



120 years

of being the energy of the metropolis

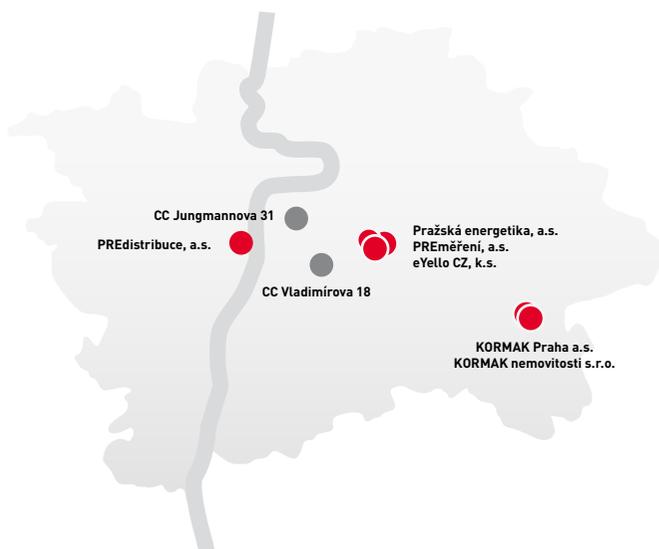
MISSION, VISION, STRATEGY

The mission of PRE is to be a reliable partner in supplying, generating and selling energy and providing related services across the Czech Republic. In order to achieve this, it uses state-of-the-art technologies. Aside from increasing the value of its services, PRE actively participates in making Prague a good and pleasant place to live.

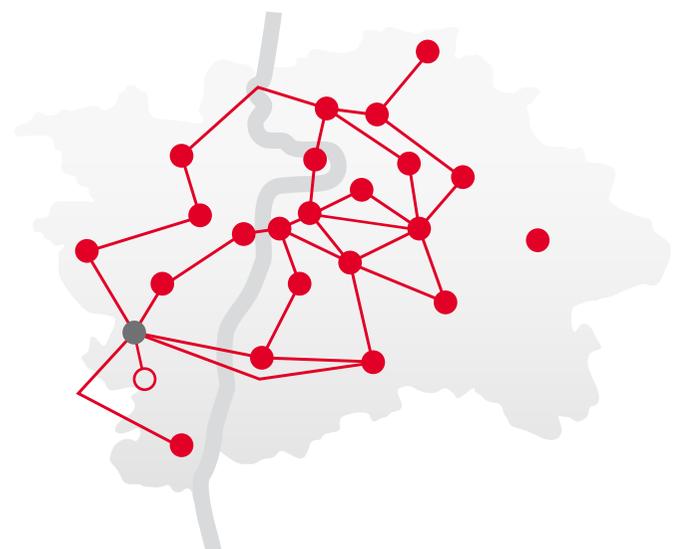
The strategic vision of PRE is to be a modern and stable energy company and a preferred partner. PRE finds its position on mutual trust with customers and partners, proactive approach to business development and professionalism and attentiveness of all its employees.

The strategy of the PRE Group is to maintain sustainable growth in the field of sales, distribution, energy services and generation of energy from renewable sources, using its own potential and through cooperation with its partners and beneficial acquisitions.

Registered offices of the PRE Group companies and PRE Customer Centres



110 kV equipment and power lines of PREdi



SELECTED FINANCIAL INDICATORS

FROM THE CONSOLIDATED FINANCIAL STATEMENTS

Indicator	Unit	2016	2015
Total assets	CZK (Mill.)	25,237	24,351
Non-current assets	CZK (Mill.)	22,487	21,806
of which: tangible fixed assets	CZK (Mill.)	22,149	21,566
assets for distribution	CZK (Mill.)	18,775	18,044
Rate of depreciation of tangible and intangible fixed assets	%	40	39
Current assets	CZK (Mill.)	2,750	2,545
Total liabilities	CZK (Mill.)	25,237	24,351
Equity	CZK (Mill.)	16,221	15,113
Share capital	CZK (Mill.)	3,869	3,869
Long-term payables	CZK (Mill.)	5,760	5,521
Short-term payables	CZK (Mill.)	3,256	3,717
Total income	CZK (Mill.)	18,942	19,126
of which: income from electricity and gas sales			
and from electricity generation	CZK (Mill.)	18,481	18,772
Total costs	CZK (Mill.)	(15,502)	(15,996)
of which: costs of electricity and gas sales	CZK (Mill.)	(11,766)	(12,533)
depreciation of tangible and intangible fixed assets	CZK (Mill.)	(1,117)	(1,117)
Net cash flow from investment activity	CZK (Mill.)	(1,658)	(1,647)
Profit from ordinary activity before tax	CZK (Mill.)	3,440	3,130
Profit from ordinary activity after tax	CZK (Mill.)	2,752	2,523
Net profit per share	CZK	711	652
EBIT	CZK (Mill.)	3,472	3,180
EBITDA	CZK (Mill.)	4,589	4,297

OTHER INDICATORS

Indicator	Unit	2016	2015
Gross distributed electricity	GWh	6,241	6,139
Total purchase of electricity	GWh	5,917	5,841
Purchase of gas	GWh	253	158
Generation of electricity	GWh	24	24



120 years

of being the energy of the metropolis

Distinguished readers

This year it is particularly satisfying for us to look back on the previous year as well as the entire history of Pražská energetika. After achieving the best economic result in our history in 2016, this year we celebrate the 120th anniversary of the founding of our legal predecessor, the Electricity Works of the Royal Capital City of Prague.

Since the 1st of September 1897, when the company started operating, it has undergone many changes, which from the perspective of a single generation are very difficult to imagine. The company has written the history of the energy industry in Prague and its development has been closely tied with the development of the capital.

Since the very beginning, when the Electricity Works of the Royal Capital City of Prague primarily electrified the city, developed street lighting and operated electric streetcars between the districts of Žižkov and Královské Vinohrady, the company has been a pioneer of technical progress and a guarantee of reliable energy infrastructure. We have been performing this role in the capital ever since.

We operate the most reliable distribution network in the Czech Republic, provide customers with high quality energy supplies, including green electricity from renewable sources, offer modern energy products and solutions and actively engage in the development of smart urban infrastructure – from smart grids to electromobility to multifunctional street lighting. Close ties with the region of the capital and active participation in its development have always been a natural part of our identity and will continue to play an important role in our activities in the future.

We mark the 120th anniversary with an exhibition “120 Years of Electricity in Prague”, which will open in the City of Prague Museum at the end of August 2017, and a book “120 Years of Being the Energy of the City”, which was published at the end of 2016. This Annual Report also looks at the company’s history and the development of its technical infrastructure, using pictures from different eras twenty years apart.

The anniversary is a good opportunity to look back on the long history of our company and reflect on the close ties between the energy industry and everyday life and acknowledge its paramount importance for our modern lifestyles. That is why I would like to express my thanks to all the people who in the past contributed to and still strive to uphold the long tradition of our company.

Pavel Elis

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PRE GROUP

Pražská energetika, a.s. (PRE), and its subsidiaries are a modern integrated energy corporate group, whose principal activities include electricity and gas sales and trading, electricity distribution, generation of electricity from renewable sources and provision of energy services.

PRE has a one hundred and twenty year long history of supplying electricity and developing the electricity system in Prague. It dates back to 1897, when the Electricity Works of the Royal Capital City of Prague (Elektrické podniky královského hlavního města Prahy) was founded. Today, with its more than 700 thousand consumption points, the PRE Group is the third largest electricity supplier in the Czech Republic, operating a high quality and reliable distribution network. As part of its activities, it supports state-of-the-art technological solutions and provides consultancy on the implementation of innovative technologies and energy savings. Last year it distributed more than 6.2 TWh of electricity on all voltage levels to end-users and generated more than 24 GWh of electricity from renewable sources.

In 2016 the PRE Group included the parent company Pražská energetika, a.s., which holds the licence for

OVERVIEW OF LICENCES

Pražská energetika, a.s.

- Electricity trading licence from the 17th of January 2007, renewed until the 16th of January 2022
- Gas trading licence from the 12th of January 2011, renewed until the 12th of January 2021

PREdistribuce, a.s.

- Electricity distribution licence from the 1st of January 2006 for an indefinite period of time

electricity and gas trading in the Czech Republic, and its subsidiaries: PREdistribuce, a.s., the owner and operator of the distribution system in the capital Prague and in Roztoky; PREměření, a.s., which specializes in installations and readings of electricity metres, energy services, service products and the generation of electricity from renewable sources; eYello CZ, k.s., which sells electricity and gas to households and small businesses under the Yello Energy brand; KORMAK Praha a.s., which provides a complete range of engineering, design and construction

PREměření, a.s.

- Electricity generation licence from the 17th of May 2010 to the 16th of May 2035
- Electricity distribution licence from the 31st of October 2016 for an indefinite period of time

eYello CZ, k.s.

- Electricity trading licence from the 27th of September 2012 to the 26th of September 2017
- Gas trading licence from the 27th of September 2012 to the 26th of September 2017

services in the field of electricity infrastructure and transformer station construction; and KORMAK nemovitosti s.r.o., which manages real estate.

MEMBERS OF THE PRE GROUP

Pražská energetika, a.s. (PRE)

Trading in electricity and gas. The complete scope of its business activities is stated in the company's Articles of Association and in relevant registers.

ID No.: 60193913

Prague 10, Na Hroudě 1492/4

PREdistribuce, a.s. (PREdi)

Electricity distribution in Prague and in Rožtoky, planning the renovation and development of the distribution system, and 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 readings of electricity metres in the PRE supplied territory, electricity generation and energy services

ID No.: 25677063

Prague 10, Na Hroudě 2149/19

eYello CZ, k.s. (eYello)

Trading in electricity and gas, production, trading and services not listed in Appendices No. 1 to 3 of the Trade Licensing Act

ID No.: 25054040

Prague 10, Kubánské náměstí 1391/11

KORMAK Praha a.s. (Kormak)**

Design and construction of electricity network infrastructure – transformer stations and LV, MV and HV networks

ID No.: 48592307

Prague 10, K Sokolovně 667

KORMAK nemovitosti s.r.o. (Kormak nemovitosti)**

Lease of real estate, flats and non-residential premises

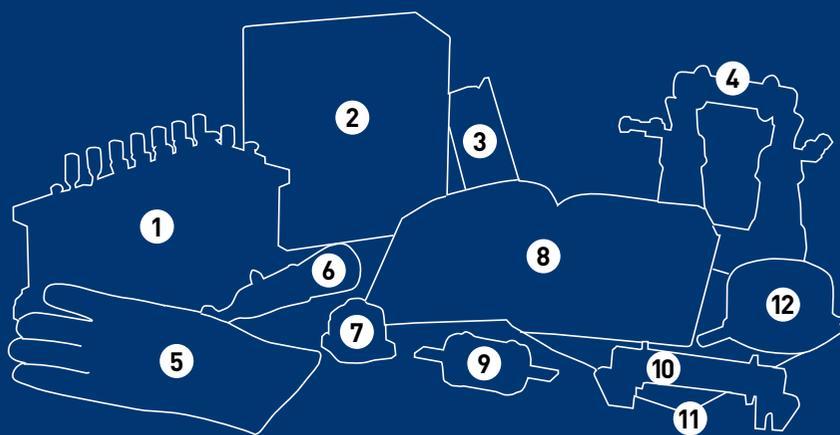
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Prague 10, K Sokolovně 667

* As of the 1st of January 2016, PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o., and PRE FVE Pozořice, s.r.o., ceased to exist, merging with its parent company PREměření, a.s. (merger by acquisition).

** Kormak and Kormak nemovitosti became part of the PRE Group on the 14th of March 2016.

1897-1917



1 - Series resistor – an accessory to a measuring device 2 - Measuring device – a wattmeter 3 - List of transformer stations
4 - Fuse set 5 - Dielectric isolation gloves protecting against up to 10,000 V 6 - Socket with a light bulb and a switch
7 - Porcelain switch 8 - Specialized electrical engineering publication 9 - Low-voltage knife fuse 10 - Pertinax low-voltage fuse 11 - Electrical engineering tables 12 - Air gauge

1897

The Electricity Works of the Royal Capital City of Prague was founded, distributing electricity as well as operating trams and providing street lighting.

1905

Electric trams started running across the Charles Bridge. But due to a high failure rate, the operation was ceased in 1908.

1913

Hydroelectric power plants started operating at Štvanice and Těšnov. The former, which is still in operation, was one of Prague's first concrete structures; the latter closed in 1929 when the Rohan Channel was filled.

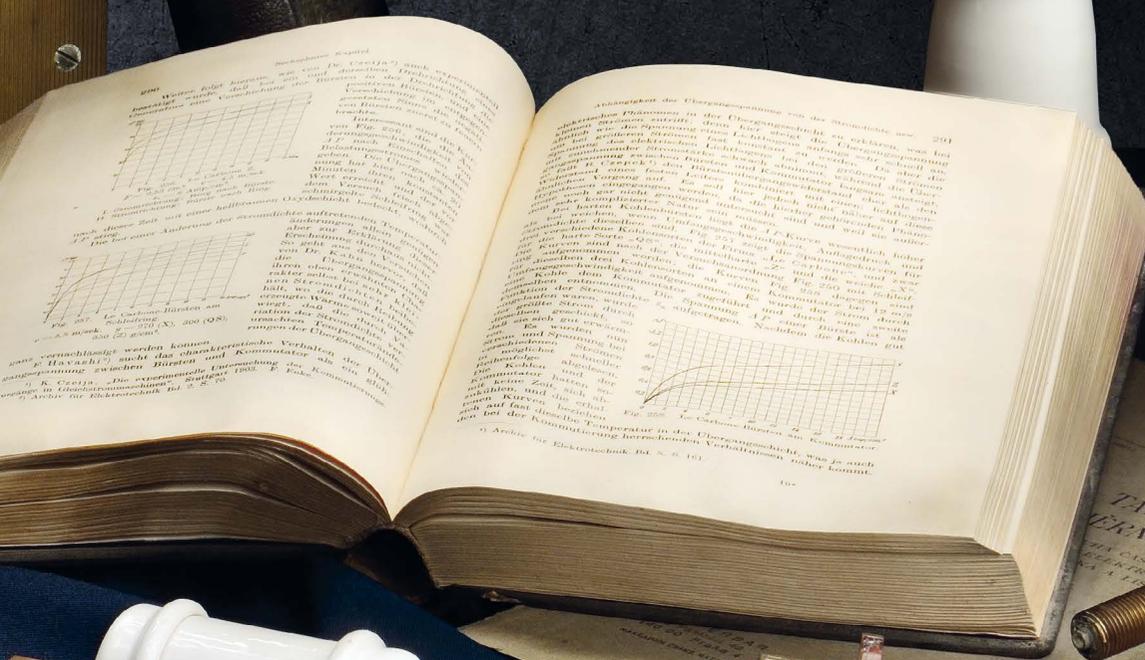
1914

World War I broke out. More than 1.4 million men from the Czech lands enlisted, including half the staff of the Holešovice power plant.



WESTON WATTMETER No 6159
EICH. WATT-TULSTROM 1000 KLEINME
STROM 75 VOLT 150 VOLT 300 VOLT
50 AMP 25 50 100
100 AMP 50 100 150
AMP 10 20 30

WESTON ELECTRIC CO.
MILWAUKEE, WIS.
MADE IN U.S.A.



REPORT OF THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS ACTIVITIES AND ASSETS FOR 2016

Pražská energetika, a.s. (PRE), and its subsidiaries are a stable and prosperous energy corporate group with a hundred and twenty year long history. Its mission is to be a reliable partner in supplying, generating and selling energy and providing related services in the territory of Prague as well as throughout the Czech Republic.

The principal shareholders of PRE are Pražská energetika Holding a.s., which is jointly controlled by the Capital City of Prague and EnBW Energie Baden-Württemberg AG (EnBW), and EnBW. The support of its shareholders and mutual cooperation is one of the pillars of PRE's success.

As the parent company, PRE leads the PRE Group, which includes the following subsidiaries: PREdistribuce, a.s. (PREdi), PREměření, a.s. (PREm), eYello CZ, k.s. (eYello), KORMAK Praha a.s. (Kormak), and KORMAK nemovitosti s.r.o. (Kormak nemovitosti).

In all their activities, the companies follow strict ethical standards, which particularly include responsible attitudes towards their employees, society and the environment. Their business activities adhere to the principles of sustainable development. To ensure growth of the company's value, the corporate culture accents constant improvement of internal efficiency, innovation, and support of employee initiative and activities. PRE founds its position on mutual trust with customers and partners, proactive approach to business development and all employees' professionalism and attentiveness.

A topic that strongly resonates on the energy market today is increasing energy efficiency. As part of its activities, PRE promotes sound energy management and supports the implementation and use of modern technologies, which can help customers better control their energy consumption and thus optimize their costs.

Macroeconomic situation in 2016

In 2016 the Czech economy continued its dynamic growth. Real GDP growth substantially exceeded 2% with the inflation rate remaining very low. The moderate price level growth was partly caused by relatively low prices for energy commodities. The positive economic development to some extent translated into growing energy demand. Electricity consumption in the Czech Republic reached 60.9 TWh, having grown by 2.7% over 2015.

PRE benefited from this favourable development despite the continued competitive pressure in all sale segments, complicated framework conditions and the volatility of electricity prices. The growth in electricity consumption driven by the economic upturn, however, differed markedly between individual regions. In the capital, growth was considerably lower than in other regions; in the PREdi distribution area, the volume of distributed electricity increased by 1.7% year-on-year, reaching 6,241 GWh.

On the 1st of January 2016, the majority of the provisions of the amended Energy Act and the Act on Promoted Energy Sources came into effect. These legislative changes imposed new requirements on holders of electricity and gas trading licences and distribution licences. The upside is that the adopted changes strengthen consumer protection, simplify the installation of small decentralised sources for self-consumption and enable simpler connection to the distribution system. The amendments also changed the way the contribution to the financial support of renewable sources is determined, switching to payments for reserved input, while guaranteeing customers will not pay more than under the previous system. However, the regulatory and tariff systems still have not undergone any major changes that would allow them to better reflect the growing decentralisation of generation capacity, and spread the cost of ensuring secure and stable operation of the electricity system equitably among all entities.

At the end of November, the European Commission approved the support scheme for energy from renewable sources in the Czech Republic. The approval relates among others to renewable sources that started operating in 2006–2012. The European Commission concluded that the adopted measures support the EU's energy and climate change objectives, without excessively distorting competition. The Commission's action enabled the Energy Regulatory Office (ERÚ) to publish relevant price decisions and played a major role in stabilizing the whole sector of renewable sources.

The European Commission also presented the "winter legislative package", a comprehensive document aiming to help the EU meet its climate change commitments, integrate renewable sources into the energy market, increase energy efficiency and also reduce electricity prices for households. PRE welcomes the majority of the proposals concerning common rules for the internal market, initiatives to strengthen consumer protection, support of renewable sources and setting more ambitious goals for energy efficiency. It considers these proposals to be a new opportunity for further development particularly in the field of energy services and renewable sources.

Economic results in 2016

In 2016 the PRE Group achieved the best economic result in its history. The consolidated EBITDA amounted to CZK 4,589 million; the profit from ordinary activity after tax amounted to CZK 2,752 million. As such, the EBITDA exceeded the 2015 result by 6.8%; and the profit from ordinary activity after tax exceeded the 2015 result by 9.1%.

These results stem primarily from the growth in the two main segments of business activity. As for sales, the supply of electricity increased by 76 GWh (1.3%) year-on-year and the supply of gas increased by 95 GWh (60.1%) year-on-year; the volume of distributed electricity in the territory of Prague and Rožtoky increased by 102 GWh (1.7%).

The economic results were also affected by the March acquisition of the companies Kormak, which provides engineering, design and construction services in distribution networks, and Kormak nemovitosti, which manages real estate. Their incorporation into the PRE Group increased consolidated operating and personnel expenses, but this was offset by capitalizing these costs as distribution network assets; as a result, the overall impact on EBITDA was positive.

Operating costs continued to be closely monitored. Another contributing factor to their growth, apart from the acquisition, was a higher number of repairs of some parts of cable tunnels. Efficiency enhancement programmes, which were duly implemented in previous years, create conditions for long-term costs stabilisation

The increase in personnel expenses was caused not only by the acquisition of Kormak and Kormak nemovitosti, but also by the growth of average earnings by 2.8% in accordance with the collective agreement. In view of the decreasing interest rates, the reserve for costs related to employees retiring was increased.

In 2016 the PRE Group generated a high consolidated operating cash flow of CZK 4,541 million, which was a 33% year-on-year increase. This enabled the Group not only to cover the usual capital expenses (CZK 1.7 billion) and financial expenses (dividends amounting to CZK 1.7 billion), but also to repay short-term bank loans worth about CZK 1 billion, which led to higher net cash flow from financial activity amounting to CZK 2.8 billion.

The value of consolidated non-current assets increased by CZK 681 million (1.3%) year-on-year, reaching CZK 22,487 million. Investment into non-current assets amounted to more than CZK 1.5 billion and was made primarily in the development and modernisation of the distribution network. Other investments, aside from the above-mentioned acquisition, were made in the development of information and communication technologies, technical upgrades of buildings and vehicle fleet renewal.

Equity attributable to the parent company's shareholders increased to CZK 16,221 million (by 7.3%) in 2016. Consolidated liabilities remained stable at CZK 9,016 million. The fact that the share of equity exceeds 64% creates good conditions in the long term for PRE to implement its ambitious growth plans and make related investments.

Despite the tough competitive environment, the company managed to maintain the return on capital employed (ROCE) at 16.2%, which testifies to its long-term good performance.

Pražská energetika, a.s. – business activities

PRE's strategic goal is to maintain its share of electricity supply in the Czech Republic also in the highly liberalised market environment. In the B2B segment, the volume of supply remains stable at 3–3.5 TWh. In the B2C segment, the company's 2016 priority under the PRE brand was to maintain its existing customers in Prague.

The separate economic result after tax amounted to CZK 2,203 million in 2016; the gross profit from the sale of electricity and gas amounted to CZK 1,702 million, which was by CZK 201 million more than in 2015. The supply outside the territory of Prague increased considerably – by 3.3% year-on-year. In 2016 the total volume of gas supply was successfully increased to 253 GWh (by 60.1%).

The company launched a number of new products in 2016 including PREekoproud, which offers the supply of electricity generated purely from renewable sources certified by TÜV NORD CZECH, s.r.o. PRE's long-term effort is to maintain a balanced and transparent relationship with its customers and to keep improving customer services. In 2016 it further increased the scope of services available at the Moje PRE (My PRE) internet portal, where customers can easily administer all matters related to electricity and gas supply. Now, Moje PRE is actively used by more than a third of PRE's customers.

In 2016, the number of supplier changes increased for the first time since 2012. It was partly due to the initiative of the dTest magazine, which motivated almost 20 thousand customers to change suppliers, promising lower gas and electricity prices. PRE responded to the situation by individual offers, which now account for more than 60% of the customer portfolio.

In terms of procurement of electricity, the company maintained a diversified structure of suppliers in 2016. Given the sufficient liquidity on the energy market, electricity is not purchased through long-term contracts. In line with the trend in previous years, the supply of electricity from local producers of energy from renewable sources, particularly biogas stations and hydroelectric power plants, has gradually gained in importance.

PREdistribuce, a.s.

The subsidiary PREdi operates the distribution network in Prague and in Rožtoky covering the area of 505 km², and thus carries out one of the key activities of the PRE Group. In compliance with the Energy Act, PREdi carries out its business activities as an operator of a distribution system in the public interest and under a licence issued by ERÚ. Through its implementing provisions, ERÚ determines how the energy sector and prices are regulated. As the operator of the distribution network in the capital, PREdi has a specific position within the Czech energy industry and has to face extraordinary challenges and demands for high quality and reliable supply.

