoption will have no impact on the Company's financial statements.

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017);
- Amendments to **IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IAS 16 "Property, Plant and Equipment"** and **IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IAS 16 "Property, Plant and Equipment"** and **IAS 41 "Agriculture"** – Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to **IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014);
- Amendments to **IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards "**Improvements to IFRSs (cycle 2010–2012)**" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- Amendments to various standards "**Improvements to IFRSs (cycle 2011–2013)**" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014); and
- Amendments to various standards "**Improvements to IFRSs (cycle 2012–2014)**" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Company anticipates that the adoption of these standards, amended standards and interpretations will have no material impact on the financial statements of the Company in the period of their first time adoption.

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

The Company estimates that the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"**, would not significantly impact the financial statements, if applied at the balance sheet date.

(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 "Group") in compliance with IFRS always as of 31 December. The consolidated and unconsolidated financial statements are published as of the same date.

Revenue Recognition

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable if significant risk and rewards arising from the ownership of the relevant goods have been transferred to the buyer. Revenues arising from contracts for the provision of services are reported including the information regarding the status of the contract completion.

Revenues from electricity and distribution are recognised in the period when the electricity is consumed by customers. Revenues from other provided services are recognised when the services are rendered.

Revenues from leasing (primarily fibre-optics) are recognised evenly over the lease period.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases are classified as finance leases whenever all the substantial risks and rewards of ownership of the relevant assets transfer to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the date of their acquisition or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Lease payables are included in "Trade payables and other payables" within short-term and long-term payables.

Foreign Currency Translation

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). Czech crowns are the functional currency of the Company and the presentation currency for the financial statements.

During the year, transactions in currencies other than Czech crowns are recorded at the rates of exchange announced by the Czech National Bank and prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates announced by the Czech National Bank prevailing at the balance sheet date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange rate gains and losses are recognised in profit or loss in the period in which they arise except for exchange rate differences arising from cash flow hedges where changes in fair value are posted directly to equity.

Borrowing Costs

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

Income Tax

Income tax expense reported in the income statement represents the sum of the tax currently payable and a change in the deferred tax balance.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is determined at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised and are recognised in profit or loss except when associated with items charged directly to equity in which case it is also dealt with in equity.

Property, Plant and Equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost reduced by accumulated depreciation and recognised impairment loss. Cost includes the purchase price and costs associated with acquisition. Property, plant and equipment with a cost over CZK 40 thousand are reported on the face of the balance sheet.

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

Depreciation of plant and equipment is charged to profit or loss.

Properties in the course of construction for production or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. The cost includes professional services fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

| Asset category | Depreciation period in years |
|---|-------------------------------|
| Buildings, halls and other constructions | 7, 15, 20, 25, 30, 40, 50, 70 |
| Fibre-optics | 30 |
| Working machinery and equipment | 5, 8, 10, 12, 20 |
| Telecommunication equipment | 4-33 |
| Appliances and special technology equipment | 4, 10 |
| Vehicles | 4, 8, 10 |
| Furniture and fixtures | 4, 5, 6, 8, 10 |
| 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 selected types of minor electricity equipment and electrical machines 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.

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 | 6, or according to the contract 1, 2, 4 |

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 inventories. 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 Fair Value through Profit or Loss (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. The parent company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Proceeds from equity investments flow to the Company in the form of dividends. These equity investments are measured at cost.

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 derivative contracts. 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 remeasured at their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as a hedging instrument as part of hedge accounting. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair value of hedging derivatives is classified as other non-current financial assets/long-term payable if the residual maturity of the hedging relationship exceeds 12 months, or as other current financial assets and short-term payable if the residual maturity of the hedging relationship is below 12 months.

The derivatives which are not designated as effective hedge instruments are classified as short-term receivables and short-term payables, as appropriate.

Hedge Accounting

The Company designates certain hedging instruments 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.

Cash Flow Statement

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

Significant Accounting Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates. The Company considers the determination of the unbilled 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)

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Income and expenses relating to the sale of electricity and gas | | |
| Sales of electricity B2B | 4,313,445 | 5,485,346 |
| Sales of distribution and system services B2B | 3,056,845 | 3,707,321 |
| Sales of electricity B2C | 2,956,403 | 3,360,772 |
| Sales of distribution and system services B2C | 4,828,044 | 5,594,194 |
| Sales of gas | 96,409 | 62,469 |
| Other income *) | 669,776 | 738,427 |
| Gross gain from trading | 13,404 | 12,145 |
| Total income | 15,934,326 | 18,960,674 |
| Costs of purchases of sold electricity | (6,616,848) | (7,932,097) |
| Costs of purchases of distribution and system services | (7,884,889) | (9,301,514) |
| Costs of purchases of gas | (110,667) | (64,407) |
| Total costs | (14,612,404) | (17,298,018) |
| Gross profit from the sale of electricity and gas | 1,321,922 | 1,662,656 |

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

| | 2014 | 2013 |
|----------------------------------|----------------|----------------|
| Other operating income | | |
| Income from provided services *) | 930,280 | 914,548 |
| Other | 10,212 | 4,323 |
| Total | 940,492 | 918,871 |

*) The income includes services rendered to other companies within the PRE Group based on concluded service provision contracts, revenues from the lease of land, real estate and vehicles and IT support.

(5) Personnel Expenses (CZK thousand)

| | 2014 | 2013 |
|--|----------------------------|----------------------------|
| | Staff including management | Staff including management |
| Average headcount | 643 | 643 |
| Payroll costs | 330,018 | 341,779 |
| Salaries paid depending on the fulfilment of the plan | 30,894 | 31,366 |
| Insurance | 130,966 | 131,006 |
| Remuneration to the members of the Company's statutory bodies *) | 18,644 | 7,018 |
| Other social costs **) | 60,831 | 45,619 |
| Total | 571,353 | 556,788 |

*) The increase is attributable to the change in reporting, as since 1 January 2014, no statutory body members have been in an employment relationship with the Company and the aggregate remuneration is paid to them based on a contract for performing a function.

***) Primarily costs of severance pays and employee benefits defined by the Collective Agreement, specifically catering contributions, bonuses paid to employees in relation to work or life anniversaries, retirement, contributions to additional pension insurance and medical care. The increase in social costs is attributable to a significant drop in the interest rate applied in calculating long-term discounted payables to employees.

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

| | 2014 | 2013 |
|------------------------------------|----------------|----------------|
| Material and own consumed energy | 70,973 | 81,155 |
| Repairs of tangible fixed assets | 44,655 | 28,488 |
| Consulting services | 29,972 | 30,043 |
| Rental charges | 46,721 | 44,947 |
| Postage and telecommunication fees | 38,789 | 48,153 |
| IT support | 141,841 | 107,279 |
| Marketing | 90,691 | 93,268 |
| Other *) | 150,832 | 147,728 |
| Total | 614,474 | 581,061 |

*) Including costs of external employees, cleaning services, security guard services, storage fees and other services.

(7) Borrowing Costs (CZK thousand)

| | 2014 | 2013 |
|---------------------------------------|---------------|---------------|
| Interest on cash pooling | 3 | -- |
| Interest on loan | 40,280 | 38,221 |
| Interest expense on employee benefits | 1,005 | 1,664 |
| Interest on leases | 1,010 | 1,138 |
| Total | 42,298 | 41,023 |

(8) Other Gains and Losses (CZK thousand)

| | 2014 | 2013 |
|--|----------------|----------------|
| Write-offs of doubtful debt and creation of allowances | (31,122) | (37,362) |
| Gain/(loss) from the sale and disposal of fixed assets and inventories | 88,787 | 8,535 |
| Foreign exchange rate gains (losses) | 5,942 | (21,344) |
| Interest received in the Group | 74,121 | 59,667 |
| Share in the profit or loss of eYello CZ, k.s. | (6,458) | -- |
| Other | (24,805) | (15,961) |
| Total | 106,465 | (6,465) |

(9) Income Tax (CZK thousand)

The current income tax payable is calculated at 19 percent of the estimated taxable profit. Deferred tax is calculated using the income tax rate anticipated in future periods, i.e. 19 percent.

| | 2014 | 2013 |
|-------------------------|----------------|----------------|
| Current tax payable | 190,180 | 235,424 |
| Deferred tax | (522) | (1,178) |
| Total income tax | 189,658 | 234,246 |

| | 2014 | | 2013 | |
|---|------------------|------------------|----------------|---------------|
| Profit before tax | 2,114,075 | 2,117,528 | | |
| Income tax using the effective income tax rate | 401,674 | 19.00% | 402,330 | 19.00% |
| Impact of tax non-deductible dividends received | (220,590) | (10.43%) | (176,510) | (8.34%) |
| Impact of other items that are never tax-deductible | 8,574 | 0.41% | 8,426 | 0.40% |
| Total income tax/effective tax rate | 189,658 | 8.97% | 234,246 | 11.06% |

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

| | 31 December 2014 | Recorded in profit or loss | Recorded in equity | 31 December 2013 | Recorded in profit or loss | Recorded in equity | 31 December 2012 |
|---|---------------------|----------------------------------|-----------------------|---------------------|----------------------------------|-----------------------|---------------------|
| Fixed assets | 113,319 | 3,204 | -- | 110,115 | (77) | -- | 110,192 |
| Provisions | (9,138) | (22) | -- | (9,116) | (671) | -- | (8,445) |
| Receivables | (9,051) | 272 | -- | (9,323) | 238 | -- | (9,561) |
| Inventories | (465) | (41) | -- | (424) | 17 | -- | (441) |
| Obligation under the Collective agreement | (24,970) | (3,935) | -- | (21,035) | (685) | -- | (20,350) |
| Cash flow hedge | 2,327 | -- | (27,792) | 30,119 | -- | 20,751 | 9,368 |
| Total deferred tax liability | 72,022 | (522) | (27,792) | 100,336 | (1,178) | 20,751 | 80,763 |

(10) Dividends (CZK thousand)

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

| | 2014 | 2013 |
|--|-----------|-----------|
| Final dividend for 2013 of CZK 442 (2012: CZK 442) per share | 1,710,294 | 1,710,294 |

The final amount of the proposed dividend for 2014 must be approved by the General Meeting. It has not been included in liabilities in these financial statements.

(11) Earnings per Share (CZK thousand)

Earnings per share are calculated from the net profit for distribution of CZK 1,924,417 thousand (2013: CZK 1,883,282 thousand) attributable to 3,869,443 shares, i.e. the earnings per share amount to CZK 497 (2013: CZK 487). The Company has no issued instruments diluting the basic earnings per share.

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

| | Land | Telecommunication technologies and IT | Administrative buildings | Other | Assets under construction | Total |
|---------------------------------------|-------|---------------------------------------|--------------------------|---------|---------------------------|-----------|
| Cost | | | | | | |
| Balance at 31 Dec 2012 | 169.6 | 768.8 | 1,690.8 | 415.5 | 57.5 | 3,102.2 |
| Additions | -- | 13.2 | 7.3 | 44.6 | 93.9 | 159.0 |
| Disposals | -- | (14.3) | -- | (45.9) | -- | (60.2) |
| Reclassification | -- | 27.4 | 2.1 | 7.4 | (36.7) | 0.2 |
| Balance at 31 Dec 2013 | 169.6 | 795.1 | 1,700.2 | 421.6 | 114.7 | 3,201.2 |
| Accumulated depreciation | | | | | | |
| Balance at 31 Dec 2012 | (1.2) | (599.1) | (377.5) | (198.4) | -- | (1,176.2) |
| Depreciation | -- | (49.6) | (35.6) | (33.9) | -- | (119.1) |
| Accumulated depreciation on disposals | -- | 14.2 | -- | 37.9 | -- | 52.1 |
| Reclassification | -- | -- | -- | -- | -- | -- |
| Balance at 31 Dec 2013 | (1.2) | (634.5) | (413.1) | (194.4) | -- | (1,243.2) |
| Net book value 2012 | 168.4 | 169.7 | 1,313.3 | 217.1 | 57.5 | 1,926.0 |
| Net book value 2013 | 168.4 | 160.6 | 1,287.1 | 227.2 | 114.7 | 1,958.0 |

| | Land | Telecommunication technologies and IT | Administrative buildings | Other | Assets under construction | Total |
|---------------------------------------|--------|---------------------------------------|--------------------------|---------|---------------------------|-----------|
| Cost | | | | | | |
| Balance at 31 Dec 2013 | 169.6 | 795.1 | 1,700.2 | 421.6 | 114.7 | 3,201.2 |
| Additions | 4.4 | 4.3 | 18.0 | 30.0 | 66.1 | 122.8 |
| Disposals | (35.8) | (14.4) | (28.0) | (31.2) | -- | (109.5) |
| Reclassification | -- | 32.1 | 50.6 | 13.9 | (96.6) | 0.0 |
| Balance at 31 Dec 2014 | 138.2 | 817.1 | 1,740.8 | 434.3 | 84.2 | 3,214.5 |
| Accumulated depreciation | | | | | | |
| Balance at 31 Dec 2013 | (1.2) | (634.5) | (413.1) | (194.4) | -- | (1,243.2) |
| Depreciation | -- | (39.1) | (37.3) | (31.2) | -- | (107.7) |
| Accumulated depreciation on disposals | -- | 14.4 | 24.4 | 27.4 | -- | 66.2 |
| Reclassification | -- | -- | -- | -- | -- | -- |
| Balance at 31 Dec 2014 | (1.2) | (659.2) | (426.0) | (198.3) | -- | (1,284.7) |
| Net book value 2013 | 168.4 | 160.6 | 1,287.1 | 227.2 | 114.7 | 1,958.0 |
| Net book value 2014 | 137.0 | 157.9 | 1,314.8 | 236.0 | 84.2 | 1,929.8 |