PREdi's EBITDA reached CZK 2,853 million, exceeding the 2015 result by 1.2%. The volume of electricity distributed by the PREdi distribution network in 2016 amounted to 6,241 GWh, which is a 1.7% year-on-year increase. PREdi's operating costs amounted to CZK 1,473 million, having increased by CZK 86 million compared to 2015. The year-on-year increase was primarily caused by a more pressing need to repair cable tunnels, which was detected throughout the year.

The company continued to develop the network to be able to connect new consumption points in commercial and administrative premises, housing units and other important buildings in the capital. At the end of 2016, more than 785 thousand consumption points were connected to the PREdi distribution system, which is a year-on-year increase of 1%. The highest total load of the network amounting to 1,172 MW was recorded in December. Given the trend in the number of requests for connecting new consumption points and the recovery of the market with property development projects, the highest total load can be expected to increase further.

In 2016 PREdi invested CZK 1,584 million in the distribution system, which is a 6% year-on-year increase. PREdi actively engages in the digitalisation of network operation and the creation of intelligent infrastructure, which will in the future simplify its reliable operation, enable the integration of growing decentralised generation as well as meet the customer demand for comfortable administration and use of innovative products. In 2016 PREdi adopted a new strategy for the development and renovation of the distribution system, which mainly emphasizes the development of smart distribution stations, which can be monitored and controlled remotely. The strategic goal is to reach a one third share of smart distribution stations in the network by 2030.

In view of possible legislative changes towards smart electricity metres, PREdi continues to pay special attention to this field. Telecommunication infrastructure is becoming a vital part of the distribution system, as it serves to transfer information and commands between the dispatcher control system and individual components in the distribution network. The amount of funds invested in the distribution network is reflected in the high reliability and quality of the electricity supply in Prague. In 2016, like in the previous years, the distribution network operated at a high level of quality and was definitely the most reliable distribution network in the Czech Republic.

PREměření, a.s.

In 2016, PREm's EBITDA amounted to CZK 330 million, having increased by 1.5% year-on-year. PREm managed to increase the income from electricity production by 2.8% year-on-year, generating more than 24 GWh of "green" electricity throughout the year. Income from the sale of energy services increased by 6.7%. The portfolio of offered energy services was updated and standardized in 2016, which resulted in a considerable increase in the number of processed offers. It also made room for further development in this field in the upcoming years. The most offers were processed in the field of construction and servicing of small photovoltaic power plants. The development of this product was boosted by the new legislation, which exempted small power plants up to 10 kW for self-consumption from the need to have an ERÚ licence. As a result, energy services and the generation of electricity from renewable sources are becoming another source of income, supplementing the traditional segments of the PRE Group's activity.

PREm also actively engages in smart city projects, developing smart urban infrastructure. At the end of 2016, the first smart street lamps were installed. These energy saving lamps equipped with LEDs have been developed by EnBW. They are multifunctional devices, serving as public Wi-Fi hotspots and charging stations for electric cars and bikes, equipped with an emergency button to call help and sensors measuring noise levels, temperature, atmospheric pressure, humidity and air quality. As such, they can become an important part of the urban infrastructure in the future.

PREm provides its sister company PREdi with services related to the purchase, installation and calibration of electricity meters as well as electricity reading services. The company also provides electricity reading services to its long-standing partners, Pražská plynárenská Distribuce, a.s., and Pražská teplotárenská a.s. and newly also to Veolia Energie Praha, a.s.

eYello CZ, k.s.

The subsidiary eYello sells electricity and gas to households and small businesses throughout the Czech Republic under the Yello Energy brand. Year-on-year, the company managed to multiply the revenue from the sale of electricity and gas; and in 2016 it ranked among the ten fastest growing energy suppliers in the Czech Republic. At the end of the year, it supplied energy to 23,513 consumption points, with electricity supplies accounting for about 70% and gas supplies for 30%. At the end of the year, another 8,242 contracts for energy supply were being transferred to Yello Energy, which is a time-consuming process owing to contractual terms of other suppliers. The results of the Yello Energy brand offset, and in 2016 even surpassed, the natural customer losses PRE sustains on its home market of Prague.

Yello Energy offers advantageous, simple and transparent products as well as flexible communication without customer centres. Modern and clearly defined products target active customers looking for new possibilities. One of the company's main sales channels is comparison internet portals, which provide customers with transparent overviews of offers available on the market.

KORMAK Praha a.s.

The acquisition of the Kormak company, which provides services in the field of design, building-related administration, construction and installation of low and high voltage networks, was concluded in March 2016. Given the market shortage of qualified personnel in this field, the incorporation of Kormak to the PRE Group guarantees ready long-term access to resources necessary for the development of distribution networks. Insourcing these services will be very beneficial in carrying out projects essential for the development of network infrastructure in the capital.

In the shortened accounting period from April to December 2016, Kormak's EBITDA amounted to CZK 34 million, with the turnover being CZK 174 million. Revenue in the given period was CZK 164 million.

Expected economic situation in 2017

The energy sector continues to face great challenges related to developments on both the national and European level. The EU continues to strive toward establishing an energy union and reach ambitious goals in reducing CO₂ emissions and increasing energy efficiency. The integration of renewable sources and growing decentralisation of energy production as well as advancing digitalisation of the energy sector place greater demands on operators of energy infrastructure and require considerable investment. In order to tackle these challenges successfully, stable framework conditions are required, increasing long-term trust in the entire energy sector.

PRE's main strategic objective is to achieve growth of more than 10% in the period of 2014–2020. The achieved economic results and the proactive measures taken in 2016 accord with this aim and prove we can realistically achieve this ambitious goal. The PRE Group continues to pursue a growth strategy in the four key segments of its business activity: sale of electricity and gas, electricity distribution, energy services and renewable sources.

The main goal in the field of sales is to maintain a stable customer portfolio and remain the leader on the energy market in Prague. In the long term, PRE wants to grow through the Yello Energy brand in other regions of the Czech Republic. The company will continue to develop the sale of gas as the second standard commodity. Further growth can also be achieved inorganically, if a good opportunity presents itself.

In the field of distribution, our priority is to remain the most reliable electricity distributor on the Czech energy market. The gradual implementation of smart grids will require greater investments in communication technologies and other network equipment. It will also be challenging to be able to respond to potential changes in the structure of electricity flows in the network related to the expansion of small decentralized sources, and nonetheless ensure its safe operation.

Energy services and decentralized generation show great potential for growth. PRE wants to become a key player in the provision of energy services in Prague. Its strategy in this segment includes organic growth and

building the capacity to provide energy services on a larger scale, as well as making suitable acquisitions.

PRE will continue to work on achieving its strategic objectives and actively respond to the dynamic developments on the market. The strategic plan draws on the defined, long-term measures and initiatives, which are reviewed and updated every year. PRE has a clear vision to be a modern and stable energy company and a preferred partner for its customers. Aside from increasing the value of its services, PRE wants to actively participate in making Prague a good and pleasant place to live.

On behalf of the Board of Directors, we would like to thank our customers, employees, suppliers, partners and shareholders for their trust and cooperation in 2016 and for their contribution to the excellent economic result. We are looking forward to our continued successful cooperation.

In Prague, 30th of March 2017

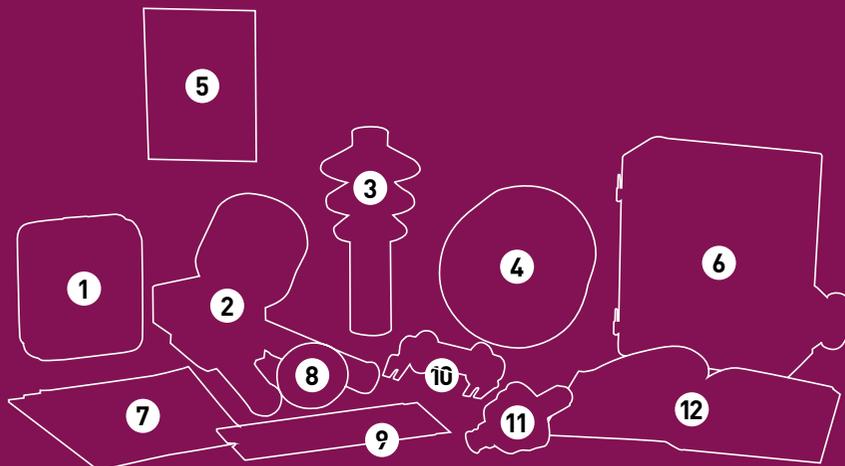


Pavel Elis
Chairperson of the Board of Directors



Alexander Sloboda
Vice-chairperson of the Board of Directors

1918-1938



- 1 - Time switch for peak/off-peak electricity 2 - Low-voltage clamp ammeter 3 - Porcelain bushing 4 - Panel ammeter
5 - Poster with safety instructions 6 - Measuring device – a wattmeter 7 - Magazine "Elektrická služba" (Electrical Service)
8 - Porcelain switch 9 - Electrical engineering tables 10 - Low-voltage porcelain fuse 11 - E27 to E14 light bulb socket adapter 12 - Specialized electrical engineering publication

1922

“Greater Prague” was created by merging the city with 36 independent municipalities. The Electricity Works gradually took over power plants in Smíchov, Žižkov, Vinohrady, Karlín and Košíře.

1921

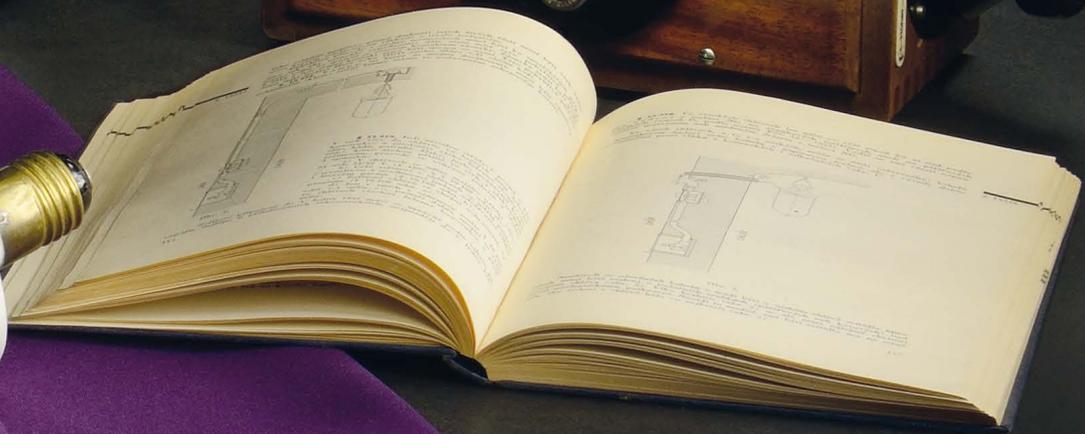
The first written electrical engineering regulations came into effect, made by the professor at the Brno Technical University, Vladimír List.

1931

To supply the Lesser Town, Dejvice and Bubeneč, a distribution station worth 18.8 million crowns was built at Klárov, supported by 104 pylons, some of which reach deeper than the Vltava riverbed.

1936

Trolleybuses became a new addition to Prague public transport, connecting the Střešovice depot with Bořislavka and St Matthias' Church. They operated until 1972, when they made way for buses.



PRE CORPORATE BODIES

BOARD OF DIRECTORS AS OF 31.12.2016

Pavel Elis
Chairperson

Alexander Manfred Sloboda
Vice-chairperson

Marián Čalfa
Vice-chairperson

Pavel Pustějovský
Member

Helmut Oehler
Member
(since 2.11.2016)

Marcus Bort
Member
(until 1.11.2016)

SUPERVISORY BOARD AS OF 31.12.2016

Jaroslav Štěpánek
Chairperson
(since 23.6.2016)

Franz Retzer
Vice-chairperson

Bernhard Beck
Member

Monika Krobová Hášová
Member

Jan Sixta
Member

Fabian Spalthoff
Member

Stefan Theo Webers
Member

Jörg Reichert
Member

WORKS COUNCIL AS OF 31.12.2016

Jan Pokorný
Chairperson

Martin Macháček
Vice-chairperson

Miroslava Svobodová
Member

Martin Votava
Member

The Works Council was established as an independent body within the company in 2014 by an amendment to the Articles of Association reflecting the private law recodification. It deals with employee matters and submits recommendations to the Board of Directors based on employee input. The Works Council consists of four employees of the PRE Group, who attend meetings of the PRE Supervisory Board.

In 2016, no members of the company bodies were subject to a conflict of interest or prohibition of competition.



In the photo: Milan Hampl, Alexander Sloboda, Pavel Elis, Aleš Staněk

TOP MANAGEMENT OF THE PRE GROUP COMPANIES AS OF 31.12.2016

Pražská energetika, a.s.

Pavel Elis
Chief Executive Officer

Alexander Manfred Sloboda
Sales Director

PREdistribuce, a.s.

Milan Hampl
Chief Executive Officer

Petr Dražil
Director of the Regulated Assets division

PREměření, a.s.

Aleš Staněk
Chief Executive Officer

Rudolf Červenka
Director of the Energy Services division

KORMAK Praha a.s.

Tomáš Kocourek
Chief Executive Officer
(since 14.3.2016)

Radek Matuszny
Manufacturing Director
(since 14.3.2016)

eYello CZ, k.s.

Michal Kulig
Chief Executive Officer

PRE GROUP HISTORY

1897

• The Electricity Works of the Royal Capital City of Prague started operating on the 1st of September.

1924

• A ministerial decree declared the Electricity Works a so-called public interest entity.

1934

• The construction of the Electricity Works headquarters in Prague was completed. The building design was one of the most modern of its time, far exceeding its contemporaries.

1941

• The Electricity Works was incorporated into the Prague Municipal Company (Městské podniky pražské).

1945

• The energy industry was nationalised by presidential decree.

1946

• The Transport Company (Dopravní podnik) separated from the Electricity Works. The former power generation division of the Electricity Works was incorporated into the newly established national enterprise, the Central Bohemian Power Generation Company (Středočeské elektrárny).

1959

• The Central Bohemian Electricity Works (Středočeské energetické závody) and the Prague District Administration (Okresní správa Praha) were established.

1965

• The Prague Distribution Enterprise (Rozvodný závod Praha) was founded within the Central Bohemian Electricity Works.

1990

• On the 1st of July, the Prague Electricity Works became a separate state-owned company.

1994

• A joint-stock company, Pražská energetika, a.s., was founded.

1996

• A subsidiary, PREleas, a.s., was founded.

• Construction of a new company administration building started on Na Hroudě street.

1997

• The company celebrated its 100th anniversary. The construction of the new administration building was completed.

1998

• A subsidiary, PREměření, a.s., (formerly Cejchovna elektroměrů Praha, a.s.), was founded.

2000

• Modernization of all customer contact points was completed and the Call Centre started operating.

2002

• PRE successfully dealt with the consequences of the August floods.

2004

- The process of unbundling was commenced in accordance with EU legislation.
- The central dispatcher control centre started operating on Nitranská street.
- A joint PRE and PP Customer Centre was opened in the Adria Palace as part of the Together for Prague (Spolu pro Prahu) project.

2006

- On the 1st of January, the distribution system operator became a separate entity – a 100% subsidiary, PREdistribuce, a.s., which was established in 2005.

2007

- PRE became a member of the Prague Energy Exchange (PXE).

2009

- The Energy Advisory Centre (CEP) started operating at Jungmannova 28 (the TeTa passage).
- The Technical and Documentary Museum of Prague Power Engineering (Technické a dokumentační muzeum pražské energetiky) moved into new premises.

2010

- The structure of shareholders changed – the shares held by Honor Invest, a.s., were bought by the existing shareholder, EnBW Energie Baden-Württemberg AG, which thus became the majority shareholder.
- In accordance with the Group's new long-term strategy, five photovoltaic power plants (Jinonice, Lhotka, Na Hroudě 19, Pražáčka and Sever) started operating. PREm is the licence holder.

- The highest peak load of the distribution system in history (1,209 MW) was recorded on the 1st of December at 2 p.m.

2011

- On the 1st of December, PRE shares were delisted from trading on the regulated market. The delisting was formally concluded on the 28th of December.

2012

- The Hořovice and Kondrac photovoltaic power plants were acquired, each with the installed capacity of 1 MWp.

- The 100% subsidiary PREleas, a.s., was renamed eYello CZ, a.s., and branched out into trading in electricity and gas (from the 1st of May 2014 as a limited partnership company).

2013

- In the field of philanthropy, PRE started cooperating with the Charter 77 Foundation (Nadace Charty 77).

- The biggest specialised electric bike rental service in the Czech Republic, PREkolo, was launched.

- The Pozorka photovoltaic power plant with the installed capacity of 3.99 MWp and the Syrovice photovoltaic power plant with the installed capacity of 6.3 MWp were acquired.

- The PRE Group was awarded in the Patron category of the Czech Goodwill project for its considerate attitude towards business, economic-social and natural environment.

2014

- On the 27th of March, the Articles of Association were amended, establishing the Works Council.
- In April, a new PRE website (www.pre.cz) was launched offering customers many possibilities for online administration. The website later won first place in the prestigious WebTop100 competition.
- On the 1st of May, the PRE Service Centre (CES) started operating in the TeTa passage, offering PREm energy services and housing a specialised electric bike shop and rental service.
- In September, a mobile virtual operator, PREmobil, started operating, offering attractive telecommunication services
- On the 1st of December, the Dačice and Mikulov photovoltaic power plants with the total installed capacity of 5.79 MWp were acquired.

2015

- CES successfully hosted the 5th annual electromobility exhibition, one of the biggest exhibitions of its kind in the Czech Republic.
- A new PREdi website (www.predistribuce.cz) was launched, later winning first place in the Industry and Power Engineering category of the WebTop100 competition.
- On the 30th of April, the Pozořice photovoltaic power plant with the installed capacity of 4.59 MWp was acquired.
- In September, PREdi celebrated its 10th anniversary.
- A separate division of Energy Services was established in PREm, aiming to further develop the field of energy analysis and audits, efficient lighting, the design, construction and servicing of small photovoltaic power plants, and the provision of decentralised energy supplies solutions.
- eYello (the Yello Energy brand) placed among the top ten most dynamically developing electricity and gas suppliers in the Czech Republic.

IMPORTANT EVENTS OF 2016

• From January 2016, PRE offers the supply of electricity generated purely from renewable sources. The campaign promoting the PREekoproud product used the slogan “Now you can look nature in the eye” and received acclaim from expert media for its graphic design.

• On the 18th of February, the Chairperson of the Board of Directors of EnBW, Frank Mastiaux, came for a two-day visit. He met, among others, with the Chairperson of the Chamber of Deputies of the Czech Parliament, representatives of the ČEPS company, the PRE management and its employees.

• The 14th of March saw the acquisition of KORMAK Praha a.s., which provides engineering, design and construction services in the field of electricity networks, and KORMAK nemovitosti s.r.o., which provides asset management services

• From the beginning of April to mid-June, the PRE Service Centre hosted the 6th annual sales exhibition of electric bikes, which is one of the biggest of its kind in the Czech Republic.

IN 2017 THE PRE GROUP CELEBRATES ITS 120TH ANNIVERSARY



• At the end of 2016, the book “**120 Years of Being the Energy of the City**” was published, documenting the history of the company.

• The exhibition “**120 Years of Electricity in Prague**” will take place in the City of Prague Museum from the 28th of August to the 30th of November 2017.

• On the 19th of September 2017, the Žofín palace will host a gala evening “**120 Years of Electricity in Prague**”.

• **120 years of electricity in Prague** is also the theme of the PRE 2017 calendar.

• In September/October the first employee survey was carried out. The results were published at the beginning of 2017.

• In November, three SM!GHT smart lamps were installed in Prague thanks to PRE. They not only provide street lighting and serve as Wi-Fi hotspots and charging stations for electric cars and bikes, but are also equipped with emergency buttons, sensors monitoring air quality and other smart urban infrastructure functions. Two lamps are located close to the PRE headquarters on Na Hroudě street; the third is near the Holešovice exhibition grounds.

OVERVIEW OF DEVELOPMENTS AND LEGISLATION IN THE ENERGY SECTOR

2016 was the first year of the three-year, fourth regulatory period (1.1.2016 – 31.12.2018), which follows the main principles established in the previous period and reflects the latest changes in the energy legislation of the Czech Republic and the European Union. The main aim of the fourth regulatory period is to prepare objective inputs for a new regulatory decree and the fifth regulatory period, which will last 7–10 years according to the Energy Regulatory Office's plans.

The main principles behind the regulation are its stability and long-term sustainability, predictability for the market entities and balanced impact on the market entities.

On the 1st of January 2016, the majority of the provisions of Act No. 131/2015 Coll., which significantly amended the Energy Act and the Act on Promoted Energy Sources, came into effect. These legislative changes imposed new requirements on holders of electricity and gas trading licences and distribution licences, which were also extended automatically for an indefinite period of time. The upside is that the adopted changes strengthen consumer

protection, simplify the installation of small decentralised sources for self-consumption, enable simpler connection to the distribution system and change the way the contribution to the financial support of renewable sources is determined, switching to payments for reserved input while limiting maximum prices. However, the regulatory and tariff systems in the Czech Republic still have not undergone any major changes.

At the end of November 2016, the European Commission approved the support scheme for energy from renewable sources in the Czech Republic. The approval relates among others to renewable sources that started operating in 2006–2012. The European Commission concluded that the adopted measures support the EU's energy and climate change objectives without excessively distorting competition. The Commission's action enabled the Energy Regulatory Office (ERÚ) to publish relevant price decisions (see the overview on the next side), which played a major role in stabilizing the entire sector of renewable sources.

The European Commission also presented a legislative package "Clean Energy for All Europeans". It is a comprehensive series of energy legislation proposals aiming to help the EU meet its climate change commitments, integrate renewable sources into the energy market, increase energy efficiency and also reduce electricity prices for households. The package will be debated by the European Parliament and the Council of the EU. Some of the proposals are already a part of Czech legislation.

OVERVIEW OF RELEVANT LEGISLATION

In 2016, the Act on Promoted Energy Sources was amended.

• On the 6th of April 2016, Act No. 107/2016 Coll., which amended Act No. 165/2012 Coll., on Promoted Energy Sources and Amendments to Other Laws, as amended, came into effect.

Decrees published in 2016

• Decree of ERÚ No. 8/2016 Coll., from the 11th of January 2016, detailing the issuance of licences for doing business in the energy sector, came into effect on the 1st of February 2016. Decree of ERÚ No. 9/2016 Coll., from the 11th of January 2016, on the process of registration for support with the market operator and on implementation of other provisions of the Act on Promoted Energy Sources (the registration decree), came into effect on the 19th of January 2016.

• Decree of ERÚ No. 16/2016 Coll., from the 13th of January 2016, specifying the conditions for connection to the electricity system, came into effect on the 1st of February 2016.

• Decree of the Ministry of Industry and Trade No. 37/2016 Coll., from the 21st of January 2016, on electricity from high-efficiency cogeneration and from secondary sources, came into effect on the 29th of January 2016, with the exception of Section 3 (4–5), which came into effect on the 1st of January 2017.

• Decree of ERÚ No. 70/2016 Coll., from the 25th of February 2016, on the settlement of energy supplies and related energy services, came into effect on the 1st of July 2016.

• Decree of the Ministry of Industry and Trade No. 145/2016 Coll., from the 29th of April 2016, on reporting electricity and heat from promoted energy sources and on the implementation of other provisions of the Act on Promoted Energy Sources (the decree on energy from promoted sources reporting), came into effect on the 1st of June 2016.

• Decree of the Ministry of Industry and Trade No. 152/2016 Coll., from the 6th of May 2016, which amended Decree No. 82/2011 Coll., on electricity metering and means of calculating compensation in case of illegal consumption, supply, transmission or distribution of electricity, as amended by Decree No. 476/2012 Coll., came into effect on the 1st of June 2016.