(13) Intangible Assets (CZK million)

| | Software | Other | Assets under construction | Total |
|---------------------------------------|----------------|---------------|---------------------------|----------------|
| Cost | | | | |
| Balance at 31 Dec 2012 | 445.8 | 15.1 | 53.2 | 514.1 |
| Additions | 9.6 | 1.8 | 62.8 | 74.2 |
| Disposals | (50.1) | (0.4) | (0.6) | (51.1) |
| Reclassification | 45.8 | 1.7 | (47.7) | (0.2) |
| Balance at 31 Dec 2013 | 451.1 | 18.2 | 67.7 | 537.0 |
| Accumulated amortisation | | | | |
| Balance at 31 Dec 2012 | (328.8) | (12.0) | -- | (340.8) |
| Amortisation | (86.0) | (2.4) | -- | (88.4) |
| Accumulated amortisation on disposals | 50.1 | 0.4 | -- | 50.5 |
| Reclassification | -- | -- | -- | -- |
| Balance at 31 Dec 2013 | (364.7) | (14.0) | -- | (378.7) |
| Net book value 2012 | 117.0 | 3.1 | 53.2 | 173.3 |
| Net book value 2013 | 86.4 | 4.2 | 67.7 | 158.3 |

| | Software | Other | Assets under construction | Total |
|---------------------------------------|----------------|---------------|---------------------------|----------------|
| Cost | | | | |
| Balance at 31 Dec 2013 | 451.1 | 18.2 | 67.7 | 537.0 |
| Additions | 9.1 | 0.6 | 62.2 | 71.9 |
| Disposals | (1.2) | (3.7) | -- | (4.9) |
| Reclassification | 58.6 | 0.2 | (58.8) | 0.0 |
| Balance at 31 Dec 2014 | 517.6 | 15.3 | 71.1 | 604.0 |
| Accumulated amortisation | | | | |
| Balance at 31 Dec 2013 | (364.7) | (14.0) | -- | (378.7) |
| Amortisation | (78.0) | (2.0) | -- | (80.0) |
| Accumulated amortisation on disposals | 1.2 | 3.7 | -- | 4.9 |
| Reclassification | -- | -- | -- | -- |
| Balance at 31 Dec 2014 | (441.5) | (12.3) | -- | (453.8) |
| Net book value 2013 | 86.4 | 4.2 | 67.7 | 158.3 |
| Net book value 2014 | 76.1 | 3.0 | 71.1 | 150.2 |

The Company has no intangible assets developed internally.

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

| | 2014 | 2013 |
|-------------------------------|----------------|----------------|
| Amortisation and depreciation | (187.7) | (207.7) |
| Impairment profit/loss | -- | -- |
| Total | (187.7) | (207.7) |

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

The Company anticipates incurring total capital expenditure of CZK 221 million in 2015. Approximately 25% 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:

| | 2014 | 2013 |
|-----------------------------|--------------|--------------|
| Low value fixed assets | | |
| Low value tangible assets | 220.4 | 210.5 |
| Low value intangible assets | 49.9 | 46.3 |
| Total | 270.3 | 256.8 |

(14) Equity Investments (CZK thousand)

| | Note | Investment | 2014 | | 2013 | |
|---------------------|----------------|------------|-------------------|------------|-------------------|------------|
| | | | Equity investment | Investment | Equity investment | Investment |
| PREdistribuce, a.s. | Non-marketable | 100% | 9,513,537 | 100% | 9,513,537 | |
| PREměření, a.s. | Non-marketable | 100% | 313,264 | 100% | 213,264 | |
| eYello CZ, k.s. | Non-marketable | 90% | 9,000 | 100% | 10,000 | |
| Total | | | 9,835,801 | | 9,736,801 | |

PREměření, a.s. holds a 10% equity investment in eYello CZ, k.s. and wholly owns PRE FVE Mikulov, s.r.o. and PRE FVE Dačice, s.r.o.

Pursuant to the agreement with the bank, the parent company undertook to make no changes in its investment in the share capital or voting rights of PREměření, a.s.

The parent company controls all its subsidiaries.

Information on the subsidiaries was derived from individual statutory financial statements of these companies prepared in compliance with Czech Accounting Standards.

Business entity: PREdistribuce a.s.

The company distributes electricity.

| | 2014 | 2013 |
|--|------------|------------|
| Registered office: Prague 5, Svornosti 3199/19a | | |
| Corporate ID: 27 37 65 16 | | |
| Average headcount: | 514 | 515 |
| Economic data (in CZK thousand) | | |
| Share capital | 17,707,934 | 17,707,934 |
| Shareholders' equity | 19,330,653 | 19,409,289 |
| Profit after tax | 1,092,564 | 1,232,886 |
| Sales of goods and services | 9,568,423 | 10,731,003 |

Business entity: PREměření, a.s.

The company provides the reading, purchases and sale, review and assembly of meters and, to a lesser extent, sales of a selected product mix of electric appliances. Other principal activities include the generation of electricity using solar energy. Since 2013, the Company has offered services in turnkey assemblies of photovoltaic power plants.

| | 2014 | 2013 |
|--|---------|---------|
| Registered office: Prague 10, Na Hroudě 2149/19 | | |
| Corporate ID: 25677063 | | |
| Average headcount: | 239 | 231 |
| Economic data (in CZK thousand) | | |
| Share capital | 35,000 | 35,000 |
| Shareholders' equity | 425,982 | 291,594 |
| Profit after tax | 36,778 | 33,942 |
| Sales of goods, services and solar energy generation | 534,022 | 447,288 |

Business entity: eYello CZ, k.s.

eYello CZ, k.s. was established in 1996 with the original name PREleas, a.s. The company renders electricity and gas supplies under the Yello Energy brand. It additionally provides finance leases of technology and technology equipment for PREdistribuce, a.s. as part of the Pražská energetika Group. On 1 May 2014 the company's legal status was changed from a joint stock company to a limited partnership. The change was recorded in the Register of Companies on 1 May 2014.

| | 2014 | 2013 |
|---|---------|---------|
| Registered office: Prague 10, Kubánské náměstí 1391/11 | | |
| Corporate ID: 25054040 | | |
| Average headcount: | 5 | 5 |
| Economic data (in CZK thousand) | | |
| Shareholders' equity | 6,855 | 15,000 |
| Profit after tax | (5,145) | (6,412) |
| Sales of electricity, gas and services | 77,577 | 31,249 |

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

| | 2014 | 2013 |
|---|---------------|---------------|
| Trade receivables and other long-term receivables | | |
| Principal amounts paid | 31,597 | 29,402 |
| Receivables from sold flats | 734 | 2,643 |
| Other | 16 | 16 |
| Total | 32,347 | 32,061 |

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

| | 2014 | 2013 |
|---|------------------|------------------|
| Trade receivables and other short-term receivables | | |
| Receivables from electricity and gas supplies | 1,173,565 | 1,397,438 |
| Margin deposit with the power exchanges | 33,270 | 57,593 |
| Receivables from the revaluation of commodity contracts (trading portfolio) | 316,750 | 427,529 |
| Receivables from cash flow hedges | 14,492 | 169,467 |
| Other assets | 308,873 | 284,319 |
| Total | 1,846,950 | 2,336,346 |

Of the above stated short-term trade receivables, gross receivables past their due date totalled CZK 388,670 thousand (2013: CZK 461,223 thousand). Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

| | |
|--|----------------|
| Balance at 31 Dec 2012 | 251,207 |
| Charge and drawing in the current year | 3,255 |
| Balance at 31 Dec 2013 | 254,462 |
| Charge and drawing in the current year | (6,661) |
| Balance at 31 Dec 2014 | 247,801 |

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.

(16) Loans Granted (CZK thousand)

| | At 31 December 2014 | | | At 31 December 2013 | | |
|--|---------------------|--------------------|---------------|---------------------|--------------------|---------------|
| | Amount | Interest rate p.a. | Maturity date | Amount | Interest rate p.a. | Maturity date |
| Loan granted in Group 1*) | -- | -- | -- | 140,535 | Fix 2.15% | 29.4.2016 |
| Loan granted in Group 2 | -- | -- | -- | 701,033 | PRIBOR+1.05% | 30.11.2014 |
| Loan granted in Group 3 | 1,514,183 | PRIBOR+1.30% | 29.6.2015 | 1,515,888 | PRIBOR+1.30% | 29.6.2015 |
| Loan granted in Group 4 | 49,621 | Fix 4.38% | 29.2.2022 | | | |
| Loan granted in Group 5 | 200,010 | Fix 4.625% | 29.2.2023 | | | |
| Loan granted in Group 6 | 39,882 | Fix 4.93% | 29.2.2024 | | | |
| Loan granted in Group 7 | 68,705 | Fix 4.93% | 29.2.2024 | | | |
| Loan granted in Group 8 | 611,984 | CZK IRS 3Y+3.1% | 18.6.2026 | | | |
| Loan granted in Group 9 | 702,271 | CZK IRS 3Y+3.0% | 28.11.2026 | | | |
| Loan granted in Group 10 | 48,366 | Fix 3.02% | 31.12.2021 | | | |
| Loan granted in Group 11 | 40,054 | Fix 3.48% | 18.12.2024 | | | |
| Receivables arising from cash pooling from PREdistribuce, a.s. | 171 | PRIBOR+0.75% | | 747,567 | PRIBOR+0.50% | |
| Receivables arising from cash pooling from PREměření, a.s. | 85,450 | PRIBOR+0.75% | | 254,943 | PRIBOR+0.50% | |
| Receivables arising from cash pooling from eYello CZ, k.s. | 4,761 | | | 4,886 | | |
| Total | 3,365,458 | | | 3,364,852 | | |
| Of which: | | | | | | |
| Long-term | 3,198,438 | | | 2,340,000 | | |
| Short-term | 167,020 | | | 1,024,852 | | |

*) The loan was repaid on 28 February 2014 by an extraordinary repayment before the final maturity date.

Loans provided by Pražská energetika, a.s. to PREdistribuce, a.s. will be refinanced as of their maturity dates through long-term loans in line with the internal company guideline entitled "Financial Management of Entities included in the PRE Group".

Loans are carried at their amortised cost which does not significantly differ from their fair value.

(17) Inventories (CZK thousand)

| | 2014 | 2013 |
|--------------|---------------|---------------|
| Inventories | | |
| Material | 32,162 | 29,852 |
| Goods | 13,333 | 15,318 |
| Total | 45,495 | 45,170 |

"Purchased material, services and energy" and "Other gains and losses" in the income statement include costs of sold and consumed inventories of CZK 239,003 thousand (2013: CZK 241,219 thousand).

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

| | |
|--|-------|
| Balance at 31 Dec 2012 | 2,470 |
| Charge and drawing in the current year | 28 |
| Balance at 31 Dec 2013 | 2,498 |
| Charge and drawing in the current year | 297 |
| Balance at 31 Dec 2014 | 2,795 |

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

(18) 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.

| | | |
|-----------------------|---------|---------|
| | 2014 | 2013 |
| Current bank accounts | 179,289 | 214,988 |
| Cash on hand | 361 | 1,055 |
| Stamps and vouchers | 499 | 527 |
| Total | 180,149 | 216,570 |

(19) 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 December 2014 | | | At 31 December 2013 | | |
|---|---------------------|-------------------------------|---------------|---------------------|---------------|---------------|
| | Principal | Interest rate | Maturity date | Principal | Interest rate | Maturity date |
| Loan No. 1*) | 701,029 | PRIBOR+0.88% | 22.5.2015 | 701,066 | PRIBOR+0.88% | 22.5.2015 |
| Loan No. 2*) | 600,873 | PRIBOR+0.90% | 30.6.2015 | 600,927 | PRIBOR+0.90% | 30.6.2015 |
| Loan No. 3*) | 1,200,109 | PRIBOR+0.68% | 29.6.2015 | 1,200,193 | PRIBOR+0.68% | 29.6.2015 |
| Loan No. 4 | 95,227 | Fix 0.55% | 31.7.2015 | -- | -- | -- |
| Loan No. 5 | | | | 125,593 | Fix 0.95% | 30.7.2014 |
| Loan No. 6 | | | | 500,013 | PRIBOR+0.56% | 22.7.2014 |
| Authorised overdraft of current accounts – ING | 536,459 | PRIBOR+0.35% | | 225,905 | PRIBOR+0.40% | -- |
| Authorised overdraft of current accounts – ČSOB | 368,206 | PRIBOR+0.35% | | | | |
| Payables from the cash pooling of PREdistribuce, a.s. | 7,570 | PRIBID-0.25% minimum 0.01% | -- | -- | -- | -- |
| Total | 3,509,473 | | | 3,353,697 | | |
| Of which: | | | | | | |
| Long-term loans | 2,500,000 | | | 2,500,000 | | |
| Short-term loans | 1,009,473 | | | 853,697 | | |

*) Management of the Company decided to refinance the loans as of their due dates during 2015 by newly received long-term loans with maturities between 3 and 10 years.

The Company uses swaps for hedging the interest rate which are accounted for as cash flow hedges by the Company. The banks do not require loan collateral with regard to the Company's rating. Undrawn loan facilities amounted to CZK 1,195 million as of 31 December 2014 (2013: CZK 3,442 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.

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

| Trade payables and other long-term payables | 2014 | 2013 |
|---|----------------|----------------|
| Payables to employees *) | 124,587 | 106,152 |
| Other financial liabilities | 44,805 | 42,905 |
| Total | 169,392 | 149,057 |

*) 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 | 2014 | 2013 |
|--|------------------|------------------|
| Trade payables *) | 1,732,115 | 2,021,990 |
| Payables from revaluation of commodity contracts (trading portfolio) | 289,451 | 390,291 |
| Payables from revaluation of interest rate derivatives | 9,090 | 27,075 |
| Payables to employees **) | 33,719 | 28,769 |
| Payables from social security and health insurance | 12,789 | 11,530 |
| Intercompany payables ***) | 1,693,554 | 1,982,493 |
| Other payables | 120,384 | 107,315 |
| Total | 3,891,102 | 4,569,463 |

*) Includes a prepayment for electricity reduced by an estimated payable for the supplied but not yet billed electricity in the total amount of CZK 808,947 thousand (2013: CZK 912,051 thousand).