• Decree of ERÚ No. 266/2016 Coll., from the 8th of August 2016, which amended Decree No. 296/2015 Coll., detailing technical-economic parameters of setting purchase prices of electricity generation and green bonuses for heat and ways to determine service life of electricity generation plants and heat generation plants using renewable sources (the decree on technical-economic parameters), came into effect on the 1st of January 2017.

• Decree of the Ministry of Industry and Trade No. 309/2016 Coll., from the 12th of September 2016, which amended Decree No. 480/2012 Coll., on energy audits and energy reports, came into effect on the 11th of October 2016.

• Decree of ERÚ No. 404/2016 Coll., from the 6th of December 2016, providing for the content and structure of reports necessary to produce a report on energy networks operation, including deadlines, scope and reporting rules (the decree on statistics), came into effect on the 1st of January 2017.

ERÚ price decisions

• ERÚ Price Decisions No. 5/2015, from the 19th of November 2015, and No. 9/2015, from the 29th of December 2015, detailing the support for promoted energy sources, came into effect on the 1st of January 2016. ERÚ Price Decision No. 4/2016, from the 26th of September 2016, which amended ERÚ Price Decision No. 5/2015, came into effect on the 1st of October 2016.

• To regulate the field of promoted energy sources in 2017, ERÚ Price Decision No. 5/2016, from the 26th of September 2016, was published on the 29th of September 2016; ERÚ Price Decision No. 9/2016, published on the 14th of December 2016, and ERÚ Price Decision No. 11/2016, published on the 22nd of December 2016, amended ERÚ Price Decision No. 5/2016 (effective from the 1st of January 2017).

• ERÚ Price Decision No. 7/2015, from the 26th of November 2015, which set prices for related energy services and other regulated prices, came into effect on the 1st of January 2016. To regulate this field in 2017, ERÚ Price Decision No. 7/2016, which set prices for related energy services and other regulated prices, was published on the 25th of November 2016; ERÚ Price Decision No. 10/2016, which amended ERÚ Price Decision No. 7/2016 (effective from the 1st of January 2017), was published on the 14th of December 2016.

• ERÚ Price Decision No. 8/2015, from the 26th of November 2015, which set prices for related energy services for consumers from low voltage networks, came into effect on the 1st of January 2016. To regulate this field in 2017, ERÚ Price Decision No. 8/2016, which set prices for related energy services for consumers from low voltage networks, effective from the 1st of January 2017, was published on the 25th of November 2015.

Relevant government regulations

• Government Regulation No. 392/2015 Coll., from the 14th of December 2015, on the calculation of contributions to the operation of the Energy Regulatory Office, came into effect on the 1st of January 2016.

• Government Regulation No. 310/2016 Coll., from the 21st of September 2016, on the allocation of state budget funds pursuant to Section 28 (3) of the Act on Promoted Energy Sources in 2017, came into effect on the 1st of January 2017.

RISK MANAGEMENT SYSTEM IN THE PRE GROUP

Risk management in all the companies of the PRE Group except for Kormak and Kormak nemovitosti is a unified process drawing on a shared methodical framework.

The key body of the risk management system is the Risk Management Committee, which thoroughly examines the summary report on risk management and formulates risk management strategies for the most relevant risks in view of the company's risk exposures. The Risk Management Committee approves limits for the management of relevant risks and continuously evaluates their possible impact on the PRE Group economic results.

The main objective of the risk management system is to increase the value of the PRE Group companies by undertaking only acceptable risks. It also ensures an early warning and serves to evaluate the effectiveness of corrective measures. The main focus are the risks, which according to the evaluation of potential impact are deemed to present the biggest potential threat. A continuous process of identification of current risks takes place; the risks are recorded in a list of risks.

The monitored risks are evaluated in terms of their expected impact and probability in three scenarios to ensure comparability. Other specific methods and indicators are used to quantify financial and market risks, such as value at risk, maximum impending losses, etc. Binding limits are set for selected indicators.

Individual types of risks are systematically monitored in the following categories: strategic risks, operational risks, financial risks and compliance risks.

In the financial risks category, market and credit risks are deemed the most relevant for the company. Market risks are primarily related to electricity and gas prices and exchange rates developments.

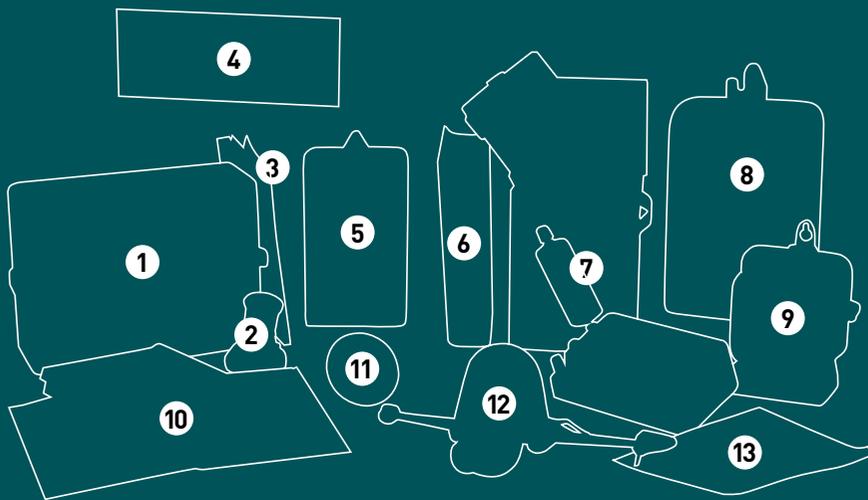
Legislative-regulatory risks are the most significant in the categories of strategic and compliance risks. They have the most profound effect on the company's regulated activities. In the medium term, these risks are especially closely linked to key regulation parameters, the extent of renewable sources support and other regulations applicable in the ongoing fourth regulatory period as well as

the preparation of the fifth regulatory period beginning in 2019.

Operational risks are, depending on their nature, managed in a decentralised way by special organisational units. Their management is systematically evaluated by internal audits.

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

1939-1959



1 - Universal measuring device 2 - Porcelain light bulb socket 3 - Specialized electromechanical tables 4 - Cardboard warning sign 5 - Time switch for peak/off-peak electricity 6 - Czechoslovakian Electrical Engineering Association standards 7 - Universal measuring device 8 - Watt-type ground relay 9 - Single-phase electricity meter 10 - Rules of the Czechoslovakian Electrical Engineering Association / the German Electrical Engineering Association and a book educating "novices about how to handle an electric device" 11 - Porcelain double-circuit switch 12 - Load voltmeter for measuring batteries 13 - Bulletin of the Electricity Works of the Capital City of Prague ["Zprávy Elektrických podniků hlav. města Prahy"] – a magazine on energy-related topics

1940

The building of the facility for the calibration and testing of electricity metres was completed in Holešovice.

1945

During the Prague uprising, the network load did not exceed 40 MW, reaching barely half of the standard load at the time.

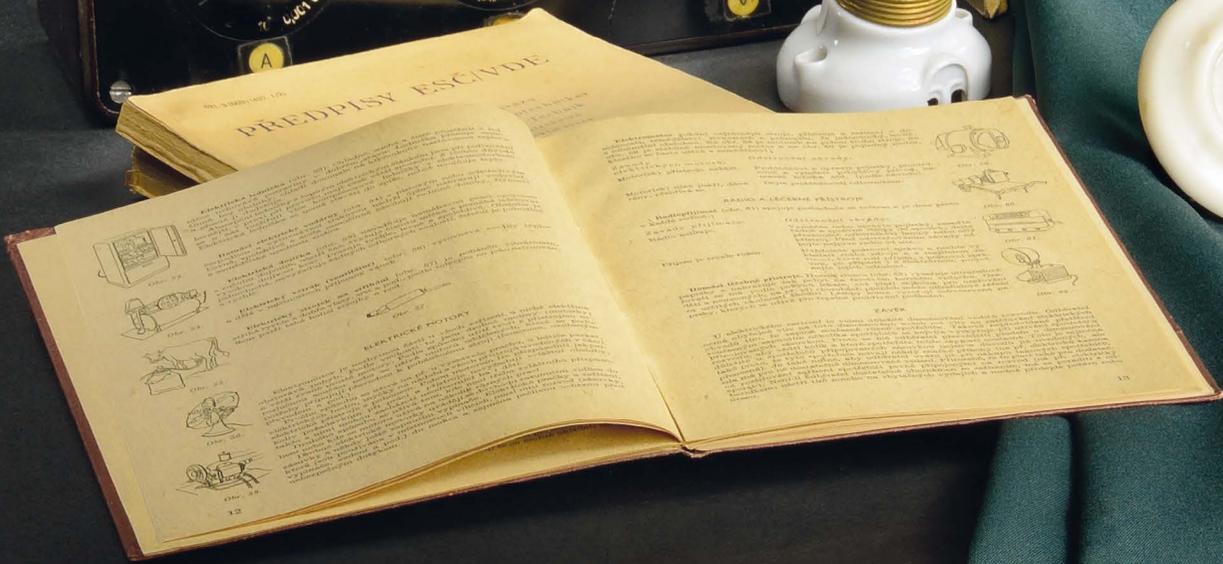
1946

A year after the nationalisation of all energy companies, the Electricity Works' power generation division became part of the national enterprise Central Bohemian Power Generation Company.

1955

Hrčava, a small mountain settlement close to the Czech-Polish-Slovakian border, was electrified as the last village in today's Czech Republic.

Nicht einschalten!
NEZAPÍNAT!



ESČ
1950



INTERNAL AUDIT, COMPLIANCE, OMBUDSMAN

INTERNAL AUDIT

The main aims of the PRE Group internal audit include independent expert assessment of the company's internal control and management systems and evaluation of compliance with the set rules and best practices. When planning internal audits, the risk level of individual processes, the extent to which a particular field has already been audited and suggestions from the PRE Group management are taken into consideration.

The outcome of an internal audit is a final report on internal audit, which is debated by the PRE Group's top management. Twice a year, an internal audit activity report is submitted to the Board of Directors for approval. Implementation of corrective measures is monitored through the Audit Tracker web application.

In line with the adopted rules, the planned and requested audits carried out by the Internal Audit and Risk Management department in 2016 focused on selected key processes across the entire PRE Group including measures strengthening the internal control system. The findings related to the design of processes and strengthening control mechanisms as well as to compliance.

The Internal Audit and Risk Management department continued its cooperation on internal audits with the Ernst & Young consultancy in the form of co-sourcing. As in previous years, the internal audit team audited the environmental management system according to ISO 14 001 and the Safe Enterprise (Bezpečný podnik) occupational health and safety system; for the first time it carried out an audit of the energy management system according to ISO 50001.

In 2016, the Internal Audit and Risk Management department also carried out tasks in other fields, such as compliance or personal data protection. It also took part in the investigation of so called specific complaints related mainly to the requirements of the Energy Regulatory Office.

COMPLIANCE

All the companies of the PRE Group take great care to comply with legal rules and ethical rules of business conduct and apply these rules to standardised procedures and internal standards. They follow the PRE Group's Code of Ethics as well as the Code of Ethics for Traders in the Energy Sector. They fully recognise their social responsibility, which is reflected in all their activities.

Binding compliance rules apply in all the companies of the PRE Group. All employees are regularly educated about these matters and are required to act in an honest and fair way in compliance with these rules. The same attitude is expected from the companies' contractual partners.

Since 2016, when the compliance rules were amended following significant changes in the Act on Criminal Liability of Legal Entities, the compliance policy has included organizing internal seminars for all employees, which focus primarily on criminal liability of legal entities, data protection and secure use of IT tools.

The Compliance tab on the PRE Group intranet contains documents and important contacts, including e-mail addresses *compliance@pre.cz* and *interni.audit@pre.cz*, which can be used by employees for anonymous reporting of suspected violations of law, the Code of Ethics or other internal standards.

OMBUDSMAN

The PRE Group has had an ombudsman for three years. The number of issues brought to the ombudsman's attention by customers has been growing, having increased by almost a half year-on-year.

In 2016 the ombudsman dealt with a wide range of customers' issues, from enquiries about trade practices to various complaints to improvement suggestions.

The majority of disputes were resolved amicably and even though most of them were not deemed justified, customers greatly appreciated the forthcoming attitude and the effort to thoroughly investigate every issue raised.

As a result, the ombudsman continues to contribute to improving the quality of the provided services and protecting the good reputation of the PRE Group.

TRADING IN ELECTRICITY AND GAS

In 2016, PRE continued to procure electricity and gas for its customers both on futures markets and intraday markets in the Czech Republic and in Germany. It also successfully expanded its procurement activities to Austria. Thanks to the ability to procure both the commodities from multiple markets and the resulting flexibility, the company secures better purchase prices and as a result offers better sale prices to its end customers.

In 2016, several energy traders went out of business owing to the turbulent price changes on the market. Some entities face allegations of suspected tax fraud. These events prove PRE's good judgement in making a continued effort to improve and develop the process of managing the credit risks of its business partners. This process guarantees that the company does business only with trustworthy, stable and transparent business partners.

In 2016 the PRE Group's main suppliers of electricity and gas included its traditional business partners: EnBW Energie Baden-Württemberg AG, ČEZ, a.s., Alpiq Energy SE, Uniper Global Commodities SE (formerly E.ON), Vattenfall Energy Trading GmbH and RWE Supply & Trading GmbH. A considerable portion of electricity

was purchased from local producers of electricity from renewable sources in the Czech Republic, especially from biogas stations, biomass and hydroelectric power plants. Povodí Vltavy, s.p., which operates small hydroelectric power plants on the Vltava river, has been a long-term partner of the PRE Group supplying it with energy generated from renewable sources.

As a participant on the wholesale energy market, the company complies with all the obligations of a market participant imposed by Regulation (EU) No. 1227/2011 of the European Parliament and the Council on wholesale energy market integrity and transparency (the REMIT regulation) and Regulation (EU) No. 648/2012 of the European Parliament and the Council on OTC derivatives, central counterparties and trade repositories (the EMIR regulation).

SALES (B2B SEGMENT)

In 2016, electricity sales were greatly influenced by high volatility of prices on the energy exchange: in the first quarter the prices dropped and for the rest of the year gradually increased with one-off fluctuations. This created

a unique situation when a considerable portion of customers who waited for the change in price trends concluded contracts for electricity supply at the very end of the year.

In the B2B segment, the trend of tenders continued. Almost all state authorities and regional governments invited tenders in the form of electronic auctions in accordance with the Public Procurement Act. Throughout the year, the Czech Moravian Energy Exchange Kladno (Českomoravská energetická burza Kladno) saw a high level of activity; however, the number of tenders at the Prague Energy Exchange (PXE) decreased.

Big customers choose to procure electricity in segments at various points in time. In these cases, either individual procurements follow a prearranged time scheme, or, more often, customers choose independently when to procure the agreed amount of electricity. There was also a growing interest in procuring electricity on the spot market. The volume of electricity procured this way accounts for about 40% of the total B2B supply.

Fluctuations in electricity prices on the energy exchange made customers slightly more inclined to conclude multiannual contracts. The volume of contracts concluded for the period after 2017 increased by about 9% year-on-year. Following the activities of alternative suppliers, consultancies and organisers of electronic auctions, customer pressure on sale prices has been increasing noticeably.

Last year, the PRE Group continued to focus on the development of individual sales channels and new methods of selling energy. The total volume of electricity sold to customers on the MV and HV levels increased by 1.8% year-on-year. This increase reflects the development of our sales activities as well as the overall growth of the Czech economy. The volume supplied outside of the PREdi distribution territory again exceeded 1.5 TWh.

SALES (B2C SEGMENT)

In the B2C segment, PRE focused last year primarily on the development of sales retention activities aimed at stabilising the entire portfolio. These measures included an active campaign Spektrum 2016 targeting customers with products expiring in 2016. It offered customers attractive sale prices and fixation of the electricity price until 2018. As such, the campaign also served as a retention measure against competing offers from other suppliers. Customers whose products expire in 2017 are targeted by the campaign Speciální nabídka (Special Offer) launched in January 2017.

Since January 2016, the company has been offering a product called PREekoproud, which enables customers to contribute to the protection of the environment. PREekoproud customers are supplied electricity generated solely from renewable sources, primarily biogas stations and hydroelectric power plants. Eco-friendly origin of the PREekoproud electricity is guaranteed by a certificate from TÜV NORD Czech, s.r.o.

Another notable activity launched in 2016 was a passive campaign called Jubilant (Jubilee). It started in September 2016 to mark the 120th anniversary PRE celebrates in 2017.

In 2016, PRE's activities in the B2C segment also included organisational measures, which made the process of preparing and communicating sale activities more efficient. Most notably, business management of the call centre was transferred under the Sales section.

Thanks to PRE's sales activities, the balance of the number of B2C customers was positive. The supplied volume decreased slightly by 1.5% due to the considerably warm winter weather and austerity measures taken by customers in the previous years.

The PREmobil mobile virtual operator continued to develop its activities in 2016, offering customers attractive prices of mobile phone services, which can now be also purchased at a specialized counter at the PRE

Customer Centre on Jungmannova street.

2016 was the fifth year when PRE also supplied its B2B and B2C customers with natural gas. The volume of supplied natural gas increased by 33% year-on-year and the company plans to further expand its sales activities in this area.

SALES (eYello CZ, k.s.)

In line with its strategy, eYello focuses on the supply of electricity and gas to households and small businesses. Under the Yello Energy brand, it offers simple and clearly defined products at attractive prices, flexible and smooth communication and comfortable administration through the Moje Yello (My Yello) online portal. These qualities have helped the Yello Energy brand quickly establish itself as a reliable partner to its customers and gain a strong position among alternative energy suppliers.

The company's successful development continued in 2016: at the end of the year, it supplied electricity and gas to more than 24 thousand consumption points. Thanks to the stable growth of its customer portfolio and constant development of its products and services, the company secured its position among the top ten most dynamically developing electricity and gas suppliers in the Czech Republic.

CUSTOMER SERVICES

PRE constantly develops and enhances its customer services. PRE operates two customer centres conveniently located in the centre of Prague and the PRE call centre at the phone number 267 055 555. In addition, online contact and administration is becoming a preferred means of communication for customers. That is why the company is focused on making these services more efficient and user-friendly. Since 2016, PRE internal systems automatically generate text messages and e-mails, offering customers a simpler, faster and more straightforward communication alternative to the traditional paper form.

The PRE website also reflects the continuous effort to improve user experience: it provides detailed information about products and services in a user-friendly way and enables customers to make a contract with PRE easily from home. The website is gradually upgraded and optimised to meet customers' needs and preferences. From the website customers can also access the Moje PRE (My PRE) portal. The portal provides registered customers with an overview of their contracts with PRE and offers a wide range of administration possibilities, from

modifying contracts to switching products to online payments using dynamically generated QR codes and payment cards. In 2016, the number of customers registered on the portal increased by almost 42 thousand, making up the total of 230 thousand at the end of the year.

Number of calls answered by the PRE call centre

Year	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total	263,975	239,650	261,930	239,444	249,877	252,683	230,472	210,985	204,212

Number of e-mails answered by the PRE call centre

Year	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total	102,546	94,936	94,362	103,923	79,723	63,363	48,834	30,369	30,193

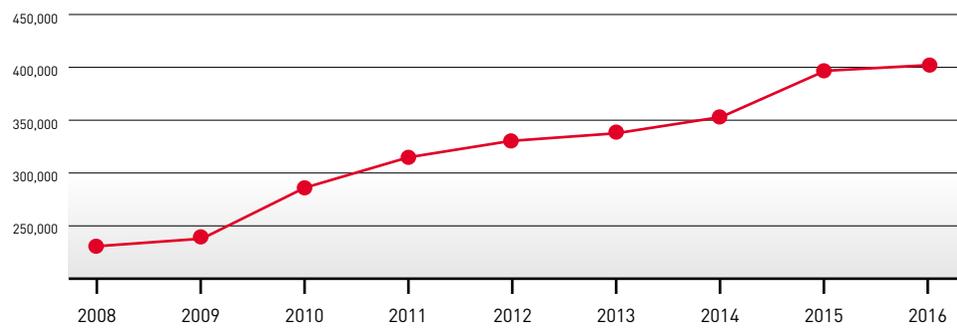
In accordance with Decree of ERÚ No. 70/2016 Coll., the structure and layout of invoices for electricity and gas was modified in 2016. It makes it easier for customers to quickly find the most important data, particularly the payment details and information about advance payments. In 2016 PRE started preparing a joint invoice to cater to customers with more contracts; from the first half of 2017,

they will receive a single invoice for all their consumption points for both electricity and gas. This will make it easier for them to keep track of their consumption points and reduce the number of payment transactions and paperwork.

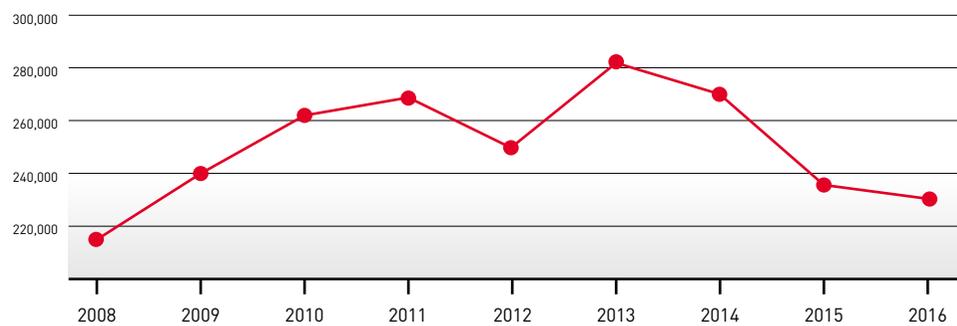
The charts and tables below show the total number of interactions with customers through different

communication channels. They also demonstrate the long-term trend of customers preferring more comfortable means of communication by phone or e-mail over customer centres. In 2016, call centre tools (phone and e-mail) accounted for almost two thirds of all customer interactions.

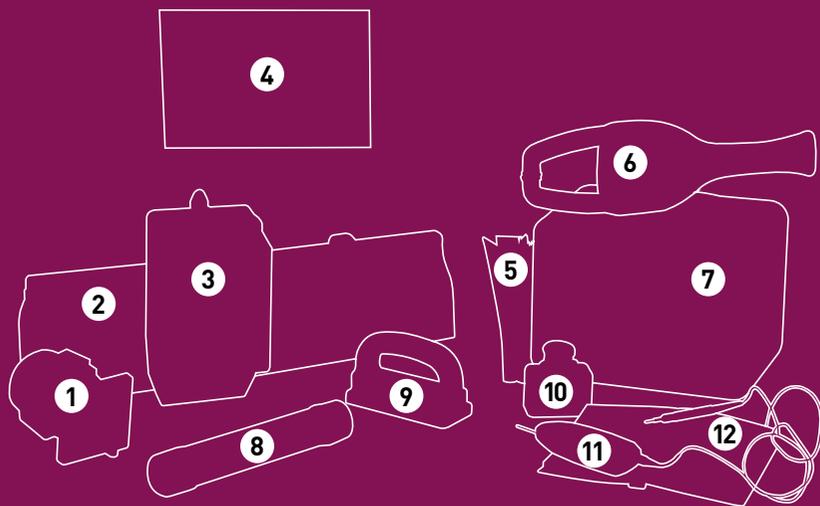
Number of contacts with the PRE call centre



Number of visits at the PRE customer centres



1960-1980



1 - Change-over switch 2 - Rheostat 3 - Mass remote control receiver 4 - Enamel warning sign 5 - Electrical engineering manuals 6 - Low-voltage clamp ammeter and voltmeter 7 - Transistor low-frequency generator 8 - High-voltage porcelain fuse 9 - Fuse handling tool 10 - Porcelain low-voltage fuse set 11 - Low-voltage tester 12 - Electrical engineering manual

1961

Czechoslovakia registered its millionth TV set owner. In the next two years, the number of TVs rose by half a million.