***) Includes outstanding December salaries and payables to employees under the Collective Agreement in the amount of CZK 11,332 thousand (2013: CZK 8,704 thousand).

****) Includes an estimated payable for the provision of distribution services from PREdistribuce, a.s. in the amount of CZK 1,685,668 thousand (2013: CZK 1,935,327 thousand), payables to PREměření a.s. in the amount of CZK 1,427 thousand (2013: CZK 288 thousand) and payables to eYello CZ, k.s. amounting to CZK 6,458 thousand.

The Company reports overdue trade payables in the amount of CZK 21 thousand (2013: CZK 1,918 thousand). All overdue payables were settled during January 2015.

The Company's payables are carried at amortised cost which corresponds to their fair value.

(21) Finance Lease Payables (CZK thousand)

| | Minimum lease payables | | Present value of minimum lease payments | |
|---|------------------------|---------------|---|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Lease payments due within 1 year | 18,166 | 19,850 | 17,984 | 19,645 |
| Lease payments due from 1 to 5 years | 45,890 | 41,241 | 43,510 | 39,034 |
| Lease payments due in over 5 years | 1,456 | 4,340 | 1,295 | 3,871 |
| Total lease payments | 65,512 | 65,431 | 62,789 | 62,550 |
| Future lease payments | (2,723) | (2,881) | | |
| Present value of minimum lease payments | 62,789 | 62,550 | 62,789 | 62,550 |
| Trade payables and other payables | | | | |
| Long-term | | | 44,805 | 42,905 |
| Short-term | | | 17,984 | 19,645 |
| Total | | | 62,789 | 62,550 |
| Tangible fixed assets | | | | |
| Carrying amount of assets held under finance leases | | | 62,789 | 62,550 |

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.

(22) Provisions (CZK thousand)

| | Business risks | Salaries | Other | Total |
|--|----------------|---------------|--------------|---------------|
| Balance at 31 Dec 2012 | 1,391 | 41,970 | 1,086 | 44,447 |
| Creation of provisions in the current year | 350 | 45,766 | 172 | 46,288 |
| Use of provisions in the current year | -- | (41,970) | (288) | (42,258) |
| Release of provisions in the current year | (500) | -- | -- | (500) |
| Balance at 31 Dec 2013 | 1,241 | 45,766 | 970 | 47,977 |
| Creation of provisions in the current year | -- | 45,828 | 100 | 45,928 |
| Use of provisions in the current year | -- | (41,398) | -- | (41,398) |
| Release of provisions in the current year | (41) | (4,368) | -- | (4,409) |
| Balance at 31 Dec 2014 | 1,200 | 45,828 | 1,070 | 48,098 |
| Long-term | 1,200 | -- | 1,070 | 2,270 |
| Short-term | -- | 45,828 | -- | 45,828 |
| Total | 1,200 | 45,828 | 1,070 | 48,098 |

The provision for salaries includes salaries paid in dependence on fulfilment of the plan.

(23) Share Capital (CZK thousand)**Share Capital**

There are 3,869,443 registered shares in the nominal value of CZK 1,000 per share (2013: 3,869,443 shares). These shares are in the book-entry form and carry no right for the regular payment of dividends.

The Company's share capital has been paid in full.

(24) Funds from Profit (CZK thousand)

| | 2014 | 2013 |
|---|------------------|------------------|
| Reserve fund | 773,889 | 773,889 |
| Other funds from profit | 382,711 | 382,711 |
| Cash flow hedge | 9,921 | 128,402 |
| Fund from the revaluation of current other financial assets | (6,673) | (6,460) |
| Total | 1,159,848 | 1,278,542 |

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 General Meeting decides on the use of the reserve fund and the fund is used to offset the Company's loss.

Other funds from profit represent part of the capital of the former state enterprise, the legal predecessor of the Company. As a result of the privatisation project, the state enterprise's capital was divided into share capital, reserve fund and capital funds as of the date of incorporation of the joint stock company (1 January 1994). As of that date, the balance of the capital funds was CZK 390,390 thousand. The Board of Directors decides on the use of these discretionary funds as part of the rules for the fund management approved by the General Meeting. Subject to the approval of the General Meeting, the Company may establish other discretionary funds.

The fund from the revaluation of other financial assets is used to record gains and losses from the revaluation of securities available for sale.

(25) Contingent Liabilities and Contingent Assets

At the request of the Group, banks issued payment bank guarantees of CZK 172 million (CZK 137 million as of 31 December 2013) in favour of OTE, a.s., Organizátor krátkodobého trhu s elektřinou, a.s. as well as for public contracts for the supply of electricity and gas in favour of the Capital City of Prague, Letiště Praha, a.s. and Dopravní podnik hl. m. Prahy, a.s.

The Company issued a guarantee in favour of Československá obchodní banka, a.s. for debts of PREměření, a.s. of up to CZK 272 million. In addition, the Company provided a guarantee in favour of Komerční banka, a.s. for the debts of PRE FVE Mikulov, s.r.o. and PRE FVE Dačice, s.r.o. up to CZK 51 million and CZK 214 million, respectively.

(26) Financial Instruments (CZK thousand)**Categories of Financial Instruments**

| Financial assets | 2014 | 2013 |
|--|-----------|-----------|
| (a) Financial assets at fair value through profit or loss (revaluation of commodity contracts) | 316,750 | 427,529 |
| (b) Financial derivatives under hedge accounting | 14,492 | 169,467 |
| (c) Loans and receivables (including cash and cash equivalents) | 4,875,273 | 5,091,719 |
| (d) Financial assets available for sale | 5,822 | 6,035 |

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

| Financial liabilities | 2014 | 2013 |
|---|-----------|-----------|
| (e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts) | 289,451 | 390,291 |
| (f) Financial liabilities at fair value through profit or loss (revaluation of interest rate swaps) | 6,846 | 22,082 |
| (g) Financial derivatives under hedge accounting | 2,245 | 4,993 |
| (h) Financial liabilities at amortised cost | 6,293,082 | 6,598,357 |

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 (level 1). Financial assets and liabilities (b, f, g) are valued using the valuation models and by reference to the market data (level 2).

| Gains and losses of financial instruments reported in the current period | | 2014 | 2013 |
|---|--------|----------|----------|
| Gain from revaluation of commodity derivatives in the trading portfolio (included in "Profit from trading") | (a, e) | 13,404 | 12,145 |
| Gain from securities held and received interest in the Group | (c, d) | 74,121 | 60,907 |
| Borrowing costs (except for the interest on employee benefits) | (f, h) | (41,293) | (39,359) |
| Other | (c, h) | (30,160) | (35,922) |

| Hedge accounting | | 2014 | 2013 |
|---|--------|-----------|----------|
| Creation of the equity fund from the cash flow hedge | (b, g) | 12,247 | 164,474 |
| Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased") | (b, g) | (164,474) | (58,711) |

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 shareholders.