1964

The first nationwide congress of electric devices inspection technicians was held, co-organized by the Czechoslovakian Scientific Society and the Institute for Technical Supervision.

1974

The modernization of the city centre and the completion of Prague metro's third line necessitated opening a new modern transformer station, Praha-Střed.

1969

The first part of a utility corridor system was opened in Prague, allowing utility lines to be routed underground in densely populated areas.





PREmobilita

Throughout the year, the PRE Group continued to intensively develop the PREmobilita project, aiming to advance electric vehicles in line with global trends. Electric vehicles are becoming serious competition to classic combustion engine vehicles, particularly in large cities, where the resulting environmental benefits are the most apparent thanks to zero local emissions at the place of operation. The PREmobilita project is divided into several interrelated parts, which have one common denominator – electricity.

Charging stations

In 2016, 6 public charging stations (called PREpoints) started operating and 3 SM!GHT smart lamps were piloted. After the installation of a quick-charge station in the district of Černý Most, the focus of the PREmobilita project shifted back to the construction of standard AC 22 kW charging stations; these were installed in the Krakov shopping centre in Prague 8, the Andel's and Diplomat hotels in Prague, the Angelo hotel in Pilsen and at the company Fehrer Automotiv in Česká Lípa. Two SM!GHT smart lamps were installed in front of the PRE building in the Prague district of Vršovice and one at the exhibition grounds in Holešovice in cooperation with the company Rozvojové projekty

Praha, a.s. Consequently, the PRE Group operated a total of 42 charging stations in the Czech Republic at the end of the year. The stations are equipped with both standard Schuko 1x16 A sockets and, increasingly, Mennekes 3x32 A sockets, which enable much faster charging of electric cars. The demand for charging electric vehicles grew: as of the 31st of December 2016 we recorded more than 180 active users of public charging from PREpoints. In 2016, the consumption increased considerably again – customers “refuelled” more than 43 MWh of electricity. The PRE Group continues to cooperate with the BMW car manufacturer in the field of public charging; BMW customers can

charge their electric cars using an RFID card they get with their new cars.

In addition to the installation, operation and maintenance of public charging stations, PREm provides comprehensive services in the field of non-public charging infrastructure (so called wallboxes), which are used for charging by households and businesses. The demand for these services has been growing gradually as the number of registered electric cars and plug-in hybrids has been increasing. In the field of non-public charging, we continue to cooperate with the Volvo ČR car manufacturer, providing checks of electric sockets and wiring to customers. The portfolio of

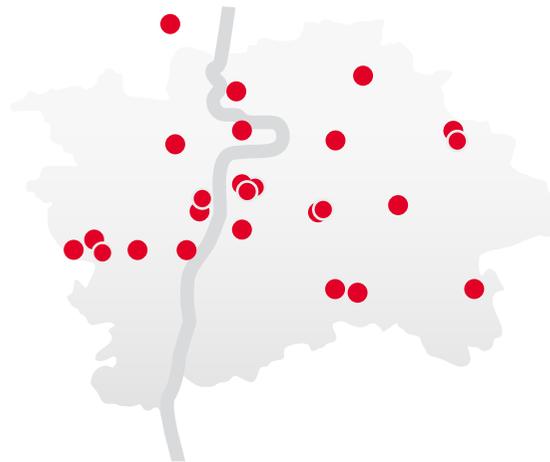
ELECTROMOBILITY AND SMART URBAN INFRASTRUCTURE BY PRE:

- **42 charging stations** for electric cars at the end of 2016 and counting
- **3 SM!GHT smart lamps** serving as charging stations for electric cars and bikes as well as Wi-Fi hotspots, equipped with emergency buttons and sensors monitoring, for example, air quality
- **more than 180 active users** of PRE charging stations, who “refuelled” more than 43 MWh of electricity in 2016
- **18 electric cars** in the company’s car fleet
- **more than 140 types of electric bikes** for sale and a wide selection of electric bikes to rent

Map of PREpoints in the Czech Republic



Map of PREpoints in Prague



PREmobilita services was enhanced by the rental of Volkswagen electric cars in mid-2016. Customers can rent VW e-UP! and VW e-Golf cars for a period of one month or more.

Electric cars

The PRE Group currently operates 18 electric cars: 17 Volkswagen e-UP! cars and one Mercedes-Benz Vito E-CELL electric van. The electric car fleet is being gradually renewed.

Electric bikes

The PREkolo project (www.prekolo.cz) entails the sale and rental of electric

bikes. At the PRE Service Centre in the TeTa passage at Jungmannova 747/28, customers can choose from more than 140 types of electric bikes of different brands or rent one. If a customer proceeds to buy a bike they have rented, the rental price is deducted from the purchase price. Hundreds of sold bikes in all price ranges and hundreds of rented bikes testify to the satisfaction of our customers. The PREkolo rental service also features electric kick scooters. PRE's customers get discounts and other advantages when buying or renting electric vehicles.

Exhibitions and events

In 2016, the PRE Service Centre hosted the 6th annual electromobility exhibition featuring dozens of electric bikes by different manufacturers. As it was a sales exhibition, customers could buy electric bikes for discounted prices directly on site. We plan to organize this successful event again in 2017. Throughout the year, PREm participated in three fairs (Solar Prague, For Bikes and For Arch) and a number of other events, such as the European Week of Mobility, the Day without Cars (Den bez aut) and the Prague cycling event Pražské cyklozvonění.

STRATEGIC DEVELOPMENT AND INVESTMENTS

PRE STRATEGY

PRE's framework strategic goal is stable and sustainable growth. In the period of 2014–2020, we aim to increase EBITDA by more than 10%. In order to achieve this objective, specific initiatives and measures were introduced in 2014 as part of an extensive review of the strategy. The strategy review in 2016 focused mainly on evaluating how the strategic measures had been implemented so far. When necessary, the measures were adjusted, reflecting, for example, the changes of the market environment. The planning horizon was expanded to 2025 to enable the company to better adjust its business activities to the long-term development.

The PRE Group's business activities include four main segments: distribution of electricity, sale of energy, energy services and generation of electricity from renewable sources. The operation of the distribution network in the capital and the sale of energy remain the essential pillars of the PRE Group's business. Apart from these traditional activities, the new segments of energy services and generation of electricity from renewable sources are gaining in importance.

Strategic growth initiatives entail primarily additional investments in selected areas of the business activity. The PRE Group will continue the trend of investing in the distribution network, which will support the development of decentralised sources and the introduction of smart technologies into the distribution infrastructure, laying the foundation for a smart city. In terms of unregulated activities, the company will continue focusing on the needs of its customers and on developing innovative products and services with added value. PRE will actively support the use of modern processes and technologies in everyday life, enabling its customers to use and generate energy in a simpler and more efficient way.

PREdistribuce, a.s.

The main task of PREdi is to maintain high operational reliability and security of networks and at the same time increase the value of the company for its shareholders. Every year, PREdi, therefore, develops and implements a long- and medium-term investment plan. It draws on the analyses of the network's technical condition,

transmission ability and operation reliability, real physical lifetime of individual network components and the possibilities of their efficient maintenance. The plan also takes into account the expected development in consumed output at the existing connection points as well as the development of customer demand for new connection points in built-up and developing areas of the city.

The investment plan, which is subject to checks by ERÚ, is structured around the individual categories of distribution equipment. Based on the data available, it deals with extended reproduction of network systems, taking into account expected customer demand and the corresponding development of load in individual localities. The investment plan also includes simple reproduction and adequate modernisation of the distribution equipment. The main objective of the modernisation and the planned repairs is to ensure required operational reliability and quality of distribution services expected by customers in Prague. The required quality of the supply and the related services is provided for by ERÚ secondary legislation. Unlike in previous periods, as of the

1st of July 2006 non-compliance with the guaranteed standards is penalised by payment obligation in accordance with Decree of ERÚ No. 540/2005 Coll., as amended.

Strategic investments

Following the investment plan approved by the shareholders, PREdi continued in 2016 with necessary and carefully planned renovations of the existing 110 kV and 22 kV networks and the equipment which is a part of the city's critical infrastructure and its failure could cause supply disruptions across a large territory, leading to a collapse of transport and the city's operation. Like every year, systematic renovation of the low voltage networks was carried out, including renovation of almost one hundred distribution transformer stations.

All construction in Prague has been coordinated with the planning departments of the Prague City Council and respects the urban plan.

The most significant strategic constructions in 2016:

- the completion of the modernisation of the Třeboradice transformer station, which PREdi bought from Pražská teplárenská a.s., in 2010;
- the completion of the construction and technological part of the Uhříněves transformer station;
- the completion of the Uhříněves cable tunnel for connecting the Uhříněves transformer station with 110 kV cables and leading out the 22 kV output;
- the completion of the construction part of the Karlín transformer station;
- the completion and pilot implementation of the SCADA dispatcher control system;
- the renovation of the 110 kV overhead power lines between the Červený vrch and the Sever transformer stations.

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

The main strategic constructions in 2017 which will continue in the coming years:

- the completion of the technological part of the Karlín encapsulated transformer station, including looping the 110/22 kV TR Holešovice – TR Střed cable to the Karlín transformer station and leading out the output using 22 kV cables to supply new areas around Rohanský island and parts of the district of Libeň (Švábky), which will also strengthen the supplied part of the district of Karlín;
- the completion and operation of the Uhříněves outdoor transformer station to meet the output needs of the south-east of the city, where the most failures of overhead 22 kV power lines in the ČEZ Distribuce, a.s., power supply area are recorded;
- starting the replacement of the 110 kV overhead power lines between the transformer stations Malešice and Jih, which are nearing the end of their operational lifetime, by 110 kV cable lines;

- the completion of the expansion of the Chodov transformer station by four 110 kV fields and a control system and renovation of the mass remote control transmitter;
- starting the construction of the tunnel complex at the Hlávka bridge connected to a new utility corridor and the Karlín transformer station, leading out the output to the city centre;
- the upgrade of the dispatcher control system in the Sever and the Červený vrch transformer stations.

In line with the new investment strategy from 2015, PREDi has also worked intensively on preparing the networks and the equipment for the implementation of smart grids including intelligent AMM metering, for when it is adequately provided for in Czech legislation. In 2017, several dozens 22/0.4 kV transformer stations will be “smartened”.

The implementation of smart technologies will enable PREDi to control, monitor and measure the network and transfer data remotely, ensuring the high reliability of the network. These future trends are a great challenge for the company's employees, mainly in terms of economy, achieving maximum energy savings and optimum customer services as well as asset management. Foreign studies show that the right combination of strengthening the distribution system and implementing new technologies satisfies a significant portion of demands on the distribution network ensuing from the integration of decentralised generation, charging stations for electric cars, and other elements.

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

PREměření, a.s.

In recent years PREm has supplemented its traditional metering activities with activities in the field of energy services and renewable energy sources. They have been increasingly contributing to the PRE Group's economic results.

PREm provides energy services primarily to households and small businesses. The main growth areas include the installation and servicing of small rooftop photovoltaic power plants that are exempt from having an ERÚ licence and can currently receive state subsidies, as well as products and services related to heating and water heating, installation and inspection of lighting, electro-installation and energy audits.

The company follows market trends in the generation of electricity from renewable sources and is ready to respond to developments in the framework conditions, in particular changes in the state support of renewable sources. It is a positive sign for the future that at the end 2016 the European Commission approved the support scheme for Czech renewable sources that started operating in 2006–2012.

PREm will increasingly engage in the field of electromobility, not only planning, constructing and operating charging infrastructure, but also developing concepts and products that will allow its customers easier access to electric vehicles. The company also wants to remain active in the related field of smart urban infrastructure. After installing the first three multifunctional SM!GHT smart lamps at the end of 2016, the company wants to continue these efforts in the future.

KORMAK Praha a.s.

The cooperation of Kormak with the PRE Group companies remains unchanged after the acquisition and is expected to increase further in the future. PREdi will remain the biggest consumer of its services in the field of design and construction of electrical equipment. The company's medium-term plan expects a gradual increase in contract volume. In the future, the company will engage in design and

construction works related to the latest trends in the energy industry, meeting the needs of the PRE Group, especially PREdi.

SELECTED FINANCIAL INDICATORS OF THE PRE GROUP

Indicator	Unit	2016	2015
Total income	CZK (Mill.)	18,942	19,126
Sales margin	CZK (Mill.)	6,716	6,239
Profit after tax	CZK (Mill.)	2,752	2,523
Sales margin from the sale of electricity and distribution per CZK 1 of revenue	%	36.3	33.2
Profit before tax per CZK 1 of total revenue	%	18.3	16.4
Regular liquidity	%	84.5	68.5
Equity proportion to total invested capital	%	64.3	62.1
Return on capital employed – ROCE	%	16.2	15.7
Total revenue labour productivity	CZK (Thous.)/employee	12,930	13,609
EBIT – operating profit/loss before interest and tax	CZK (Mill.)	3,472	3,180
EBITDA – profit before tax, interest and depreciation	CZK (Mill.)	4,589	4,297
Net cash flow after tax	CZK (Mill.)	2,883	1,773

HUMAN RESOURCES

Average adjusted number of employees

	2016	2015	2014	2013	2012
PRE	634	641	643	643	636
PREdi	513	513	514	515	511
PREm	238	244	239	231	226
Kormak	62	--	--	--	--
eYello	6	5	5	5	2
PRE Group	1,453	1,403	1,401	1,394	1,375

HUMAN RESOURCES MANAGEMENT

All personnel administration and wage calculations for the PRE Group, including services relating to occupational safety and environmental protection, are carried out centrally by the parent company.* In PRE, PREdi and PREm remuneration, healthcare and social policies are provided for by the collective agreement. Both tariff and non-tariff wages are used in the PRE Group; specific applications of the remuneration system are provided for by respective company standards. The SAP HR module is used for personnel administration.

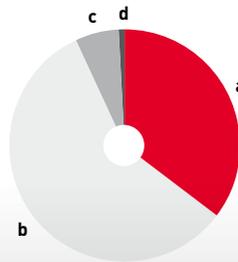
* With the exception of Kormak and Kormak nemovitosti, for whom only wage administration is carried out centrally (since the 1st of January 2017).

HEALTHCARE

Basic healthcare is provided to the employees in compliance with the applicable legal requirements for employers regarding occupational healthcare. It is provided at a medical office at the seat of the parent company by an occupational healthcare doctor from the Poliklinika Agel Praha Italská healthcare facility, which is operated by the contractual partner, Dopravní zdravotnictví, a.s. In addition to the legal requirements, the employees are provided with extra dental care and free preventive healthcare programmes. Most notably they include a breast cancer

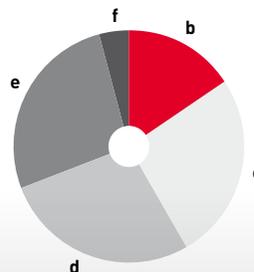
prevention and treatment programme, a preventive urological programme, preventive thyroid check-ups, and regular vaccinations against seasonal diseases and hepatitis A. Managers enjoy an extended preventive healthcare programme at the Na Homolce hospital and Pavel Kolář's Centre for Musculoskeletal Medicine.

PRE employees' qualification structure



a)	University	35.28%
b)	Secondary concluded by an exam (maturita)	57.92%
c)	Secondary and secondary vocational	6.17%
d)	Primary	0.63%

PRE employees' age structure



a)	Up to 20 years	0%
b)	20-30 years	15.66%
c)	30-40 years	26.11%
d)	40-50 years	27.53%
e)	50-60 years	26.74%
f)	Over 60 years	3.96%

SOCIAL POLICY

Social policy is considered one of the employer's key motivational tools. It reflects a long-standing commitment to provide a stable and strong social programme, which is enshrined in the collective agreement. Social care is provided in the form of universal and optional employee benefits and its scope more than meets the current requirements for high quality employee care. The social care programmes primarily aim to improve the employees' social conditions, living standards, working environment and healthcare. Specifically, they focus

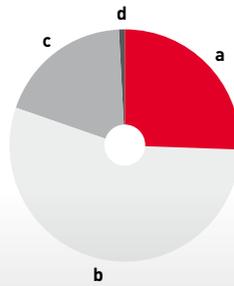
on catering, provision of interest-free social loans and home loans, occupational healthcare and additional preventive healthcare programmes, organisation of cultural and sporting events, offer of recreation and wellness programmes, family vacations and summer camps for employees' children, etc.

TRAINING

PRE actively promotes systematic training and development of its employees. It uses all available tools to ensure they have the necessary

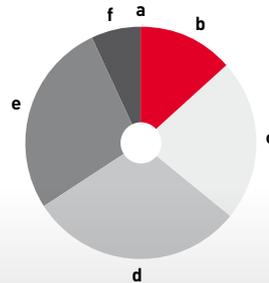
expertise and develop their knowledge and skills, which at the same time increases its competitiveness. Training and development programmes aim at providing all employees with required qualification and competences, including soft skills. The recruitment programme, which can take up to one year, enables secondary school and university graduates to adapt to the working environment and complement their theoretical knowledge with basic working experience. PRE also actively cooperates with secondary and tertiary vocational schools, providing their students with unpaid practical internships mainly in the field of power

PRE Group employees' qualification structure



a)	University	25.79%
b)	Secondary concluded by an exam (maturita)	54.72%
c)	Secondary and secondary vocational	18.74%
d)	Primary	0.75%

PRE Group employees' age structure



a)	Up to 20 years	0.07%
b)	20-30 years	13.41%
c)	30-40 years	22.64%
d)	40-50 years	29.89%
e)	50-60 years	27.08%
f)	Over 60 years	6.91%

engineering. Many graduates of the Faculty of Electrical Engineering of the Czech Technical University in Prague (FEL ČVUT) and Prague electrical engineering vocational schools, such as the František Křižík Secondary Vocational School and College of Electrical Engineering (VOŠ a SPŠ elektrotechnická Františka Křižíka), the Technical Business Vocational Training Centre (Centrum odborné přípravy technickohospodářské), and the Secondary Vocational School and College of Transport (SPŠ a VOŠ dopravní), have managed to successfully enter the job market thanks to the high-quality practical

experience gained at the PRE Group. Training and development sessions for employees often take place at the Polygon training and educational centre located at the Malešice distribution station. The parent company operates the training centre at its own cost to enable its employees and employees of cooperating companies to learn how to operate equipment, which is currently a part of the distribution network in Prague, in a safe environment. Getting familiar with distribution equipment and its safe operation in a simulated network is also part of practical internships for electrical engineering students. In 2016, a total

of 834 persons, of whom 299 were students, did a professional internship at the Polygon training centre.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL HEALTH AND SAFETY

Environmental responsibility, ensuring safe working conditions and protecting employees' health are among the top priorities of the PRE Group. Therefore, all the companies of the PRE Group strive through their activities to continuously improve in all these areas. Protection of the environment and employees' health is a significant part of the corporate culture.

More detailed information about environmental protection and occupational health and safety guidelines is available in educational presentations or electronic applications on the intranet, which are used for regular employee training. The system of training and information sharing makes employees better aware of the need to protect the environment and of occupational health and safety, which results in their continuous improvement.

ENVIRONMENTAL PROTECTION POLICY

One of the key steps in implementing the environmental protection policy is to enhance protective features by modernising distribution network

technical equipment. Improving the environmental protection policy in itself is a long-term effort. That is why, the EMS system (ISO 14 001) has been in place in PRE and PREdi since 2006 and been submitted for recertification every three years (last time in March 2015). It requires the companies to set annual goals in environmental protection. The current goal is to upgrade safety features to prevent leakages of harmful substances from the equipment, which further decreases the risk of water or soil contamination. For this purpose, older 22 kV/400 V oil transformers are being replaced by hermetically sealed or dry transformers. As part of renovations of 110/22 kV distribution stations, transformer foundations are being repaired or exchanged. To protect wildlife, devices preventing electric current injuries to wild birds are being installed.

A system of sorting waste and packaging, collecting dangerous and other waste and returning products has been set up at all the PRE workplaces. Employees are being educated about environmental protection; selected employees are further trained in the management of dangerous chemical substances and mixtures.

OCCUPATIONAL HEALTH AND SAFETY POLICY

PRE takes utmost care to promote occupational health and safety. For a number of years, it has held the Safe Enterprise (Bezpečný podnik) certificate, and its underlying principles are a key pillar of the corporate culture of occupational health and safety. PRE pays great attention to the protection of employees' health, for which it has repeatedly received the title Third Level Health Supporting Enterprise (Podnik podporující zdraví 3. stupně).

A high level of occupational safety is ensured in particular by a close dialogue between the PRE Group management and employees and by solving all important issues together. PRE has a system of corporate standards in place relating to health protection, preventive check-ups, personal protective equipment and risk analysis of individual work activities; the system ensures that both the employer and the employees meet their duties. PRE emphasizes full compliance with occupational safety guidelines and prevention of risk situations and emergencies.

PUBLIC RELATIONS

Good relationships with customers, business partners and the general public are one of the core values of all the companies of the PRE Group. It is reflected in their business activities and customer care as well as external communication and donor activities. PRE strives to be a reliable partner providing high quality services to its customers, guaranteeing transparent and fair treatment to its business partners, and contributing to the development of the region of the capital.

PHILANTHROPY

Active participation in making Prague a good and pleasant place to live and supporting socially beneficial projects and organisations is an inseparable part of PRE's corporate culture. The regional focus of these activities stems from PRE's city character and close ties to the region of Prague.

The donor activities, run by the parent company on behalf of the whole Group, emphasize socially beneficial aspects of philanthropy, supporting charities and projects in the field of healthcare, social services, education, the environment, culture and sports. Five years ago, PRE enhanced its donor

activities by starting cooperation with the Charter 77 Foundation (Nadace Charty 77), within which it established Fond PRE (PRE Endowment Fund). The aim is to use the resources to help address healthcare and social needs of individuals with disabilities and support organisations working with the disabled. The cooperation with the Charter 77 Foundation increases the efficiency of donor activities, as the foundation's staff cooperates with doctors and other professionals, has a perfect knowledge of the needs of the disabled, and can see specific real-life stories behind every application. As such, the Charter 77 Foundation is a guarantee to PRE that financial support really gets to those who need it the most at the time. Every year, PRE contributes CZK 3 million to the endowment fund, which is distributed among individual applicants. The Charter 77 Foundation concludes deeds of donation with the recipients. The maximum possible financial contribution to one project is CZK 200 thousand.

In 2016, total donations made by PRE amounted to CZK 7.6 million. The amount was used for 33 direct donations; another 91 donations were made from the endowment fund established within the Charter 77

Foundation. The average contribution to a project supported from the fund in 2016 was CZK 35 thousand.

As part of its donor activities, PRE has also enjoyed long-term cooperation with hospitals (e.g., General University Hospital in Prague – Všeobecná fakultní nemocnice v Praze, Burn and Plastic Surgery Clinics of the Královské Vinohrady University Hospital – Klinika popáleninové medicíny a Klinika plastické chirurgie FNKV), schools (e.g., Palestra College of Physical Education and Sport) and foundations and civic associations (e.g., Our Child Foundation – Nadace Naše dítě, Jedlička Institute Foundation – Nadace Jedličkova ústavu, VIZE 97, Drop of Hope Endowment Fund – Nadační fond Kapka naděje, Endangered Children Foundation – Fond ohrožených dětí, Sulická Children's Centre, Association of the SOS Children's Villages, Petýrkova Wheelchair Club, Life 90 – Život 90, POINT 50+, Šance Project, Blind Sport Club Prague, Quiet World – Tichý svět, and Prince Wenceslas Hospice – Hospic knížete Václava). PRE also supports disabled individuals, such as Pavla Výborná and her Open Studio (Otvřený atelier) and cyclist Jiří Bouška, who suffers from spastic movement disorder.