Market Risk

In view of its activities, the Company is predominantly exposed to the market risk related to the changing prices of commodities (electricity and gas), currency risk and the risk of changes in interest rates.

For the hedging of market risks, the Company uses financial instruments with derivative characteristics:

- Commodity forwards and futures to hedge the changes in prices of these commodities;
- Currency forwards to hedge the changes in exchange rates; and
- Interest rate swaps to hedge the risk of changing interest rates.

The Company's exposure to market risks is measured using various methods, the most important being the sensitivity analysis which reflects potential impacts of changes in prices defined in individual scenarios on the Company's results. The VaR methodology (Value at Risk) is used to measure short-term business exposure. The Company's exposure to market risks is monitored on a regular basis and its approach to managing these risks has 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 and gas supplies to customers are denominated in foreign currency (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 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. Under the current circumstances, with the Czech National Bank influencing the foreign exchange market, risks are measured using defined scenarios for foreign exchange rate developments. The open exposure is established based on the annual plan of exchange currency requirements and the amount of agreed hedging.

The position is hedged using forwards. Hedge effectiveness is monitored under hedge accounting by the Company. Hedging has been substantially effective so far, with the ineffective portion of hedges being insignificant.

The carrying value of foreign currency assets and liabilities:

| | Assets (CZK thousand) * | | Liabilities (CZK thousand) * | |
|--|-------------------------|----------------|------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Derivative contracts for purchase of EUR | 14,492 | 169,055 | 2,753 | 32,120 |
| Other assets and liabilities in EUR | 728,365 | 784,997 | 948,369 | 1,162,948 |
| Total in EUR | 742,857 | 954,052 | 951,122 | 1,195,068 |
| Other currencies | 75 | 99 | -- | -- |
| Total | 742,932 | 954,151 | 951,122 | 1,195,068 |

*) 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 | |
|---------------|-------------------------------|--------------|-----------------------|---------------|-----------------------|------------------|----------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| EUR purchased | | | | | | | | |
| Up to 1 month | 27.49 | 25.67 | 10,000 | 15,000 | 274,895 | 384,975 | 2,378 | 26,400 |
| 1-3 months | 27.62 | 25.74 | 20,000 | 31,500 | 552,480 | 810,930 | 2,230 | 53,025 |
| 3-12 months | 27.56 | 25.64 | 50,000 | 50,000 | 1,377,820 | 1,281,970 | 9,884 | 89,630 |
| Total | 27.56 | 25.68 | 80,000 | 96,500 | 2,205,195 | 2,477,875 | 14,492 | 169,055 |

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.

| | 2014 | 2013 |
|------------------------|---------|---------|
| Profit (+) or loss (-) | (2,199) | (3,783) |
| Shareholders' equity | 17,958 | 21,408 |

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, usually linked to the market reference interest rate PRIBOR. The Group mitigates the risk related to the increase in interest rates; therefore, it established a hedge against interest rate risks by way of interest rate swaps maintained under hedge accounting.

Interest rate derivatives open at the balance sheet date:

| | Average fixed interest rate | | Agreed principal in CZK thousand | | Fair value in CZK thousand | |
|---------------------|-----------------------------|-------|----------------------------------|-----------|----------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Interest rate swaps | 1.21% | 1.21% | 2,500,000 | 2,500,000 | (9,090) | (27,075) |

The contracts are due in 2015. 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) * | |
|------------------------------|-------------------------|----------------|------------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest rate swaps | -- | -- | 9,090 | 27,075 |
| Other assets and liabilities | 17,004 | 173,517 | 2,753 | 32,120 |
| Total | 17,004 | 173,517 | 11,843 | 59,195 |

*) 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 in CZK thousand

| | 2014 | 2013 |
|------------------------|------|-------|
| Profit (+) or loss (-) | (64) | (108) |
| Shareholders' equity | (44) | (467) |

Risk of Changing Prices of Commodities

The Company is exposed to the risk related to the development of electricity and gas prices, the amount of gas is relatively low. Electricity for end customers is purchased in order to achieve the optimisation of purchase prices within the position limited in terms of volume. Exposure management is based on limits for the maximum permissible size of outstanding exposures, the possible financial impact is derived from defined scenarios for price developments.

Price Risk related to Trading Transactions

A maximum loss limit for the entire monitored period as well as for individual quarters is determined with regard to trading transactions. This limit is determined as the market value of the realised transactions, the open positions and VaR.

Credit Risk

The Company is exposed to the credit risk in terms of both relations to end customers and customers in the supplies and distribution of electricity and gas and in the exposure on the wholesale market with commodities and in relation to concluded hedging derivatives for OTC. The standard practice of the Company is not to require collateral for trade receivables.

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. If a customer fails to settle the debt within an additional time period, the electricity supply is suspended.

The solvency of business partners on the wholesale market with commodities is verified; depending on the achieved solvency, the partners are allocated exposure limits. Financial derivatives on the OTC basis are agreed only with partners with a sufficient level of solvency derived from international rating.

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.

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 – 2014 | Note | Up to 1 month | 1-3 months | 3-12 months | More than 12 months | Total |
|--|------|------------------|----------------|---------------|------------------------|------------------|
| Trade balances | | 1,005,459 | 136,506 | 26,356 | -- | 1,168,321 |
| Margin deposits, principals paid | | 33,270 | -- | 4,153 | 31,597 | 69,020 |
| Other receivables including receivables for sold apartments | | 711 | 166 | 1,526 | 1,703 | 4,106 |
| Total | (15) | 1,039,440 | 136,672 | 32,035 | 33,300 | 1,241,447 |

| Receivables – 2013 | Note | Up to 1 month | 1-3 months | 3-12 months | More than 12 months | Total |
|--|------|------------------|----------------|---------------|------------------------|------------------|
| Trade balances | | 1,237,188 | 132,950 | 27,300 | -- | 1,397,438 |
| Margin deposit, principals paid | | 57,593 | -- | 4,253 | 29,402 | 91,248 |
| Other receivables including receivables for sold apartments | | 1,784 | 179 | 1,626 | 3,948 | 7,537 |
| Total | (15) | 1,296,565 | 133,129 | 33,179 | 33,350 | 1,496,223 |

| Payables – 2014 | Note | Up to 1 month | 1-3 months | 3-12 months | More than 12 months | Total |
|--------------------------|------|----------------|---------------|------------------|------------------------|------------------|
| Trade payables | (19) | 864,192 | 19,080 | 39,897 | -- | 923,169 |
| Other financial payables | (19) | 98,626 | 2,203 | 10,092 | -- | 110,921 |
| Bank loans *) | (18) | -- | -- | 3,516,908 | -- | 3,516,908 |
| Provisions | (21) | -- | -- | -- | 2,270 | 2,270 |
| Total | | 962,818 | 21,283 | 3,566,897 | 2,270 | 4,553,268 |

*) Management of the Company decided to refinance the loans at their maturity dates during 2015 through newly received long-term loans with maturities of 3 to 10 years. These loans are disclosed in Note (19). The above table includes loan maturities according to the currently valid contracts.

| Payables – 2013 | Note | Up to 1 month | 1-3 months | 3-12 months | More than 12 months | Total |
|--------------------------|------|------------------|---------------|----------------|------------------------|------------------|
| Trade payables | (19) | 1,038,829 | 12,101 | 59,009 | -- | 1,109,939 |
| Other financial payables | (19) | 85,106 | 1,443 | 9,145 | -- | 95,694 |
| Bank loans | (18) | 225,913 | 98 | 661,235 | 2,516,102 | 3,403,348 |
| Provisions | (21) | -- | -- | -- | 2,210 | 2,210 |
| Total | | 1,349,848 | 13,642 | 729,389 | 2,518,312 | 4,611,191 |

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

(27) Operating Leases (CZK thousand)

Operating lease payments expensed in the current period:

| | 2014 | 2013 |
|----------------------------------|---------------|---------------|
| Non-residential premises | 18,883 | 18,180 |
| Cars | 358 | 857 |
| Other rented assets of all types | 8,616 | 8,452 |
| Total | 27,857 | 27,489 |

The Company predominantly holds cars and non-residential premises for an indefinite period of time under operating leases. Management expects the costs of leases to remain at the current level in the future, i.e. in the amount of approximately CZK 28 million per year for contracts concluded as of 31 December 2014.

(28) 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.

Expenses incurred with and income generated from related parties:

| | Sales to related parties | | Purchases from related parties | |
|--|--------------------------|------------------|--------------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Relations to parent companies | 779,085 | 81,549 | 635,089 | 14,484 |
| Pražská energetika Holding a.s. | 349 | 326 | -- | -- |
| Capital City of Prague | 202,661 | 77,595 | 9,352 | 14,484 |
| EnBW Energie Baden-Württemberg AG | 576,075 | 3,628 | 625,737 | -- |
| Relations to fellow-subsiidiaries | 1,167,497 | 1,141,832 | 239,199 | 159,386 |
| EnBW Trading GmbH *) | 244,124 | 87,400 | 234,511 | 155,804 |
| EnBW Systeme Infrastruktur Support GmbH *) | 145 | 6,895 | -- | -- |
| EnBW Regional AG | -- | 8,565 | -- | -- |
| Dopravní podnik hl. m. Prahy, a.s. | 901,439 | 1,013,942 | 861 | 188 |
| Kolektory Praha, a.s. | 6,978 | 7,270 | -- | -- |
| Obecní dům, a.s. | 8,008 | 10,361 | -- | -- |
| TRADE CENTRE PRAHA a.s. | 6,803 | 7,399 | 3,827 | 3,394 |
| Total | 1,946,582 | 1,223,381 | 874,288 | 173,870 |

*) On 30 April 2014, EnBW Trading GmbH and EnBW Systeme Infrastruktur Support GmbH merged with EnBW Energie Baden-Württemberg AG and ceased to exist.

Receivables from and payables to related parties:

| | Receivables | | Payables | |
|---|---------------|---------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Relations to parent companies | 36,796 | 5,844 | 109,187 | 130,773 |
| Pražská energetika Holding a.s. *) | 25 | 25 | 95,227 | 125,593 |
| Capital City of Prague | 36,736 | 5,819 | 4,933 | 5,180 |
| EnBW Energie Baden-Württemberg AG | 35 | -- | 9,027 | -- |
| Relations to fellow-subsiidiaries | 38,192 | 49,637 | 4,187 | 18,136 |
| EnBW Trading GmbH **) | -- | -- | -- | 11,438 |
| EnBW Systeme Infrastruktur Support GmbH **) | -- | 112 | -- | -- |
| EnBW Regional AG | -- | 1,192 | -- | -- |
| Dopravní podnik hl.m. Prahy, a.s. | 36,639 | 46,863 | 1,469 | 3,121 |
| Kolektory Praha, a.s. | 676 | 392 | 1,200 | 1,200 |
| Obecní dům, a.s. | 877 | 1,078 | -- | -- |
| TRADE CENTRE PRAHA a.s. | -- | -- | 1,518 | 2,377 |
| Total | 74,988 | 55,481 | 113,374 | 148,909 |

*) The payable of CZK 95 million is a short-term loan received from the parent company – refer to the Note "Received Loans".

**) On 30 April 2014, EnBW Trading GmbH and EnBW Systeme Infrastruktur Support GmbH merged with EnBW Energie Baden-Württemberg AG and ceased to exist.

***) On 1 February 2014 EnBW Regional AG was transformed to Netze BW GmbH.

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

| | 2014 | 2013 |
|---------------------------------|---------|---------|
| Pražská energetika Holding a.s. | 992,754 | 992,754 |
| Energie Baden-Württemberg AG | 707,989 | 707,989 |

Remuneration to the statutory bodies, Supervisory Board, company council, and top management:

| | 2014 | 2013 |
|------------------------------|--------|--------|
| Number of persons | 21 | 17 |
| Remuneration in CZK thousand | 45,841 | 46,101 |

Executive management includes the Company's management (i.e. the CEO and the Sales Director) and the members of the Board of Directors. Members of the company council elected from among the Company's staff also enter into a standard employment contract adequate to their job.

Managers can use company cars for private purposes.

Receivables from Executive Management

As of 31 December 2014, the Company reported receivables from the members of executive management in the total amount of CZK 12 thousand (CZK 6 thousand as of 31 December 2013). The receivables are disclosed in "Trade receivables and other receivables" and were collected during January 2015.

Receivables from and Payables to Subsidiaries:

| | Trade receivables of PRE as of 31 December | | Trade payables of PRE as of 31 December | |
|---------------------|---|---------------|--|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| PREdistribuce, a.s. | 63,395 | -- | 1,685,668 | 1,982,203 |
| PREměření, a.s. | 15,639 | 12,941 | 1,427 | 288 |
| eYello CZ, k.s. | 9,222 | 1,344 | 6,458 | 2 |
| Total | 88,256 | 14,285 | 1,693,553 | 1,982,493 |

| | PRE's receivables from cash pooling and loans as of 31 December | | PRE's payables from cash pooling and loans as of 31 December | |
|------------------------|--|------------------|---|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| PREdistribuce, a.s. | 2,828,608 | 2,964,488 | 7,570 | -- |
| PREměření, a.s. | 492,035 | 395,478 | -- | -- |
| eYello CZ, k.s. | 4,761 | 4,886 | -- | -- |
| PRE FVE Dačice, s.r.o. | 40,054 | -- | -- | -- |
| Total | 3,365,458 | 3,364,852 | 7,570 | -- |