PRE SERVICE CENTRE

In 2016, the PRE Service Centre (CES), which succeeded the PRE Energy Advisory Centre founded in 2009, continued to develop its activities. The Centre offers energy services from the PREm portfolio to households and small businesses, which accent the use of modern technologies and efficient energy use. CES employees assist customers interested in renovation of gas boiler rooms in apartment buildings, upgrades of wiring, installation and servicing of small photovoltaic power plants on roofs of homes, installation of heat pumps or lighting renovation. The customers are provided with basic information about the services and referred to specialists, who work out the details of the project with them. In CES, customers can rent equipment for measuring consumption, detection sets and thermal cameras and buy electrical thermal devices and energy saving light sources at reduced prices.

CES also rents and sells electric bikes (www.PREkolo.cz). With 22 of the latest 2016 models, it is a rental service boasting the widest range of products in the Czech Republic. It also offers more than 140 types of electric bikes for sale. Hundreds of sold and rented bikes testify to customer satisfaction and advantages electric bikes present to cyclists not only in a city. PRE customers get discounts and other advantages when buying or renting bikes.

WEBSITES

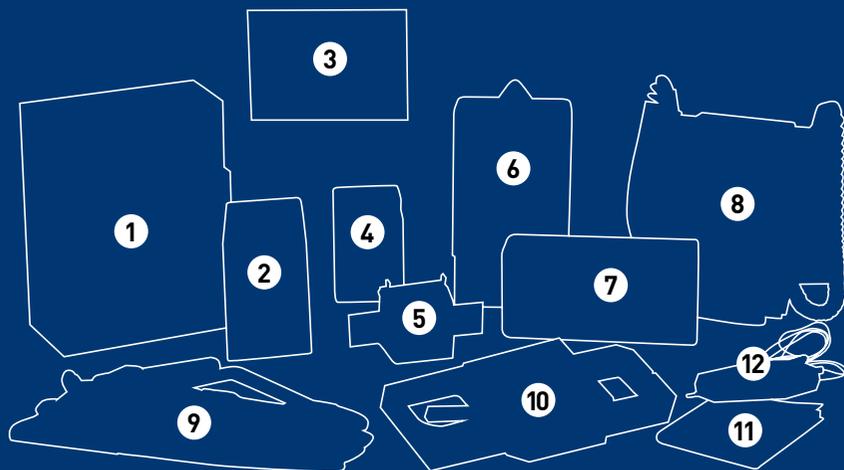
All companies of the PRE Group continuously strive to improve the quality of their customer services and tailor them to the needs and preferences of their customers. The websites of the parent company and its subsidiaries are not only a significant sales channel for products and services, but also an important information platform for PRE to comment on energy industry developments. The websites provide detailed information while remaining clearly structured, relevant and easy to navigate even for readers without a background in power engineering. As a result, they are praised by both users and experts, which was clearly demonstrated in the last few years, when they fared very well in the prestigious WebTop100 company website competition. In 2016, PRE's website won second place in the Industry and Power Engineering category, receiving jury's praise mainly for its user-friendliness.

MEMBERSHIP IN ORGANIZATIONS AND ASSOCIATIONS

The most notable organizations and associations the PRE Group companies belong to include: the Czech Association of Regulated Power Supply Companies (České sdružení regulovaných elektroenergetických společností), the World Energy Council – CR Energy Committee, ČK CIRED, the Czech Company Lawyers Association (Unie podnikových právníků ČR), the

Czech-German Chamber of Commerce and Industry (Česko-německá obchodní a průmyslová komora), the Czech Institute of Internal Auditors (Český institut interních auditorů), the Chamber of Commerce of the Capital City of Prague (Hospodářská komora hlavního města Prahy), the Czech Association of Energy Sector Employers (Český svaz zaměstnavatelů v energetice), the Association of Managers in the Energy Sector (Asociace energetických manažerů), the Czech Power Engineering Society (Česká energetická společnost), EDSO for Smart Grids, the Association of Electronic Commerce (Asociace pro elektronickou komerci), the Association of High Voltage Test Facilities (Asociace zkušeben vysokého napětí), the Club of Friends of the National Technical Museum in Prague (Klub přátel Národního technického muzea v Praze), ASEP – Association of the Electric Vehicle Industry (Asociace elektromobilního průmyslu), ANDE – Association of Independent Energy Suppliers (Asociace nezávislých dodavatelů energií) and the Czech Association of IT Managers (Česká asociace manažerů informačních technologií).

1981-2001



1 - Laboratory measuring device 2 - Universal measuring device 3 - Plastic warning sign 4 - Three-phase circuit-breaker
5 - Low-voltage knife fuse 6 - Mass remote control receiver 7 - Universal measuring device 8 - Measuring device for
technicians inspecting electric devices 9 - Equipment for working with live wires 10 - Low-voltage clamp ammeter and
voltmeter 11 - Electrical fitter manual 12 - Low-voltage tester

1994

The state-owned Prague Electricity Works transformed into today's joint-stock company, Pražská energetika, a.s.

1982

A mass remote control transmitter started operating in Malešice.

1995

The Czech transmission system was synchronously linked to West European systems, creating technical conditions for future cross-border trade in electricity.

1997

The company's new headquarters at Na Hroudě 1492/4 was completed, remaining its seat ever since.

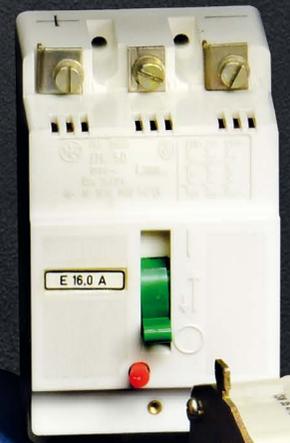


**VÝSTRAHA -
ŽIVOTU NEBEZPEČNO
DOTÝKAT SE
ELEKTRICKÝCH
ZAŘÍZENÍ!**



**NEHAS VODOU
ANI PĚNOVÝMI
PŘÍSTROJI!**

CHMD 8212 ČSN 14520





SUBSIDIARIES

PREdistribuce, a.s.

PREdistribuce, a.s., was established following the changes in the energy legislation aimed at harmonising the legislation of the EU member states. In 2004, Directive 2003/54/ES of the European Parliament and the Council concerning common rules for the internal market in electricity was transposed to the Czech legislation through an amendment to the Energy Act. This amendment started the process of unbundling aiming to separate the distribution of electricity from trading in electricity and to ensure that an electricity distribution licence is held by a separate company. Consequently, on the 7th of September 2005 Pražská energetika, a.s., founded a 100% subsidiary, PREdistribuce, a.s., where it transferred a part of its business (the Distribution division, i.e., the distribution system).

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

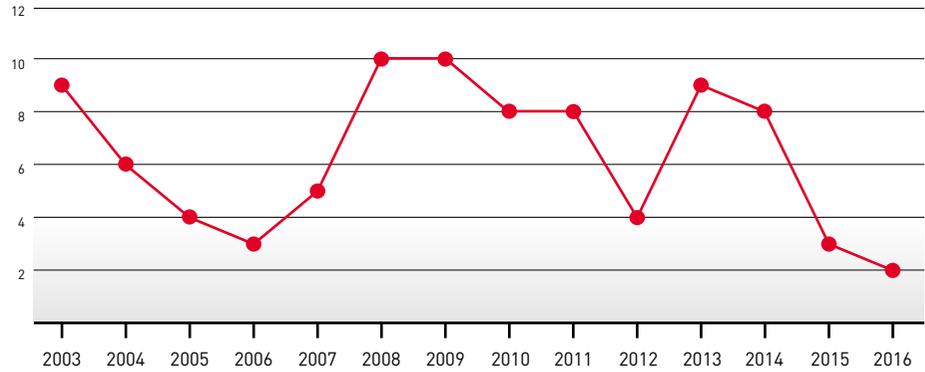
The scope of the company's business activities is in accordance with the Articles of Association.

Distribution network

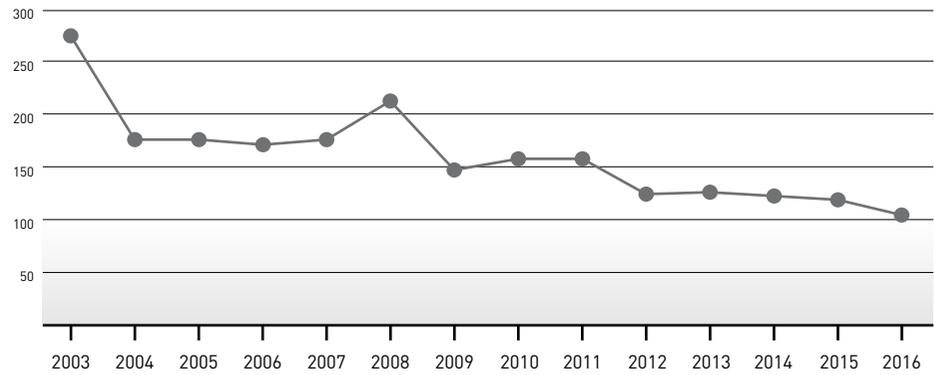
Distribution of electricity means all the processes and activities related to ensuring the transmission of electricity from generation points or transfer points with the transmission system to transfer points or consumption points of individual customers through the distribution system. The distribution system consists 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 transformer stations. The key processes and activities ensuring smooth distribution include development and renovation of network assets, connection of new customers, buildings and structural units, optimum control of the operation and resolving failures, maintenance and repairs of the network, and metering and transfer of data for the purpose of settling supplies in the distribution system. Distribution of electricity is subject to price and quality regulation by ERÚ. It aims to optimise costs and prices for the use of networks, while ensuring the adequate quality of electricity distribution and related services for users and customers.

The highest total load in the distribution network in history amounting to 1,209 MW was recorded on the 1st of December 2010. In 2016, the networks distributed more than 6.2 TWh on all voltage levels; all output and energy demands of existing and new customers and development projects in the licensed territory were met. Throughout the year, quality standards of electricity supply and related services were met with regard to the customers connected to the distribution system in accordance with Decree of ERÚ No. 540/2005 Coll., as amended.

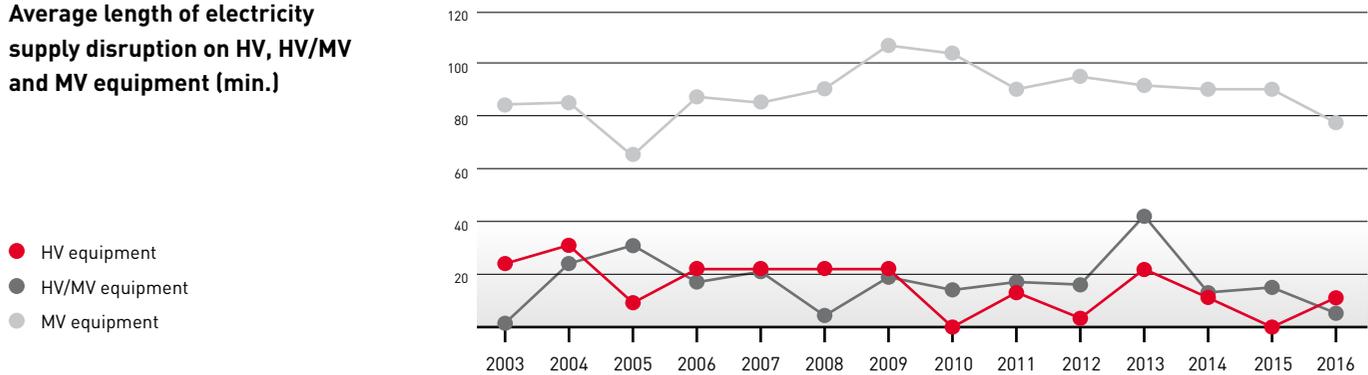
Number of HV failures



Number of MV failures



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



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

Indicator	Units	2016	2015	2014	2013	2012	2011
Maximum network load	MW	1,172	1,093	1,149	1,156	1,198	1,205
Length of the HV network	km	207	207	207	206	206	202
Number of HV/MV stations							
(PREdi/total)	pieces	22/23	22/23	22/24	22/24	22/24	22/24
Length of the MV lines	km	3,872	3,867	3,854	3,872	3,865	3,863
Number of MV stations	pieces	4,858	4,843	4,835	4,834	4,833	4,839
Number of MV/LV distribution stations	pieces	3,229	3,229	3,246	3,261	3,274	3,295
Length of the LV network	km	7,975	7,940	7,945	7,834	7,850	7,836

Number of enquiries answered by the Distribution Emergency Line

Year	2016	2015	2014	2013	2012	2011
Total	42,125	42,210	41,371	52,789	41,782	38,484
of which failures	8,018	11,726	13,900	22,943	15,935	17,364

Number of e-mails answered by the Distribution Emergency Line

Year	2016	2015	2014	2013	2012	2011
Total	6,208	5,470	5,722	4,916	2,860	1,156

PREměření, a.s.

The company was founded in 1998 under the name Cejchovna elektroměrů Praha, a.s. At the time, its business activities centred on the production, installation and repair of electrical machinery and devices, repair and installation of metering equipment, operation of the national metrological centre for checking metering equipment, and organisation of training and courses.

On the 24th of November 2005, the decision was made to change its name to PREměření, a.s. Following the

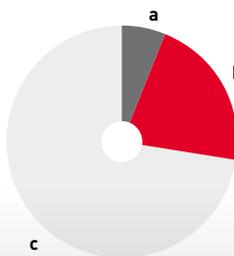
introduction of annual meter readings, PREměření assumed all the activities associated with energy metering on the LV level. On the 1st of January 2008, the organisational structure was adjusted to ensure smooth functioning of processes associated with electricity meters (administration of metering instruments, readings services and installation), and the provision of these services to external entities.

The scope of PREm activities has been gradually expanding, currently encompassing a number of fields. The company's activities in the traditional

segment of metering include the purchase of metering equipment, its testing and installation for the sister company PREdi and to a smaller extent the sale of metering equipment and selected electrical appliances to external customers. PREm carries out meter readings both for the PRE Group and for external customers – Pražská plynárenská Distribuce and Pražská teplárenská.

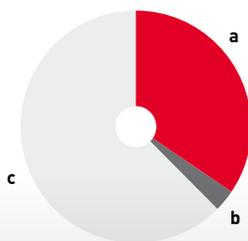
Another significant part of PREm's business activities are energy services. PREm offers a wide range of energy services including energy audits, design of lighting and

Number of electricity meters installations carried out in 2016



a)	Customer requests	4 Thous.
b)	New consumption	14 Thous.
c)	Verification	47 Thous.
Total		65 Thous.

Number of readings in 2016



a)	Gas	428 Thous.
b)	Heat	41 Thous.
c)	Electricity	773 Thous.
Total		1,242 Thous.

heating solutions, rental of metering equipment, electro-installation and inspection works, installation and servicing of photovoltaic power plants, construction and inspection of transformer stations, comprehensive decentralised energy supply solutions (gas boiler rooms, cogeneration units, etc.) and a wide range of services in electromobility (for more information see the section "PREmobilita"). The development of energy services is one of the strategic objectives of the PRE Group. PREm offers energy services primarily through the PRE Service Centre, having taken over the responsibility for its operation from the

parent company in 2014. The centre also rents and sells electric bikes (www.PREkolo.cz).

Since 2010, the company has also been active in the field of renewable energy sources. PREm's portfolio of photovoltaic power plants has grown considerably, especially in the last few years, currently consisting of 15 photovoltaic power plants with the total installed capacity of 23.5 MWp. Aside from electricity generation, the company energy services also include planning, construction and servicing of small photovoltaic power plants for customers. Customers find this

field especially attractive, as it offers savings on heating and water heating. Installation of small photovoltaic power plants is now supported by the New Green Savings (Nová zelená úsporám) subsidy programme; customers can receive a subsidy of up to CZK 100,000.

eYello CZ, k.s.

eYello CZ, k.s., is the legal successor of PREleas, a.s., which was established in 1996. Since the 1st of May 2014, its legal form has been a limited partnership company (with PRE being the general partner with 90% and PREm the limited partner with 10%). The company trades

Photovoltaic power plants operated by PREm

Photovoltaic power plant	Capacity [kWp]
Jinonice	173
Lhotka	60
Hrouda	28
Pražačka T002	90
Pražačka T003	18
Pražačka T004	30
Sever	204
Kondrac	1,109
Hořovice	1,087
Pozorka	3,998
Syrovice – Rajhradská	3,168
Syrovice – Ořechovská	3,168
Dačice	4,848
Mikulov	941
Pozořice	4,596
Total	23,518

in electricity and gas, and provides electricity and gas supplies in the entire Czech Republic.

Last year, the company operating under the Yello Energy brand maintained strong growth and placed in the top ten most dynamically developing electricity and gas suppliers in the Czech Republic. What sets it apart from other suppliers on the market is the simplicity and user-friendliness of its product portfolio, attractive prices and flexible and smooth communication without customer centres. As such, the Yello Energy brand is a valued addition to the PRE's successful product portfolio.

eYello draws on the experience of Yello Strom GmbH, an EnBW subsidiary, which has been a successful alternative supplier of electricity and gas in neighbouring Germany since 1999,

currently servicing around a million customers.

KORMAK Praha a.s.

KORMAK Praha a.s., whose history dates back to 1995, became a part of the PRE Group on the 14th of March 2016. Kormak provides a complete range of engineering, design and construction services for 0.4–35 kV electricity infrastructure and 22/0.4 kV transformer stations, carries out inspections and maintenance of LV and MV equipment and provides non-stop emergency services. Its activities also include installation of MV terminations and cable joints in the PREdi network and installation and maintenance of street lighting. The biggest consumer of its services in the field of design and construction of electrical equipment is PREdi.

After the March acquisition, the company started to become integrated into the PRE Group. Its cooperation with PREdi continues and is expected to develop further. In the future, the company expects to engage in design and construction works related to the latest trends in the energy industry, meeting the needs of the PRE Group, especially PREdi.

KORMAK nemovitosti s.r.o.

KORMAK nemovitosti s.r.o. owns and rents immovable assets and provides related services.

STRUCTURE OF SHAREHOLDERS

SHAREHOLDERS

All shareholders have access to important information about the company either directly on the company's website (www.pre.cz) or upon request from the Shareholder Administration department

(the Strategic Development and Relations with Shareholders section).

Thanks to making it available online, shareholders have virtually immediate access to information about important changes in the company.

Throughout the year, there were no significant changes to the structure of shareholders.

Main PRE shareholders (%)

As of 31.12.	2016	2015	2014	2013	2012	2011
Pražská energetika Holding a.s.	58.05	58.05	58.05	58.05	58.05	58.05
EnBW Energie Baden-Württemberg AG	41.4	41.4	41.4	41.4	41.4	41.4
Other entities	0.55	0.55	0.55	0.55	0.55	0.55

Structure of PRE shareholders (%)

As of 31.12.	2016		2015		2014		2013	
	Number of shareholders	Nominal value (CZK Thous.)	Number of shareholders	Nominal value (CZK Thous.)	Number of shareholders	Nominal value (CZK Thous.)	Number of shareholders	Nominal value (CZK Thous.)
Domestic shareholders	5,484	2,266,205	5,504	2,266,204	5,523	2,266,204	5,583	2,266,205
Foreign shareholders	13	1,603,238	13	1,603,239	10	1,603,239	10	1,603,238
Shareholders total	5,497	3,869,443	5,517	3,869,443	5,533	3,869,443	5,593	3,869,443
Natural persons	5,479	20,039	5,500	21,428	5,514	21,408	5,576	21,414
Legal persons	18	3,849,404	17	3,848,015	19	3,848,035	17	3,848,029

INFORMATION FROM THE GENERAL MEETING HELD IN 2016

The Annual General Meeting of Pražská energetika, a.s., held on the 23rd of June 2016

approved:

- the Report of the Board of Directors on the Company's Business Activities and Assets for 2015, as presented by the company's Board of Directors;

- the consolidated financial statements for 2015, as presented by the company's Board of Directors;

- the separate financial statements for 2015, as presented by the company's Board of Directors;

- the proposal for the distribution of 2015 profit, including determination of the amount of profit shares (dividends) and director's fees for 2015 and the method of paying them out;

- contracts on the performance of the duties of the newly elected members of the Supervisory Board including remuneration;

- the presented proposal for the total amount of gifts in 2017;

elected two new members of the Supervisory Board with effect from the 23rd of June 2016: Jörg Reichert, whose mandate as the substitute member of the Supervisory Board expired at the General Meeting; and Jaroslav Štěpánek, who was elected for the vacant position on the Supervisory Board;

granted to the new members of the Supervisory Board, Jörg Reichert and Jaroslav Štěpánek, the required approval to engage in activities subject to the prohibition of competition;

was presented with the report of the Supervisory Board including its statement on the Report on Relations.

INFORMATION REQUIRED BY LAW

Information about facts which occurred after the balance sheet day

No such facts have occurred.

Information about the projected development of the accounting unit's activities

The information is presented in the chapters "Report of the Board of Directors" and "Strategic development and investments".

Information about activities in research and development

The company does not systematically conduct activities in these fields.

Information about acquisition of own shares

The company did not acquire its own shares.

Information about whether the accounting unit has an organisational unit abroad

The company has an organisational unit in Slovakia, whose contribution to the total turnover accounts for less than 10%.

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

The information is presented in the chapters "Environmental protection and occupational health and safety" and "Human resources".

Information about objectives and methods of risk management in the company

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

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

The information is presented in the financial statements.

Information about interruption of business

The company did not interrupt its business during the year.

SUPERVISORY BOARD REPORT ON ACTIVITIES IN 2016

In accordance with the Articles of Association, the Supervisory Board consists of eight members elected by the General Meeting of the company. In compliance with the law and the Articles of Association, as a supervisory body it oversees the performance of the business activities of the company. The Supervisory Board also elects and removes members of the Board of Directors and approves contracts on performance of the duties of members of the Board of Directors, their remuneration and other benefits.

In 2016, five meetings of the Supervisory Board were held at the company's registered office. The meetings of the Supervisory Board were regularly attended by the Chairperson and the Vice-chairperson of the Board of Directors and by the members of the Works Council elected by the company's employees.

The Supervisory Board continuously monitored the activities of the company and key decisions of the Board of Directors. The Board of Directors regularly informed the Supervisory Board about the current developments in the company, the economic results and the financial situation of the company. To this end, it submitted written materials and its members commented on them when the materials were debated by the Supervisory Board.

In 2016, the Supervisory Board, amongst others:

- debated and reviewed the proposal for distribution of the 2015 profit as well as the submitted drafts of the consolidated and separate financial statements; and became acquainted with the auditor's reports on these statements;
- oversaw the developments in the operational activities of the company, in particular the developments in sales and turnover and receivables and liabilities;
- assessed the fulfilment of the top management's objectives for 2015;
- debated and reviewed the Report on Relations for 2015;
- approved the realization of the Kormak acquisition project;
- debated the Annual Report for 2015;
- debated the materials to be debated by the General Meeting of the company held on the 23rd of June 2016;

- elected Jaroslav Štěpánek to be the Chairperson of the Supervisory Board with effect from the 23rd of June 2016;

- elected Helmut Oehler to be the new member of the Board of Directors with effect from the 2nd of November 2016, replacing Marcus Bort, whose mandate expired on the 1st of November 2016;

- approved the economic plan for 2017 and took account of the draft plan for 2018–2019;

- approved a long term development strategy of the PRE Group for 2017–2025;

- approved the top management's objectives for 2017.

In 2016, the Supervisory Board underwent the following personnel changes:

- on the 23rd of June 2016, the General Meeting elected new members of the Supervisory Board with immediate effect: Jaroslav Štěpánek and Jörg Reichert, who was until then a co-opted member of the Supervisory Board.

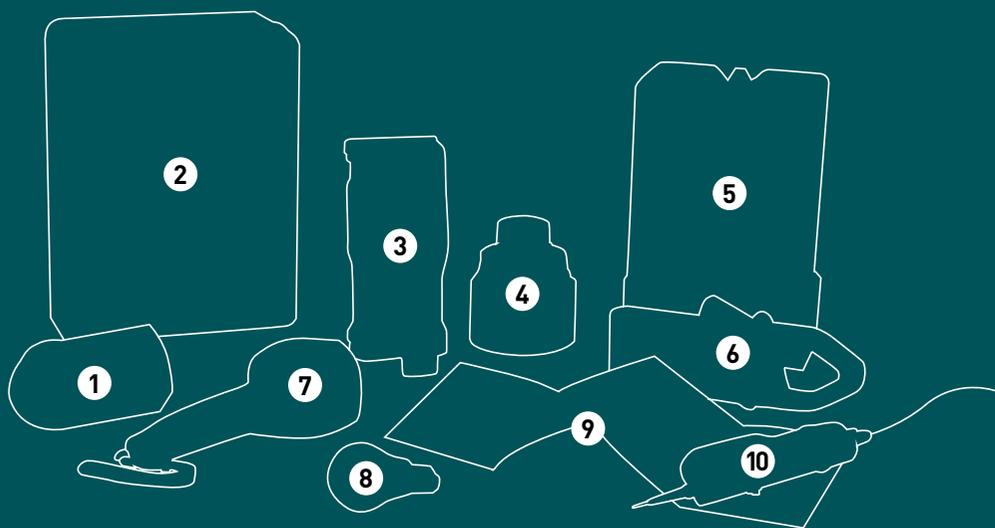
The Supervisory Board declares that the company's economic results in 2016 were very good and expresses its thanks to the members of the Board of Directors as well as the company's employees.

In Prague, 9th of March 2017



Jaroslav Štěpánek
Chairperson of the Supervisory Board

2002-2017



1 - Electricity consumption meter 2 - Charging station for electric cars 3 - Power line detector 4 - Cross-section of a 110 kV cable 5 - Three-phase electricity meter 6 - Low-voltage clamp ammeter 7 - Thermal camera 8 - LED light source 9 - Information leaflet 10 - Low-voltage tester

2003

In December, 6 kV and 10 kV networks ceased operating in Prague. Except for a few 3 kV transformer stations, medium voltage electricity distribution started to be carried out solely by the 22 kV network.

2004

The distribution network main dispatcher control centre started operating in a renovated building of a former transformer and distribution station on Nitranská street.

2011

PRE installed the first publicly available charging station for electric cars in Prague, at the Chodov shopping centre.

2017

The PRE Group celebrates the 120th anniversary of the founding of its legal predecessor – the Electricity Works of the Royal Capital City of Prague.





SUSICKÝ PRADLA

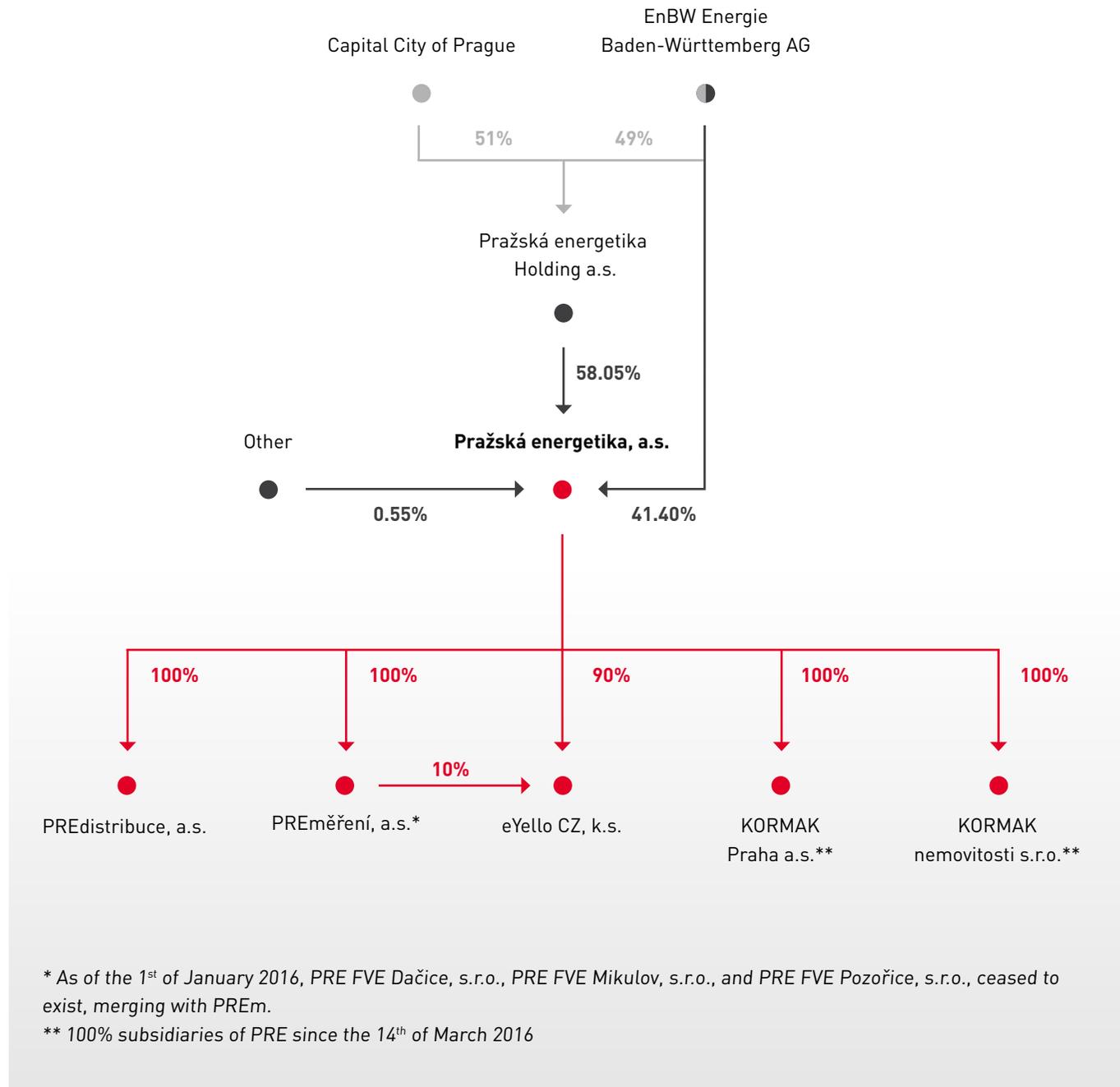
VÝHODY A NEVÝHODY SUŠICEK-

PRÁČKY A PRÁČKY SE SUŠICÍKOU

BOJLERY



REPORT ON RELATIONS



REPORT ON RELATIONS OF PRAŽSKÁ ENERGETIKA, A.S., FOR 2016

(Hereinafter **Report on Relations**) drawn up in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter the **Business Corporations Act**) for the accounting period of 1.1.2016 – 31.12.2016. The relations are described in a manner which respects the provisions of Section 504 of Act No. 89/2012 Coll., the Civil Code, concerning trade secrets, and by analogy with the provisions of Section 359 of the Business Corporations Act concerning restrictions of information provision.

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

I. Structure of the relations

Controlling entities:

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

EnBW Energie Baden-Württemberg AG, registered office Durlacher Allee 93, 76131 Karlsruhe, Federal Republic of Germany, registered in the Commercial Register maintained at the District Court in Mannheim, File ref. 107956 (**EnBW**), at the same time the managing

entity in accordance with Section 79 (1) of the Business Corporations Act

Controlled/managed entity:

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

The chart of the structure is shown on the previous side.

II. Role of PRE; method and means of control

PRE provides stable, environmentally friendly and efficient electricity supply to the capital and contributes to the development and improvement of energy infrastructure. The main activities of PRE and the PRE Group companies include trading in electricity and gas in the Czech Republic, distribution of electricity, its generation from renewable sources and complementary energy services.

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

EnBW holds PRE shares amounting to 41.40% of the PRE registered capital and exercises decisive influence over PRE according to Section 74 (1) and (3) of the Business Corporations Act. In compliance with Section 79 of the

Business Corporations Act, PRE is part of the EnBW corporate group and as such operates on the Czech energy market. EnBW controls and manages PRE through its representatives on the Board of Directors and the Supervisory Board.

Pursuant to the shareholders' contracts, the controlling companies, PREH and EnBW, exercise their control on the level of PRE and the control involves primarily PRE activities. The unified management does not apply to the activities of PRE's subsidiaries, which are managed only by PRE as their majority partner. The sole management of the subsidiaries falls under the remit of the PRE Board of Directors.

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

In 2016, no actions concerning assets exceeding 10% of the equity of PRE were carried out at the instigation or in the interest of the controlling entity or its controlled entities.

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

The overview of mutual contracts between the controlled entities has been prepared based on a list of controlled entities provided to PRE by the controlling entities.

I. Contracts concluded by PRE with PREH or with the entities controlled by PREH

Contract on the Location of the Registered Office and Provision of Related Services No. NG3530/05/2015/05 – in effect from 1.4.2015 for an indefinite period of time

Contract on Administration of Financial and Personnel Agenda with PREH – in effect from 15.8.2001 for an indefinite period of time, as amended

Contract on Medium-term Loan with PREH No. 2015 – in effect from 3.8.2015 to 3.8.2018

II. Contracts concluded by PRE with EnBW or with the entities controlled by EnBW

Contract on Corporate Cooperation with EnBW (on IT security) No. G3400/2024 – in effect from 28.4.2011 for an indefinite period of time

I&C Security Policy with EnBW (access to IS) No. G3400/2032 – in effect from 1.9.2011 for an indefinite period of time

General Contract with EnBW (access to and data processing in IDM) No. G3400/2068 – in effect from 28.11.2011 for an indefinite period of time

Subcontract on RS with EnBW (technical contract) No. G3400/2107 – in effect from 26.10.2012 for an indefinite period of time, as amended

General Contract on Exchange of Employees between PRE and EnBW – in effect from 23.10.2012 for an indefinite period of time

Contract on Handling of Matters – Health Insurance and Social Security Contributions and Calculation of Prepayment of Natural Persons Income Tax from Wage-earning Income and All Emoluments – in effect from 1.8.2012 for an indefinite period of time

Contract on Handling of Matters and Provision of Services with EnBW CZ, spol. s r.o. – in effect from 1.2.2012 for an indefinite period of time

Contract on Handling of Matters and Provision of Advisory and Administrative Services with EnBW CZ, spol. s r.o. – in effect from 1.2.2012 to 31.12.2017, as amended

Licence Contract with Yello Strom GmbH – in effect from 5.11.2012 to 5.11.2017

Contract on Market Access Provision through IMC with EnBW Trading GmbH (as of 1.5.2014 EnBW) No. G4400/2012/0003 – in effect from 20.12.2012 for an indefinite period of time

Contract on OTE Access Provision with EnBW Trading GmbH (as of 1.5.2014 EnBW) No. G4400/2013/0002 – in effect from 25.4.2013 for an indefinite period of time

Contract on the Creation of a Supply Consortium with PREdi and EnBW Regional AG (as of 1.2.2014 Netze BW GmbH) – in effect from 23.8.2013 until the execution of a potential public contract

Contract on the Execution of the Contract on the Creation of a Supply Consortium with PREdi and EnBW Regional AG (as of 1.2.2014 Netze BW GmbH) – in effect from 23.8.2013 until the execution of a potential public contract

Contract on Cooperation on Provision of EMIR Transaction Reporting with EnBW Trading GmbH (as of 1.5.2014 EnBW) No. G4400/2014/0001 – in effect from 23.4.2014 for an indefinite period of time

EFET Electricity Contract with EnBW Trading GmbH (as of 1.5.2014 EnBW) – in effect from 20.1.2005 for an indefinite period of time

EFET Gas Contract with Gasversorgung Süddeutschland GmbH – in effect from 13.9.2013 for an indefinite period of time

EFET Gas Contract with EnBW – in effect from 1.1.2015 for an indefinite period of time

Sublease Contract with EnBW for EnBW Organisational Unit – in effect from 12.1.2016 for the effective period of the lease contract

III. Contracts with subsidiaries

i) Contracts between PRE and PREdi

Contract on Provision of Services No. PS20000016/003 – in effect from 1.1.2016 to 31.12.2018
Lease Contract No. PS20000007/003 – in effect from 1.1.2007 to 29.2.2016, as amended
Lease Contract No. PS20000007/004 – in effect from 1.1.2007 to 29.2.2016, as amended
Lease Contract No. P200006/05 – in effect from 1.1.2006 to 29.2.2016, as amended
Lease Contract No. P200006/06 – in effect from 1.1.2006 to 29.2.2016, as amended
Contract on Lease of Non-residential Premises No. P200006/09 – in effect from 1.1.2006 to 29.2.2016, as amended
Contract on Lease of Garage Parking Space No. P200006/10 – in effect from 1.1.2006 to 31.3.2016, as amended
Contract on Lease of Non-residential Premises No. P200006/11 – in effect from 1.1.2006 to 29.2.2016, as amended
Contract on Electricity Supply to Cover Losses in the Distribution System and for the Own Needs of the Distribution System Operator No. P200006/14 – in effect from 1.1.2006 for an indefinite period of time
Contract on Provision of Short-term Loans No. P200006/22 – in effect from 30.11.2005 for an indefinite period of time, as amended
General Mandate Contract on Construction of Telecommunication Equipment No. P200006/27 – in effect from 2.5.2006 for an indefinite period of time
Licence Contract No. PS20000011/029 – in effect from 3.1.2011 for an indefinite period of time, as amended
Lease Contract No. NO21106/015 – in effect from 2.1.2006 for an indefinite period of time, as amended
Lease Contract – Plastic Advertisement Billboards No. NO21106/001 – in effect from 30.12.2005 for an indefinite period of time, as amended
Contract for Work – Administration, Operation and Maintenance of Optical Networks No. PS21000111/079 – in effect from 1.7.2011 for an indefinite period of time
Lease Contract No. PG3530/07/2008/22 – in effect from 1.8.2008 to 29.2.2016, as amended
Lease Contract No. NO21109/001 – in effect from 1.3.2009 to 30.6.2016, as amended
Lease Contract No. NO21109/006 – in effect from 1.4.2009 for an indefinite period of time
17 contracts on establishment of easement to place PREdi's distribution system equipment in PRE's immovable assets, concluded for an indefinite period of time
Contract on Establishment of Easement No. VV/G33/04457/08 – in effect from 31.3.2008 to 2.4.2048
Lease Contract No. NO21111/011 – in effect from 1.4.2011 for an indefinite period of time
General Contract on Provision of GPRS Module Installation Service No. PS20000013/033 – in effect from 25.10.2013 for an indefinite period of time
Contract on Sublease of the Distribution System No. N21112/012 – in effect from 1.2.2012 to 31.12.2016, as amended
Contract on Long-term Loan No. 1/2014, PS20000014/021 – in effect from 18.6.2014 to 18.6.2026
Contract on Long-term Loan No. 2/2014, PS20000014/030 – in effect from 26.11.2014 to 28.11.2026
Contract on Long-term Loan No. 1/2015, PS20000015/021 – in effect from 29.6.2015 to 29.6.2027
Contract on Combined Gas Supply Services No. PS21001015/015 – in effect from 1.11.2014 to 31.5.2016
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633025 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633226 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633022 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633026 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633021 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633024 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Non-residential Premises for Business No. NV/S21/1633027 – in effect from 1.3.2016 for an indefinite period of time
Contract on Lease of Garage Parking Space No. NV/S21/1634181 – in effect from 1.4.2016 for an indefinite period of time
General Contract on Electricity Distribution to Consumption Points of the Electricity Trader's Customers No. PS20000011/011 – in effect from 1.1.2011 for an indefinite period of time
PRE and PREdi have concluded contracts on the connection to the distribution system for all PRE's consumption points.

ii) Contracts between PRE and PREm

Lease Contract No. C00242/06 – in effect from 1.9.2006 to 29.2.2016, as amended
Lease Contract No. C00310/08 – in effect from 1.1.2008 to 29.2.2016, as amended
Contract on Lease of Garage Parking Space No. 62/35300/07/Ni (C00312/08) – in effect from 1.1.2008 to 31.3.2016
Contract on Lease of a Part of Real Estate No. C00441/10 – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on Lease of a Part of Real Estate No. C00453/10 – in effect from 1.11.2010 to 31.12.2035, as amended
Contract on Lease of Non-residential Premises No. PG3530/05/2013/04 (C00621/13) – in effect from 1.1.2013 to 31.3.2016
Contract on Lease of Non-residential Premises for Business No. NG3530/05/2014/14 (M5000/N/2014/0001) – in effect from 1.6.2014 to 31.3.2016
Lease Contract No. G3530/NO/01/2015/32289 (M5000/NV/2016/33018) – in effect from 1.3.2016 for an indefinite period of time, as amended
Lease Contract No. G3530/NO/03/2016/32451 (M5000/NV/2016/33228) – in effect from 1.3.2016 for an indefinite period of time, as amended
Lease Contract No. G3530/NO/05/2016/32421 (M5000/NV/2016/33030) – in effect from 1.4.2016 for an indefinite period of time, as amended
Lease Contract No. G3530/NO/05/2016/33671 (M5000/NV/2016/34134) – in effect from 1.4.2016 for an indefinite period of time, as amended
Lease Contract No. G3530/NO/05/2016/33808 (M5000/NV/2016/34760) – in effect from 1.4.2016 for an indefinite period of time, as amended
Contract on Provision of Short-term Loans No. C00186/05 – in effect from 30.11.2005 for an indefinite period of time, as amended
Contract on Telephone Equipment Use and Re-charging Costs of Telephone Lines Use No. 1226 (C00240/06) – in effect from 1.8.2006 for an indefinite period of time
Contract on Provision of Services No. G1200/2016/004 (M5000/O/2015/0008) – in effect from 1.1.2016 to 31.12.2018
Contract on Provision of Services No. G1200/2016/002 (M6100/O/2015/0103) – in effect from 1.1.2016 to 31.12.2018
Contract on Take-over of Rights and Obligations Arising from the Forwarding Contract dated 30.6.2000 No. P4212005/5 (C00311/08) – in effect from 1.1.2008 for an indefinite period of time
General Contract on Storage Heaters Installation No. C00384/09 – in effect from 3.9.2009 for an indefinite period of time, as amended
Contract on Personal Data Processing No. C00426/10 – in effect from 22.6.2010 for an indefinite period of time
Licence Contract on Using Trademark No.C00470/11 – in effect from 3.1.2011 for an indefinite period of time
Contract on Combined Electricity Supply Services – type MO No. SoSSE/6254022 (C00503/11) – in effect from 14.6.2011 for an indefinite period of time, as amended
Contract on Combined Electricity Supply Services – type MO No. SoSSE/6250517 (C00504/11) – in effect from 14.6.2011 for an indefinite period of time, as amended
Contract on Combined Electricity Supply Services – type MO No. SoSSE/6282725 (C00505/11) – in effect from 14.6.2011 for an indefinite period of time, as amended
Contract on Combined Electricity Supply Services – type MO No. SoSSE/6279473 (C00506/11) – in effect from 14.6.2011 for an indefinite period of time, as amended
Contract on Combined Electricity Supply Services – type MO No. SoSSE/6283505 (C00507/11) – in effect from 14.6.2011 for an indefinite period of time, as amended
Contract on Combined Electricity Supply Services – type MO No. SoSSE/6207319 (C00508/11) – in effect from 14.6.2011 for an indefinite period of time, as amended
Contract on Combined Electricity Supply Services – type MO No. SoSSE/6253998 (C00509/11) – in effect from 14.6.2011 for an indefinite period of time, as amended
Contract on Combined Electricity Supply Services No. M6100/E/2016/0004 – in effect from 23.11.2015 for an indefinite period of time, as amended
Contract on Electricity Supply to Cover Losses in the Distribution System and for the Own Needs of the Distribution System Operator No. 70001471 (M6100/E/2016/0133) – in effect from 31.10.2016 for an indefinite period of time
Contract on the Provision of Distribution System Services with Electricity Trader No. 1/2016 (M6100/E/2017/0007) – in effect from 31.10.2016 for an indefinite period of time
General Contract for Work No. C00519/11 – in effect from 29.9.2011 to 29.2.2016
Mandate Contract No. C00542/11 – in effect from 5.12.2011 for an indefinite period of time, as amended
Contract on Electricity Supply from Promoted Sources No. C00605/12 – in effect from 1.1.2013 for an indefinite period of time
General Contract for Work No. C00788/14 – in effect from 15.1.2014 to 21.1.2016
Contract on Mutual Marketing Support No. G4109/2015/0001 (M5100/SL/2015/0007) – in effect from 10.12.2014 to 31.12.2016
Contract for Work No. G3540/I/01/2016/042 (M6100/P/2016/0119) – in effect from 30.11.2016 to 31.12.2016
Contract for Work No. G3540/I/01/2016/043 (M6100/P/2016/0124) – in effect from 30.11.2016 to 31.12.2016
Contract for Work No. G3540/I/01/2016/044 (M6100/P/2016/0125) – in effect from 30.11.2016 to 31.12.2016
General contract for Work No. M6100/RS/2016/0002 – in effect from 21.1.2016 for an indefinite period of time
Servicing Contract No. G3530/S/10/2016/03 (M6100/SE/2016/0020) – in effect from 1.3.2016 for an indefinite period of time

Contract on Long-term Loan No. 1/2014 (C00806/14) – in effect from 28.2.2014 to 28.2.2022

Contract on Long-term Loan No. 2/2014 (C00807/14) – in effect from 28.2.2014 to 28.2.2023

Contract on Long-term Loan No. 3/2014 (C00808/14) – in effect from 28.2.2014 to 29.2.2024

Contract on Long-term Loan No. 4/2014 (C00809/14) – in effect from 28.2.2014 to 29.2.2024

Contract on Long-term Loan No. 5/2014 (M5000/O/2015/0004) – in effect from 8.12.2014 to 31.12.2021

Contract on Long-term Loan No. 1/2015 (G1020/PREM/2015/07, M5000/O/2015/0010) – in effect from 27.10.2015 to 29.10.2023

Contract on Long-term Loan No. 2/2015 (G1020/PREM/2015/08, M5000/O/2015/0011) – in effect from 27.10.2015 to 29.10.2023

Contract on Long-term Loan No. 1/2014 (M5000/DAC/2015/0015) – in effect from 8.12.2014 to 18.12.2024

Contract on Long-term Loan No. 1/2015 (G1020/Dačice/2015/04, M5000/DAC/2015/0013) – in effect from 27.10.2015 to 29.10.2024

Contract on Long-term Loan No. 1/2015 (G1020/Mikulov/2015/05, M5000/MIK/2015/0014) – in effect from 27.10.2015 to 29.10.2024

Contract on Long-term Loan No. 1/2015 (G1020/Požořice/2015/06, M5000/POZ/2015/0012) – in effect from 27.10.2015 to 29.10.2024

On the 1st of January 2016, PREm entered into all rights and obligations arising from contracts of PRE FVE Požořice, s.r.o., PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o.

iii) Contracts between PRE and eYello

Sub-licence Contract – in effect from 19.12.2012 to 5.11.2017

Sublease Contract – in effect from 1.6.2013 to 31.3.2021

General Contract on Electricity Supply No. G4100/2014/0043 – in effect from 1.1.2014 for an indefinite period of time, as amended

General Contract on Gas Supply – in effect from 1.10.2015 for an indefinite period of time

Contract on Marketing Costs Allocation – in effect from 1.7.2014 for an indefinite period of time, as amended

Contract on Provision of Services No. G1200/2016/005 – in effect from 1.1.2016 to 31.12.2018

iv) Contracts between PRE and Kormak

Contract on Combined Electricity Supply Services No. EAN 859182400306523826 – in effect from 14.12.2004 to 5.10.2016, as amended

Contract on Combined Electricity Supply Services No. EAN 859182400306523741 – in effect from 14.12.2004 to 5.10.2016, as amended