Expenses incurred with and income generated from the subsidiaries:

| | Income of PRE | | Expenses of PRE | |
|---|---------------|-----------|-----------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| PREdistribuce, a.s. | 2,417,101 | 2,311,011 | 6,511,198 | 7,719,638 |
| Of which: Electricity supplied to end customers and distribution services | 444,529 | 583,718 | 6,491,462 | 7,700,275 |
| Services | 749,250 | 734,720 | 19,736 | 19,363 |
| Inventories | 6,958 | 6,488 | -- | -- |
| Dividends | 1,158,000 | 929,000 | -- | -- |
| Interest on loans | 58,364 | 57,085 | -- | -- |

| | Income of PRE | | Expenses of PRE | |
|--|---------------|---------|-----------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| PREměření, a.s. | 133,573 | 106,035 | 14,749 | 8,147 |
| Of which: Services | 117,745 | 103,506 | 7,831 | 1,844 |
| Sale of electricity generated by photovoltaic power stations | -- | -- | 6,916 | 6,303 |
| Inventories | 160 | -- | -- | -- |
| Interest on loans | 15,668 | 2,529 | 2 | -- |

| | Income of PRE | | Expenses of PRE | |
|---|---------------|-----------|-----------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| eYello CZ, k.s. | 46,011 | 12,738 | 6,458 | -- |
| Of which: Electricity supplied to end customers and distribution services | 31,300 | 4,088 | -- | -- |
| Services | 11,678 | 8,597 | -- | -- |
| Dividends | 2,999 | -- | -- | -- |
| Interest on loans | 34 | 53 | -- | -- |
| Transfer of the share in the profit or loss to the general partner | -- | -- | 6,458 | -- |
| | | | | |
| | Income of PRE | | Expenses of PRE | |
| | 2014 | 2013 | 2014 | 2013 |
| PRE FVE Dačice, s.r.o. | 54 | -- | -- | -- |
| Of which: Interest on loans | 54 | -- | -- | -- |
| Total | 2,596,739 | 2,429,784 | 6,532,405 | 7,727,785 |

All transactions with subsidiaries were undertaken on an arm's length basis. The Company incurred no loss arising from related-party transactions.

(29) Post Balance Sheet Events

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

In Prague, 20 February 2015



Pavel Elis
Chairman of the Board of Directors



Alexander Sloboda
Vice-Chairman of the Board of Directors

AFFIDAVIT

In exercising all reasonable due diligence and to our best knowledge, the Annual Report presents a true and fair picture of the financial situation, business activities and results of the economic management of Pražská energetika, a.s. and the PRE Group for 2014, and of the prospects for the future trend of the financial situation, business activities and results of the economic management of the Company and the PRE Group. No facts were deliberately omitted from or distorted in the Report which could have altered its meaning.

In Prague, 20 April 2015



Pavel Elis
Chairman of the Board of Directors



Alexander Sloboda
Vice-Chairman of the Board of Directors

| | |
|--------|---|
| AMM | Automatic Metering System |
| B2B | large customers |
| B2C | small businesses and households |
| ČSRES | České sdružení regulovaných energetických společností/Czech Association of Regulated Power Supply Companies |
| EPC | Energy Performance Contracting |
| ERÚ | Energetický regulační úřad/Energy Regulatory Office |
| EU | European Union |
| eYello | eYello CZ, k.s. PRE subsidiary |
| GIS | geographical information system |
| GWh | gigawatt-hour |
| HDO | mass remote control |
| HV | high voltage |
| Hz | Hertz |
| ICT | information and telecommunication technology |
| kV | kilovolt |
| LV | low voltage |
| MO | retail |
| MWh | megawatt-hour |
| MW | megawatt |
| OHS | occupational health and safety |
| OTC | over the counter |
| OTE | OTE, a.s. – Electricity and gas market operator in the Czech Republic |
| PP | Pražská plynárenská, a.s. |
| PRE | Pražská energetika, a.s. |
| PREdi | PREdistribuce, a.s., 100% subsidiary of PRE |
| PREH | Pražská energetika Holding a.s. |
| PREm | PREměření, a.s., 100% subsidiary of PRE |
| PXE | Prague Energy Exchange |
| TR | transformer station |
| TR | transformer station |
| TWh | terawatt hour |
| ÚOHS | Úřad pro ochranu hospodářské soutěže/Office for the Protection of Competition |
| VHV | very high voltage |

| | Address | PCN | Telephone |
|--------------------------|-----------------------------|--------|--------------------------|
| Pražská energetika, a.s. | Prague 10, Na Hroudě 1492/4 | 100 05 | 267 055 555, 840 550 055 |

The Company is registered in the Commercial Register maintained at the Municipal Court in Prague, File ref. B 2405.

Web: www.pre.cz
 E-mail: pre@pre.cz
 ID No.: 60193913
 Tax ID: CZ60193913
 Bank details: Československá obchodní banka, a.s.
 Account number: 4001-0900109423/0300

| | Address | PCN | Telephone |
|---------------------------|--|--------|--------------------------|
| Pražská energetika, a.s. | | | |
| PRE Customer Centre | Prague 1, Jungmannova 36/31 | 110 00 | 267 055 555, 840 550 055 |
| | Prague 4, Vladimírova 64/18 | 140 00 | 267 055 555, 840 550 055 |
| PRE Service Centre (CES) | Prague 1, Jungmannova 747/28 | 110 00 | 840 550 055, 734 234 832 |
| | www.premereni.cz/sluzby | | |
| | e-mail: centrum.sluzeb@pre.cz | | |
| PRE Call Centre | Prague 10, Kubánské náměstí 1391/11 | 100 00 | 267 055 555, 840 550 055 |
| PRE Information for Press | Prague 10, Na Hroudě 1492/4 | 100 00 | 267 051 102 |
| PREdistribuce, a.s. | Prague 5, Svornosti 3199/19a | 150 00 | 267 055 555, 840 550 055 |
| | www.predistribuce.cz | | |
| | e-mail: distribuce@pre.cz | | |
| Emergency Service | Prague 2, Kateřinská 9 | 120 00 | |
| | e-mail: poruchy@pre.cz | | Emergency Line: 1236 |
| PREměření, a.s. | Prague 10, Na Hroudě 2149/19 | 100 05 | 267 055 555, 840 550 055 |
| | www.premereni.cz | | |
| | e-mail: mereni@pre.cz | | |
| | Ordering of services: servis.prem@pre.cz | | |
| eYello CZ, k.s. | Prague 10, Kubánské náměstí 1391/11 | 100 00 | 267 056 704, 840 555 777 |
| | www.yello.cz , | | |
| | e-mail: yello@yello.cz | | |
| PRE FVE Dačice, s.r.o. | Prague 10, Na Hroudě 2149/19 | 100 00 | 267 055 555, 840 550 055 |
| PRE FVE Mikulov, s.r.o. | Prague 10, Na Hroudě 2149/19 | 100 00 | 267 055 555, 840 550 055 |