Contract on Combined Electricity Supply Services No. EAN 859182400306523673 – in effect from 14.12.2004 to 5.10.2016, as amended

Contract on Combined Electricity Supply Services No. EAN 859182400306523659 – in effect from 14.12.2004 to 5.10.2016, as amended

Contract on Data Security and Protection and on General Rules of Mutual Cooperation – in effect from 11.4.2016 for an indefinite period of time

Contract on Provision of Short-term Loans – in effect from 22.4.2016 or an indefinite period of time, as amended

v) Contracts between PRE and Kormak nemovitosti

Contract on Provision of Short-term Loans – in effect from 22.4.2016 for an indefinite period of time

Contract on Long-term Loan No. 1/2016 – in effect from 20.7.2016 to 29.7.2026

Contract on Combined Gas Supply Services No. 30005831 – in effect from 20.9.2016 for an indefinite period of time

Contract on Combined Gas Supply Services No. 30005832 – in effect from 20.9.2016 for an indefinite period of time

Contract on Combined Electricity Supply Services No. 7178072 – in effect from 6.10.2016 to 30.9.2018

Contract on Combined Electricity Supply Services No. 7178030 – in effect from 6.10.2016 to 30.9.2018

Contract on Combined Electricity Supply Services No. 7178075 – in effect from 6.10.2016 to 30.9.2018

Contract on Combined Electricity Supply Services No. 7178065 – in effect from 6.10.2016 to 30.9.2018

IV. Contracts between subsidiaries

i) Contracts between PREdi and PREm

Contract on Provision of Services No. PS20000016/004 (M5000/O/2015/0009) – in effect from 1.1.2016 to 31.12.2018
Contract on Supply of Defunct Metering Equipment No. S252007/003 (C00261/06) – in effect from 30.12.2006 for an indefinite period of time
Contract on Supply of Used Metering Equipment No. S252007/004 (C00260/06) – in effect from 30.12.2006 for an indefinite period of time
Contract for Work No. P20006/19 (C00203/06) – in effect from 1.3.2006 for an indefinite period of time, as amended
Contract on Lease of Land No. N21110/016 (C00418/10) – in effect from 1.4.2010 to 31.12.2030
Contract on Lease of Land No. N021110/004 (C00438/10) – in effect from 1.9.2010 to 31.12.2030
Contract on Lease of Land No. N21110/039 (C00436/10) – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on Lease of a Part of Real Estate No. N021110/005 (C00439/10) – in effect from 1.10.2010 to 31.12.2035, as amended
Contract on Supply of Metering Equipment No. KV/S25/1532051 (M5400/RS/2015/0007) – in effect from 1.1.2016 to 31.12.2018
15 contracts on the cooperation to perform work on unmeasured parts of electricity consumption equipment
Contract on Personal Data Processing No. PS20000013/038 (C00627/13) – in effect from 1.3.2013 to 28.2.2016
Contract on Personal Data Processing No. PS20000014/031 (C00783/14) – in effect from 14.1.2014 to 28.2.2016
Contract for Work on Adaptation of Consumption Points No. PS21005015/082 (eMR-111326) – in effect from 3.12.2015 to 31.12.2016
Contract on Provision of Service of the Distribution System from MV and HV with the Operator of Local Distribution System No. 80003131 (M6100/E/2016/0126) – in effect from 15.11.2016 for an indefinite period of time
2 contracts on the purchase of movable assets (an electric bike)
2 contracts on the purchase of movable assets (metering devices)
3 orders of separator installation
PREm and PREdi have concluded contracts on the connection to the distribution system for all PREm's consumption points.

ii) Contracts between PREdi and eYello

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

iii) Contracts between PREdi and Kormak

Contract on Provision of Dispatcher Control Services and Manipulation, Operation and Work No. PS23330216/011 – in effect from 1.1.2016 to 31.12.2016

Contract for Work – Provision of Professional Services in the Network of Pražská energetika, a.s., No. PS23000205/005 – in effect from 1.1.2006 for an indefinite period of time, as amended

Contract for Work – Graphic and Drawing Documentation No. PS21002012/004 – in effect from 15.2.2012 for an indefinite period of time

Contract on Personal Data Processing – in effect from 6.1.2009 for an indefinite period of time

General Contract for Work and Contract on Provision of Services No. PS20000016/017 – in effect from 14.3.2016 to 31.12.2018

7 contracts for work on the provision of design and engineering services for repairs of distribution system equipment

20 contracts for work on carrying out repairs of distribution system equipment

74 contracts for work on the provision of design and engineering services for construction of distribution system equipment

84 contracts for work on carrying out construction of distribution system equipment

iv) Contracts between PREdi and Kormak nemovitosti

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

v) Contracts between PREm and eYello

Contract on Mutual Marketing Support No. Y9101/2015/0007 (M5100/SL/2015/0046) – in effect from 7.7.2015 to 31.12.2016

Contract on Mutual Marketing Support No. Y9101/2016/0019 (M6100/SL/2016/0067) – in effect from 14.7.2016 to 31.12.2018

vi) Contracts between PREm and Kormak

General Contract on Provision of Servicing No. C00517/11 – in effect from 22.9.2011 for an indefinite period of time

Contract for Work No. M5100/P/2015/0075 – in effect from 1.12.2015 to 8.12.2016

Contract for Work – Design and Engineering Works No. M6100/P/2016/0033 – in effect from 29.6.2016 to 29.6.2017

5 contracts on inspection and maintenance of transformer stations

Contract on Purchase of MTP, MTN, including calibration No. OV-239/2016 – in effect from 19.1.2016 do 31.12.2016

vii) Contracts between Kormak and Kormak nemovitosti

Lease Contract on Group of Real Estate Including Fixtures and Fittings – in effect from 4.9.2013 for an indefinite period of time, as amended

Contract on Loan – in effect from 27.2.2014 to 29.7.2016

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

Neither PRE nor its controlled entities have incurred any damages from the relationships with the controlling entities or the entities controlled by any of the controlling entities or from the above mentioned contractual relationships. Transactions arising from the above mentioned contractual relationships are agreed in prices usual for the given contract type at the place and time; no preferential treatment was provided to one party or the other.

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

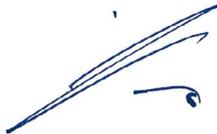
PRE has not incurred any damages or faced any risks beyond the degree usual in business relations between independent entities resulting from the relations with the controlling entities

or the entities controlled by any of the controlling entities, or from the above mentioned contracts.

Cooperation between PRE and the controlling entities or their controlled entities brings considerable advantages to PRE thanks to the acquired know-how and numerous synergies, which PRE can also achieve. In particular, PRE has access to the knowledge and experience of the EnBW corporate group, as well as to the technology used and the advantages it brings. There are no disadvantages arising for PRE from cooperation within the corporate group.

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

In Prague, 30th of March 2017



Pavel Elis
Chairperson of the Board
of Directors



Alexander Sloboda
Vice-chairperson of the Board
of Directors

APPENDIX NO. 1 TO THE PRE REPORT ON RELATIONS FOR 2016

CONTROLLED AND CONNECTED ENTITIES of EnBW

Sales

Fully consolidated companies	Company registered office
ED GrünSelect GmbH	Rheinbrückstraße 5/7, 79618 Rheinfelden Baden
EnBW Mainfrankenpark GmbH	Mainfrankenpark 2, 97337 Dettelbach
EnBW Vertriebsbeteiligungen GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
energieNRW GmbH	Höherweg 100, 40233 Düsseldorf
ESD Energie Service Deutschland GmbH (formerly ESD Energie Service Deutschland AG)	Zeller Straße 38, 77654 Offenburg
eYello CZ, k.s. (formerly eYello CZ, a.s.)	Kubánské náměstí 1391/11, 100 00 Prague 10
Gasversorgung Süddeutschland GmbH	Schulze-Delitzsch-Straße 7, 70565 Stuttgart
Gasversorgung Unterland GmbH	Weipertstraße 41, 74076 Heilbronn
NaturEnergie Aktiengesellschaft für Wasser- und Sonnenstrom	Am Wasserkraftwerk 50, 79639 Grenzach-Wyhlen
NaturEnergie+ Deutschland GmbH (formerly NaturEnergie+Deutschland GmbH)	Heilbronner Straße 40, 75417 Mühlacker
Sales & Solutions GmbH	Lyoner Str. 44-48, 60528 Frankfurt am Main
Watt Synergia GmbH	Lyoner Str. 44-48, 60528 Frankfurt am Main
Yello Strom GmbH	Am Grauen Stein 27, 51105 Köln
ZEAG Immobilien GmbH & Co. KG	Weipertstraße 41, 74076 Heilbronn
TRITEC AG	Heckenweg 29, CH-3270 Aarberg
Energie- und Medienversorgung Sandhofer Straße GmbH & Co. KG	Sandhofer Str. 116, 68305 Mannheim
Pražská energetika, a.s.	Na Hroudě 1492/4, 100 05 Prague 10

Related but unconsolidated companies	Company registered office
EZG Operations GmbH	Am Haffeld 2, 23970 Wismar
NatürlichEnergie Swiss NES GmbH	Baslerstrasse 44, CH-5080 Laufenburg
ZEAG Immobilien Verwaltungsgesellschaft mbH	Weipertstraße 41, 74076 Heilbronn
KEA-Beteiligungs-GbR	Schützenstraße 6, 70182 Stuttgart
grünES GmbH	Fleischmannstr. 50, 73728 Esslingen
Stromvertrieb Backnang Verwaltungs GmbH	Schlachthofstraße 6 - 10, 71522 Backnang
Energie- und Medienversorgung Sandhofer Straße Verwaltungs GmbH	Sandhofer Str. 116, 68305 Mannheim

Networks

Fully consolidated companies	Company registered office
ED Netze GmbH	Schildgasse 20, 79618 Rheinfelden
EnBW Kommunale Beteiligungen GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW REG Beteiligungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EVGA Grundstücks- und Gebäudemanagement GmbH & Co. KG	Kraftwerkstr. 1, 74847 Obrigheim
KORMAK nemovitosti s.r.o.	K Sokolovně 667/9, 104 00 Prague 10
KORMAK Praha a.s.	K Sokolovně 667/9, 104 00 Prague 10

Netze BW GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
Netze BW Wasser GmbH (formerly EnBW Stuttgart Wasser GmbH)	Schelmenwasenstraße 15, 70567 Stuttgart
Netze-Gesellschaft Südwest mbH	Nobelstraße 18, 76275 Ettlingen
Netzgesellschaft Düsseldorf mbH	Höherweg 200, 40233 Düsseldorf
Netzgesellschaft Ostwürttemberg DonauRies GmbH	Unterer Brühl 2, 73479 Ellwangen Jagst
NHF Netzgesellschaft Heilbronn-Franken mbH	Weipertstraße 39, 74076 Heilbronn
NWS Grundstücksmanagement GmbH & Co. KG	Kraftwerkstr. 1, 74847 Obrigheim
NWS REG Beteiligungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
PREdistribuce, a.s.	Svornosti 3199/19a, 150 00 Prague 5
PREměření, a.s.	Na Hroudě 2149/19, 100 05 Prague 10
RBS wave GmbH	Kronenstraße 24, 70173 Stuttgart
terraneis bw GmbH	Am Wallgraben 135, 70565 Stuttgart
TransnetBW GmbH	Osloer Straße 15-17, 70173 Stuttgart
EnBW Ostwürttemberg DonauRies AG	Unterer Brühl 2, 73479 Ellwangen Jagst
ZEAG Energie AG	Weipertstraße 41, 74076 Heilbronn
Erdgas Südwest GmbH	Siemensstr. 9, 76275 Ettlingen
NetCom BW GmbH	Unterer Brühl 2, 73479 Ellwangen Jagst
Stuttgart Netze Betrieb GmbH (formerly SWS Netzbetreiber GmbH)	Stöckachstraße 48, 70190 Stuttgart
Stadtwerke Düsseldorf AG	Höherweg 100, 40233 Düsseldorf
Stromnetzgesellschaft Heilbronn GmbH & Co. KG	Weipertstraße 41, 74076 Heilbronn
Neckar Netze GmbH & Co. KG	Rennstraße 6, 73728 Esslingen am Neckar

Related but unconsolidated companies**Company registered office**

Elektrizitätswerk Aach GmbH	Eltastraße 1-5, 78532 Tuttlingen
Energieversorgung Gaildorf OHG der EnBW Kommunale Beteiligungen GmbH und NWS REG Beteiligungsgesellschaft mbH	Burg 2, 74405 Gaildorf
Energieversorgung Raum Friedrichshafen GmbH & Co. KG	Schelmenwasenstraße 15, 70567 Stuttgart
Energieversorgung Raum Friedrichshafen Verwaltungsgesellschaft mbH	Kriegsbergstr. 32, 70174 Stuttgart
HEV Hohenloher Energie Versorgung GmbH	Orlacher Str. 1, 74532 Ilshofen
Konverter Ultramet GmbH & Co. KG	Osloer Straße 15-17, 70173 Stuttgart
Konverter Ultramet Verwaltungsgesellschaft mbH	Osloer Straße 15-17, 70173 Stuttgart
Neckar Netze Verwaltungsgesellschaft mbH	Rennstraße 6, 73728 Esslingen am Neckar
Netze Pforzheim-Region Verwaltungs GmbH (formerly EnBW Omega Neunundfünfzigste Verwaltungsgesellschaft mbH)	Sandweg 22, 75179 Pforzheim
Rieger GmbH & Co. KG	Friedrichstr. 16, 72805 Lichtenstein
Rieger Beteiligungs-GmbH	Friedrichstr. 16, 72805 Lichtenstein
Elektrizitätswerk Weißenhorn AG	Illerberger Straße 6a, 89264 Weißenhorn
Netze Pforzheim-Region GmbH & Co. KG	Sandweg 22, 75179 Pforzheim
Gasnetzgesellschaft Laupheim GmbH & Co. KG	Marktplatz 1, 88471 Laupheim
Gasnetzgesellschaft Laupheim Verwaltungs GmbH	Marktplatz 1, 88471 Laupheim
Netzgesellschaft Elz-Neckar GmbH & Co. KG	Hauptstraße 7, 74847 Obrigheim
Netzgesellschaft Elz-Neckar Verwaltungs GmbH	Hauptstraße 7, 74847 Obrigheim
Stromnetzgesellschaft Albershausen GmbH & Co. KG	Kirchstraße 1, 73095 Albershausen
Stromnetzgesellschaft Albershausen Verwaltungs GmbH	Kirchstraße 1, 73095 Albershausen

Stromnetzgesellschaft Heilbronn Verwaltungs-GmbH	Weipertstraße 41, 74076 Heilbronn
Stromnetzgesellschaft Laupheim GmbH & Co. KG	Marktplatz 1, 88471 Laupheim
Stromnetzgesellschaft Laupheim Verwaltungs GmbH	Marktplatz 1, 88471 Laupheim

Renewable sources

Fully consolidated companies	Company registered office
Aletsch AG	EnAlpin AG, Litternaring 2, CH-3930 Visp
Connected Wind Services A/S	Nyballevej 8, DK-8444 Balle
EnAlpin AG	Bahnhofplatz 1b, CH-3930 Visp
EnBW Albatros GmbH (formerly Northern Energy OWP Albatros GmbH)	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Biogas GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW He Dreih GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Hohe See GmbH & Co. KG (formerly EnBW Hohe See GmbH)	Fischertwiete 1, 20095 Hamburg
EnBW NAG-Beteiligungsgesellschaft mbH (formerly EnBW Omega Siebenundvierzigste Verwaltungsgesellschaft mbH)	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Offshore 1 GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Offshore 2 GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Offshore 3 GmbH (formerly EnBW Omega Sechsendsechzigste Verwaltungsgesellschaft mbH)	Durlacher Allee 93, 76131 Karlsruhe
EnBW Offshore Service GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Solar GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Wind Onshore 1 GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Wind Onshore 2 GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Wind Onshore Instandhaltungs GmbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Windkraftprojekte GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Windpark Eisenach II GmbH	Kronenstraße 26, 70173 Stuttgart
EnBW Windpartner GmbH (formerly EnBW Omega Neunundsechzigste Verwaltungsgesellschaft mbH)	Schelmenwasenstraße 15, 70567 Stuttgart
Energiedienst AG	Schönenbergerstraße 10, 79618 Rheinfelden Baden
Grünwerke GmbH	Höherweg 200, 40233 Düsseldorf
SCE Wind Bremervörde GmbH & Co. KG	Schelmenwasenstraße 15, 70567 Stuttgart
SCE Wind Ostercappeln GmbH & Co. KG	Schelmenwasenstraße 15, 70567 Stuttgart
SCE Wind Rositz GmbH & Co. KG	Schelmenwasenstraße 15, 70567 Stuttgart
SCE Wind Zernitz GmbH & Co. KG	Schelmenwasenstraße 15, 70567 Stuttgart
Windpark Niederlinxweiler GmbH & Co. KG	Kronenstraße 26, 70173 Stuttgart
Windpark Rot am See GmbH (formerly Windkraft Rot am See GmbH)	Schelmenwasenstraße 15, 70567 Stuttgart
Bürgerenergie Widdern GmbH & Co. KG	Rathausplatz 7, 74259 Widdern
EE BürgerEnergie Forchtenberg GmbH & Co. KG	Hauptstraße 14, 74670 Forchtenberg
EE BürgerEnergie Jagsthausen GmbH & Co. KG	Hauptstraße 3, 74249 Jagsthausen
EE BürgerEnergie Möckmühl GmbH & Co. KG	Hauptstraße 23, 74219 Möckmühl
EnBW Holding A.S.	Inonu Cad. 53/9 Gümüssuyu, TR- 34437 Istanbul
EE BürgerEnergie Boxberg GmbH & Co. KG	Kurpfalzstraße 29, 97944 Boxberg
EE Bürgerenergie Braunsbach GmbH & Co. KG	Geislinger Straße 11, 74542 Braunsbach

EE Bürgerenergie Ilshofen GmbH & Co. KG	Haller Straße 1, 74532 Ilshofen
Neckar Aktiengesellschaft	Schelmenwasenstraße 15, 70567 Stuttgart
EE Bürgerenergie Hardthausen GmbH & Co. KG	Lampoldshäuser Straße 8, 74239 Hardthausen am Kocher
Geothermie-Gesellschaft Bruchsal GmbH	Schnabel-Henning-Str. 1a, 76646 Bruchsal
JatroSolutions GmbH	Echterdinger Str. 30, 70599 Stuttgart
Energiedienst Holding AG	Baslerstrasse 44, CH-5080 Laufenburg
Rheinkraftwerk Neuhausen AG	Laufengasse, CH- 8212 Neuhausen
EnBW Baltic 1 GmbH & Co. KG	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Baltic 2 S.C.S.	1, Rue Hildegard von Bingen, L-1282 Luxembourg
EnBW Onshore Portfolio GmbH	Schelmenwasenstr. 15, 70567 Stuttgart
Kraftwerk Lötschen AG	Bahnhofplatz 1b, CH- 3940 Steg VS

Related but unconsolidated companies	Company registered office
Windpark Rot am See Infrastruktur GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
CarbonBW (Thailand) Ltd.	Soi Sukhumvit 63, TH-Bangkok
Connected Wind Services Danmark A/S	Nyballevej 8, DK-8444 Balle
Connected Wind Services Deutschland GmbH	Mühlenberg 19, 25873 Rantrum
Connected Wind Services Refurbishment A/S	Nyballevej 8, DK-8444 Balle
CWS-BD UG	Am Sandtorkai 41, 20457 Hamburg
EnBW Baltic 1 Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Baltic 2 Management S.a r.l.	7A, Rue Robert Stumper L-2557 Luxembourg
EnBW Baltic 2 Windpark Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Baltic Windpark Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Hohe See Management GmbH (formerly EnBW Omega Sechsuundsiebzigste Verwaltungsgesellschaft mbH)	Fischertwiete 1, 20095 Hamburg
EnBW Wind Onshore Verwaltungsgesellschaft mbH	Schelmenwasenstr. 15, 70567 Stuttgart
EnBW Windkraft Beteiligungsgesellschaft mbH (formerly EnBW Omega Dreiundfünfzigste Verwaltungsgesellschaft mbH)	Durlacher Allee 93, 76131 Karlsruhe
Grünwerke Verwaltungs GmbH	Höherweg 200, 40233 Düsseldorf
Kemberg Windpark Management GmbH & Co. Betriebsgesellschaft KG	Höherweg 200, 40233 Düsseldorf
Kriegers Flak ApS	Amerika Plads 37, DK-2100 København
Langenburg Infrastruktur GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
P-CWS 2012 A/S	Malmøgade 3, DK-2100 København
Svenska Connected Wind Services AB	Akarevägen 17, SE-311 32 Falkenberg
Windpark "Auf der Weißen Trisch" GmbH	Pirmasenser Straße 66, 66482 Zweibrücken
Windpark Borg GmbH & Co. KG	Rathausplatz 1, 66809 Nalbach
Windpark IBK GmbH & Co. KG	Rathausplatz 1, 66809 Nalbach
Windpark Webenheim GmbH & Co. KG	Rathausplatz 1, 66809 Nalbach
ZEAG Erneuerbare Energien GmbH	Weipertstraße 41, 74076 Heilbronn
JATROSELECT-Paraguay Sociedad de Responsabilidad Limitada	Paraguay
BürgerEnergie Königheim GmbH & Co. KG	Kirchplatz 2, 97953 Königheim
EE Bürgerenergie Bühlerzell GmbH & Co. KG	Heilberger Straße 4, 74426 Bühlerzell
EE Bürgerenergie Frankenhardt GmbH & Co. KG	Craillsheimer Straße 3, 74586 Frankenhardt
EE Bürgerenergie Hardheim GmbH & Co. KG	Schlossplatz 6, 74736 Hardheim

EE Bürgerenergie Höpfigen GmbH & Co. KG	Heidelberger Straße 23, 74746 Höpfigen
EE BürgerEnergie Krautheim GmbH & Co. KG	Burgweg 5, 74238 Krautheim
EE BürgerEnergie Neudenaу GmbH & Co. KG	Hauptstraße 27, 74861 Neudenaу
EE Bürgerenergie Sulzbach-Laufen GmbH & Co. KG	Eisbachstraße 24, 74429 Sulzbach-Laufen
Holzkraft Plus GmbH	Höherweg 100, 40233 Düsseldorf
NatürlichSonne Trogen GmbH & Co. KG	Auf der Grub 1, 54472 Monzelfeld
JatroGreen S.A.R.L.	Antananarivo/Madagaskar
Erneuerbare Energien Neckarwestheim GmbH & Co. KG	Marktplatz 1, 74382 Neckarwestheim
Alb-Windkraft Verwaltungs GmbH	Eybstr. 98-100, 73312 Geislingen
Solarpark Leutkirch GmbH & Co. KG	Marktstr. 26, 88299 Leutkirch im Allgäu
Solarpark Leutkirch Verwaltungsgesellschaft mbH	Marktstraße 26, 88299 Leutkirch im Allgäu

Production and trade

Fully consolidated companies

Company registered office

AWISTA Logistik GmbH	Höherweg 222, 40233 Düsseldorf
EnBW Biomasse GmbH	Am Erlengraben 5, 76275 Ettlingen
EnBW Etzel Speicher GmbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Grundstücksverwaltung Rheinhafen GmbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Kraftwerk Lippendorf Beteiligungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Rückbauservice GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Speicher GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
Gemeinschaftsheizkraftwerk Fortuna GmbH	Höherweg 222, 40233 Düsseldorf
Gesellschaft für nukleares Reststoffrecycling mbH	Im Steinbruch, 74382 Neckarwestheim
Heizkraftwerk Stuttgart GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
Kernkraftwerk Obrigheim GmbH	Kraftwerkstraße 1, 74847 Obrigheim
MSE Mobile Schlammwässerungs GmbH	Auf der Hub 35-39, 76307 Karlsbad
TAE Thermische Abfallentsorgung Ansbach GmbH	Durlacher Allee 93, 76131 Karlsruhe
TPLUS GmbH	Am Erlengraben 5, 76275 Ettlingen
TWS Kernkraft GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
u-plus Umweltservice GmbH (formerly U-plus Umweltservice AG)	Am Erlengraben 5, 76275 Ettlingen
EnBW Kernkraft GmbH	Kraftwerkstraße 1, 74847 Obrigheim
AWISTA Gesellschaft für Abfallwirtschaft und Stadtreinigung mbH	Höherweg 100, 40233 Düsseldorf
KNG Kraftwerks- und Netzgesellschaft mbH	Am Kühlturm 1, 18147 Rostock

Related but unconsolidated companies

Company registered office

Südwestdeutsche Nuklear-Entsorgungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
Zentraldeponie Hubbelrath GmbH	Höherweg 100, 40233 Düsseldorf
Nahwärme Düsseldorf GmbH	Höherweg 100, 40233 Düsseldorf

Other

Fully consolidated companies	Company registered office
ED Immobilien GmbH & Co. KG	Rheinbrückstraße 5/7, 79618 Rheinfelden Baden
ED Immobilien Verwaltungsgesellschaft mbH	Schönenbergerstraße 10, 79618 Rheinfelden Baden
EnBW City GmbH & Co. KG	Kraftwerkstraße 1, 74847 Obrigheim
EnBW Immobilienbeteiligungen GmbH (formerly EnBW Immobilienbeteiligungen GmbH)	Durlacher Allee 93, 76131 Karlsruhe
EnBW International Finance B.V.	Schouwburgplein 30-34, NL-3012 CL Rotterdam
EnBW Perspektiven GmbH	Durlacher Allee 93, 76131 Karlsruhe
Energiedienst Support GmbH	Schönenbergerstraße 10, 79618 Rheinfelden Baden
Facilma Grundbesitzmanagement und -service GmbH & Co. Besitz KG	Kraftwerkstr. 1, 74847 Obrigheim
Neckarwerke Stuttgart GmbH	Schelmenwasenstraße 15, 70567 Stuttgart
NWS Finanzierung GmbH	Durlacher Allee 93, 76131 Karlsruhe
SBZ Beteiligungen GmbH	Durlacher Allee 93, 76131 Karlsruhe
symbiotic services GmbH	Durlacher Allee 93, 76131 Karlsruhe
MURVA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Tölzer Str. 15, 82031 Grünwald
EnBW Versicherungsvermittlung GmbH	Calwer Straße 7, 70173 Stuttgart
Related but unconsolidated companies	Company registered office
EnBW CZ spol. s r.o.	Na Hroudě 1492/4, 100 00 Prague 10
EnBW New Ventures GmbH (formerly EnBW Omega Sechsfundfünfzigste Verwaltungsgesellschaft mbH)	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Achtundachtzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Achtundsechzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Achtundsiebzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Achtzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Dreiundachtzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Dreiundsiebzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Einundachtzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Einundsiebzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Fünfundachtzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Fünfundfünfzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Fünfundsechzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Neunundachtzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Neunundsiebzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Neunzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Sechsfundachtzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Siebenundsiebzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Siebzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Vierundachtzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Vierundfünfzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Zweiundachtzigste Verwaltungsgesellschaft mbH	Schelmenwasenstraße 15, 70567 Stuttgart
EnBW Omega Zweiundfünfzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe
EnBW Omega Zweiundsiebzigste Verwaltungsgesellschaft mbH	Durlacher Allee 93, 76131 Karlsruhe

EnBW Real Estate GmbH	Kraftwerkstraße 1, 74847 Obrigheim
EnBW Senergi Immobilien GmbH	Durlacher Allee 93, 76131 Karlsruhe
HQ Capital (Deutschland) GmbH	Am Pilgerrain 17, 61352 Bad Homburg v. d. Höhe
Interconnector GmbH (formerly EnBW Omega Siebenundsechzigste Verwaltungsgesellschaft mbH)	Durlacher Allee 93, 76131 Karlsruhe
KMS Verwaltungsgesellschaft mbH	Lautenschlager Str. 21, 70173 Stuttgart
SSG Verwaltungsgesellschaft mbH i.L.	Stammheimer Str. 10, 70806 Kornwestheim
WTT CampusONE GmbH (formerly EnBW Omega Fünfundsiebzigste Verwaltungsgesellschaft mbH)	Königsallee 43, 71638 Ludwigsburg
Pražská energetika Holding a.s.	Na Hroudě 1492, 100 05 Prague 10

AUDITOR'S REPORTS

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pražská energetika, a. s.

Having its registered office at: Praha 10, Na Hroudě 1492/4, 100 05

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Court in Prague, Section C,
File 24349
Id. Nr.: 49620592
Tax Id. Nr.: CZ49620592

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of Pražská energetika, a. s. for the year ended 31 December 2016 which is included in this annual report in the section 'Report on Relations'. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Pražská energetika, a. s. for the year ended 31 December 2016 contains material factual misstatements.

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

In Prague on 27 April 2017

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



Statutory auditor:
Václav Loubek
registration no. 2037



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pražská energetika, a. s.

Having its registered office at: Praha 10, Na Hroudě 1492/4, 100 05

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Pražská energetika, a. s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of Pražská energetika, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2016, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (the "Consolidated Financial Statements").

The separate financial statements comprise the separate statement of financial position as of 31 December 2016, separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information (the "Separate Financial Statements").

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2016, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Company in accordance with the Act on

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Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information in the Consolidated Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the Consolidated and Separate Financial Statements and auditor's report thereon. The Board of Directors is responsible for the other information.

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

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

- The other information describing the facts that are also presented in the Consolidated and Separate Financial Statements is, in all material respects, consistent with the Consolidated and Separate Financial Statements; and
- The other information is prepared in compliance with applicable law or regulation.

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

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated and Separate Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Board of Directors is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated and Separate Financial Statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

In Prague on 27 April 2017

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



Statutory auditor:
Václav Loubek
registration no. 2037



CONSOLIDATED FINANCIAL STATEMENTS FOR 2016

Consolidated financial statements of Pražská energetika, a.s., for the year ended December 31, 2016
Prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted by the EU

Consolidated income statement (CZK Thousand)

	Note	2016	2015
Revenues from electricity produced		326,656	318,114
Revenues from electricity and gas sold		18,154,633	18,454,231
Costs of electricity and gas sold		(11,765,716)	(12,533,497)
Gross profit from the sale of electricity and gas	(4)	6,715,573	6,238,848
Other operating income	(4)	334,227	325,804
Personnel expenses	(5)	(1,244,516)	(1,178,922)
Amortisation and depreciation	(13, 14)	(1,117,390)	(1,117,622)
Costs of purchased services, material and energy	(6)	(1,190,099)	(1,035,652)
Borrowing costs	(7)	(31,358)	(49,782)
Asset capitalisation	(8)	126,872	27,400
Other gains and losses	(9)	(152,890)	(80,056)
Profit from ordinary activity before tax		3,440,419	3,130,018
Income tax	(10)	(687,978)	(606,631)
Profit from ordinary activity after tax		2,752,441	2,523,387
Earnings per share attributable to ordinary shares (CZK)	(12)	711	652

Consolidated statement of comprehensive income (CZK Thousand)

	2016	2015
Profit from ordinary activity after tax	2,752,441	2,523,387
Revaluation of other financial assets	--	--
Cash flow hedging (item that may be subsequently reclassified to profit or loss)	101,847	(27,298)
Total other comprehensive income after tax	101,847	(27,298)
Comprehensive income attributable to shareholders of the parent company	2,854,288	2,496,089

Consolidated statement of financial position (balance sheet) (CZK Thousand)

	Note	2016	2015
Assets			
Property, plant and equipment	(13)	22,149,494	21,565,859
Intangible assets	(14)	283,326	191,068
Trade receivables and other receivables	(16)	53,978	48,886
Non-current assets		22,486,798	21,805,813
Inventories	(17)	54,287	44,483
Tax receivables		26,892	121,199
Trade receivables and other receivables	(16)	2,370,767	2,164,338
Cash and cash equivalents	(18)	298,605	214,858
Current assets		2,750,551	2,544,878
Total assets		25,237,349	24,350,691
Liabilities			
Share capital	(23)	3,869,443	3,869,443
Funds from profit	(24)	1,235,782	1,133,935
Retained earnings		11,116,078	10,110,280
Shareholders' equity attributable to the parent company's shareholders		16,221,303	15,113,658
Loans	(19)	3,190,000	3,202,000
Trade payables and other payables	(20)	52,099	46,250
Provisions	(22)	450,117	349,358
Deferred tax liability	(10)	2,067,758	1,922,492
Long-term payables		5,759,974	5,520,100
PLoans	(19)	25,129	1,061,092
Tax payables		344,282	138,364
Trade payables and other payables	(20)	2,762,366	2,399,347
Provisions	(22)	124,295	118,130
Short-term payables		3,256,072	3,716,933
Total liabilities		25,237,349	24,350,691

Consolidated statement of changes in equity (CZK Thousand)

	Share capital	Funds from profit	Retained earnings	Shareholders' equity attributable to the parent company's shareholders
Balance on 31.12.2014	3,869,443	1,162,035	9,333,397	14,364,875
Dividends and director's fees paid	--	--	(1,747,306)	(1,747,306)
Other comprehensive income	--	(28,100)	802	(27,298)
Net profit for 2015	--	--	2,523,387	2,523,387
Balance on 31.12.2015	3,869,443	1,133,935	10,110,280	15,113,658
Dividends and director's fees paid	--	--	(1,746,643)	(1,746,643)
Other comprehensive income	--	101,847	--	101,847
Net profit for 2016	--	--	2,752,441	2,752,441
Balance on 31.12.2016	3,869,443	1,235,782	11,116,078	16,221,303

Consolidated cash flow statement (CZK Thousand)

	Note	2016	2015
Opening balance of cash and cash equivalents		214,858	206,214
Operating activity			
Income from the sale and distribution of electricity and the sale of gas		17,728,801	17,916,665
Expenses related to the purchase and distribution of electricity and the purchase of gas		(10,930,114)	(12,110,185)
Net income from the sale and distribution of electricity and the sale of gas		6,798,687	5,806,480
Other operating income	(4, 9)	322,013	322,237
Operating expenses	(6, 9)	(1,155,803)	(1,038,121)
Cash flows from operating activities		264,306	47,819
Personnel expenses	(5)	(1,194,372)	(1,144,068)
Direct taxes paid	(10)	(469,699)	(449,793)
Financial expenses		(23,795)	(124,621)
Net cash flow from operating activity		4,541,337	3,419,933
Investment activity			
Income from the sale of fixed assets	(9)	7,781	34,545
Expenses related to the acquisition of fixed assets	(13, 14)	(1,665,966)	(1,681,077)
Net cash flow from investment activity		(1,658,185)	(1,646,532)
Financial activity			
External loans repaid	(19)	(1,055,114)	(3,527,096)
Dividends and director's fees paid	(11)	(1,745,481)	(1,745,661)
External loans received	(19)	1,190	3,508,000
Net cash flow from financial activity		(2,799,405)	(1,764,757)
Change in cash and cash equivalents		83,747	8,644
Closing balance of cash and cash equivalents	(18)	298,605	214,858

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(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 maintained by the Municipal Court of Prague 1 on the 1st of January 1994.

The Company's registered office is located at Na Hroudě 1492/4, Prague 10, 100 05, ID No.: 60193913.

The principal activities of PRE and its subsidiaries (hereinafter the "PRE Group" or the "Group") include the supply of electricity in the Czech Republic and distribution of electricity in Prague and in Roztoky, 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 Yello Energy brand.

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 Act No. 458/2000 Coll., the Energy Act, as amended, and the related implementation guidance.

PRE's principal shareholders	2016	2015
Pražská energetika Holding a.s. (PREH)	58.05%	58.05%
EnBW Energie Baden-Württemberg AG (EnBW)	41.40%	41.40%
Other	0.55%	0.55%
Total	100.00%	100.00%

The Company is under joint control of the Capital City of Prague (with an equity investment of 51%) and EnBW (with an equity investment of 49%).

EnBW owns 41.40% of the Company's share capital and exercises control over the Company in line with Section 74 (1) and (3) of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the "Business Corporations Act"). Under Section 79 of the Business Corporations Act, the Company operates on the Czech energy market as part of the EnBW group. The Company is controlled and managed by EnBW through its representatives on the Board of Directors and the Supervisory Board. Other information is disclosed in the Report on Relations. EnBW is the parent company as well as the ultimate controlling party of PRE.

(2) Adoption of new and revised International Financial Reporting Standards

Standards and interpretations effective in the current period

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

- **Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"** (effective in the EU for annual periods beginning on or after the 1st of January 2016);

- **Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IAS 1 “Disclosure Initiative”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IAS 16 and IAS 38 “Acceptable Methods of Depreciation and Amortisation”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”** (effective in the EU for annual periods beginning on or after the 1st of February 2015);
- **Amendments to IAS 27 “Equity Method in Separate Financial Statements”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to various standards “Improvements to IFRSs (cycle 2010–2012)”** (effective in the EU for annual periods beginning on or after the 1st of February 2015); and
- **Amendments to various standards “Improvements to IFRSs (cycle 2012–2014)”** (effective in the EU for annual periods beginning on or after the 1st of January 2016).

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

Standards 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 adopted by the EU were in issue but not yet effective:

- **IFRS 9 “Financial Instruments” (issued in July 2014)** (effective in the EU for annual periods beginning on or after the 1st of January 2018); and
- **IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014)** (effective for annual periods beginning on or after the 1st of January 2018).

The Group decided not to apply these standards 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.

New standards, interpretations and amendments to the current standards issued by the IASB but not yet adopted by the EU

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for the first annual IFRS financial statements for annual periods beginning on or after the 1st of January 2016);

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after the 1st of January 2019);
- **Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”** (effective for annual periods beginning on or after the 1st of January 2018);
- **Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”** (effective for annual periods beginning on or after the 1st of January 2018 or when IFRS 9 is applied for the first time);
- **Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”** (the effective date is yet to be stipulated);
- **Amendments to IFRS 15 “Clarifications to IFRS 15”** (effective for annual periods beginning on or after the 1st of January 2018);
- **Amendments to IAS 7 “Disclosure Initiative”** (effective for annual periods beginning on or after the 1st of January 2017);
- **Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”** (effective for annual periods beginning on or after the 1st of January 2017);
- **Amendments to IAS 40 “Transfers of Investment Property”** (effective for annual periods beginning on or after the 1st of January 2018);
- **Amendments to various standards “Improvements to IFRSs (cycle 2014–2016)”** (effective for annual periods beginning on or after the 1st of January 2017 or 2018); and
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after the 1st of January 2018).

The Group anticipates that the adoption of these new 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. The only exception is the new standard IFRS 16. The Group has not yet evaluated the full impact of its adoption.

(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.

Business combinations

Business combinations are accounted for using the acquisition method. The acquisition cost of the business combination corresponds to the sum of the consideration transferred, measured at acquisition-date fair value. The identifiable assets acquired and the liabilities assumed are recognised at their fair value. Acquisition-related costs are recognised in profit or loss as incurred.

Upon the acquisition of an entity, the Group assesses whether the financial assets acquired and the liabilities assumed are classified and defined as appropriate in accordance with their contractual, economic and other relevant conditions as of the acquisition date. Among others, the Group assesses the separation of embedded derivatives from host contracts.

Goodwill is initially measured as the excess of the sum of the consideration transferred and the amount of any non-controlling interests over the net amounts of the identifiable assets acquired and the liabilities assumed. If the fair value of the acquiree's net assets exceeds the consideration ("negative goodwill"), the Group first assesses whether the acquiree's identifiable assets, liabilities and contingent liabilities have been correctly defined and measured and the purchase price correctly determined. If, after the assessment, any potential differences remain, they are recognised directly in profit or loss.

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 flows over the expected life of the financial asset to that asset's net carrying amount as of the date of its first-time recognition.

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 Group capitalises borrowing costs related to the construction of qualifying assets in line with IAS 23. A qualifying asset is an asset that takes a substantial period of time during the investment construction to get ready for its intended use. The amount of capitalised borrowing costs is determined as the product of the capitalisation rate and the balances on the investments in progress account (including pre-payments) as of the end of the relevant month. The capitalisation rate is the average interest rate from external loans.

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. The calculated tax is recognised in profit or loss except when associated with items charged directly to equity in which case it is 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 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 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.

The estimated useful lives and depreciation methods are reviewed at the end of each reporting period and impacts of any changes in estimates are accounted for prospectively.

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 construction	7, 15, 20, 25, 30, 40, 50, 70
Cable tunnels, cable and overhead power lines	30, 40, 70
Fibre-optics	30
Power structures	15, 25, 30
Working machinery and equipment	5, 8, 10, 12, 20
Telecommunication equipment	4–21
Machinery and special technology equipment, communication cables	4, 5, 10
Vehicles	4, 8, 10
Electricity meters	10, 12, 16
Furniture and fixtures	4, 5, 6, 8, 10
Hardware	3, 4
Photovoltaic power plants – construction part*	20
Photovoltaic power plants – technology*	5, 10, 20

* The depreciation period is calculated from bringing the photovoltaic power plant 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 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 (or cash-generating unit) 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 are classified as at FVTPL or as other financial liabilities.

Financial liabilities at FVTPL include derivatives that do not function as effective hedging instruments. Financial liabilities at FVTPL are stated at fair value, with any resulting gain or loss arising from remeasurement recognised in profit or loss.

Other financial liabilities (including borrowings, trade payables and other payables) are initially recognised at fair value, increased by transaction costs and subsequently measured at amortised cost using the effective interest 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 in the consolidated statement of financial position as short-term receivables and short-term payables, 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 "Provisions"). The relevant provisions 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.

Change in the depreciation period estimate

Based on a partial review of the depreciation plan of PREdistribuce, a.s., and an increase in planning quality, the Board of Directors has decided to adjust the depreciation period in respect of part of assets. The change involved adjusting the periods of useful lives of the existing assets, which resulted in a decrease in annual depreciation charges of CZK 133 million. The greatest change was made to the depreciation of the construction part of cable tunnels from 40 to 70 years.

Internal audit principles and methods

The 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.

Significant accounting events and judgements in applying the accounting policies

Purchase price allocation

In 2016, the Company acquired 100% equity investments in KORMAK Praha a.s. and KORMAK nemovitosti s.r.o. Based on this business combination, the Company was obliged to account for the transaction using the acquisition method. Among others, the acquisition method includes the obligation to perform purchase price allocation.

As part of the purchase price allocation process, all assets, liabilities and contingent liabilities related to the acquired entities were identified. Furthermore, the useful life of the assets was determined, which was followed by the fair value measurement of assets and liabilities (including contingent liabilities). Lastly, the purchase price was allocated to individual assets and liabilities and deferred tax was calculated. The difference between the purchase price and the fair value of the assets and liabilities is referred to as goodwill and reported separately – refer to note 14.

Merger

As of the 1st of January 2016, PREměření, a.s., participated, as the successor company, in a merger by acquisition of PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o., and PRE FVE Pozořice, s.r.o., as the dissolving companies. As a result of the merger by acquisition, the net assets of the dissolving companies PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o., and PRE FVE Pozořice, s.r.o. were transferred to PREměření, a.s., as the successor company. The merger had no impact on the Group's consolidated financial statements.

(4) Revenues (CZK Thousand)

Income and expenses relating to the sale of electricity and gas	2016	2015
Income from electricity produced	345,371	335,414
Payment for solar energy	(18,715)	(17,300)
Total income from electricity production	326,656	318,114
Sale of electricity B2B	3,880,786	4,259,529
Sale of distribution and system services B2B	4,625,370	4,928,851
Sale of electricity B2C	2,796,735	2,854,558
Sale of distribution and system services B2C	6,271,970	6,041,471
Sale of gas including distribution services	269,802	189,990
Other income*	303,385	190,756
Gross profit from trading	6,585	(10,924)
Total income	18,154,633	18,454,231
Purchases of sold electricity	(5,672,269)	(6,179,829)
Purchases of distribution and system services	(5,890,628)	(6,192,070)
Purchases of gas	(202,819)	(161,598)
Total costs	(11,765,716)	(12,533,497)
Gross profit from the sale and production of electricity	6,715,573	6,238,848

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

Other operating income	2016	2015
Income from provided services*	133,546	126,765
Received investment contributions	171,773	167,132
Compensation for unauthorised consumption	17,850	22,403
Other	11,059	9,504
Total	334,227	325,804

* 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. The comparative period has been adjusted to include the "Asset capitalisation" item, which was allocated to a separate line in accordance with the materiality principle. The value of asset capitalisation in the prior period, which the Company reported under "Other operating income", amounted to CZK 27 million.

(5) Personnel expenses (CZK Thousand)

	2016	2015
	Staff including management	Staff including management
Average headcount	1,453	1,403
Payroll costs	727,668	695,867
Salaries paid depending on the fulfilment of the plan	64,211	59,219
Insurance	292,807	279,937
Remuneration to the members of the Group's bodies	45,133	39,773
Other social costs*	114,696	104,126
Total	1,244,516	1,178,922

* 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.

(6) Costs of services, material and energy (CZK Thousand)

	2016	2015
Material and own consumed energy	120,300	94,940
Subcontracts and transportation fees*	76,970	--
Repairs of tangible fixed assets	274,545	249,476
Consulting services	41,732	38,291
Rental charges	192,596	187,613
Postage and telecommunication fees	35,378	36,655
IT support	125,332	124,834
Marketing	95,357	98,411
Training and conferences	7,628	6,183
Other**	220,261	199,249
Total	1,190,099	1,035,652

* The item includes subcontracts and transportation fees as part of the services primarily in respect of KORMAK Praha a.s., which is engaged in the repairs and construction of new assets.

** Including the costs of the fee to the statutory auditor Deloitte Audit, s.r.o., for performing the audit of CZK 2,735 thousand (2015: CZK 2,735 thousand), the costs of HR services, cleaning services, security guard services, storage fees and other services.

(7) Borrowing costs (CZK Thousand)

	2016	2015
Interest on loan	29,904	47,543
Interest expense on employee benefits	931	1,498
Interest on leases	523	741
Total*	31,358	49,782

* A portion of borrowing costs of CZK 8,814 thousand (2015: CZK 11,965 thousand) was capitalised in line with IAS 23. The capitalisation rate amounted to 1.16% p.a. (2015: 1.70% p.a.).

(8) Asset capitalisation (CZK Thousand)

Asset capitalisation was allocated to a separate income statement line in accordance with the materiality principle. The value of asset capitalisation in the prior period, which the Company reported under "Other operating income", amounted to CZK 27 million. The amount of assets capitalised in the current period amounted to CZK 127 million. The significant year-on-year increase in asset capitalisation results from the acquisition of KORMAK Praha a.s. in March 2016, which provides entities from among the Group with services involving construction activities and tangible asset construction. The Group anticipates that the value of asset capitalisation will be similar or higher in coming years.

	2016	2015
First-time assembly and calibration of electricity meters	23,840	27,400
Own construction of distribution assets	103,032	0
Total	126,872	27,400

(9) Other gains and losses (CZK Thousand)

	2016	2015
Write-offs of doubtful debt and creation of allowances	(47,358)	(64,068)
Taxes and charges	(11,763)	(5,835)
Insurance premium	(5,747)	(6,999)
Foreign exchange rate gains (losses)	1,445	(7,512)
Profit from the sale and disposal of assets	2,897	11,308
Other*	(92,363)	(6,950)
Total	(152,890)	(80,056)

* Primarily includes the charge for provisions – refer to note 22

(10) 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.

	2016	2015
Current tax payable	572,719	491,786
Deferred tax	115,259	114,845
Total income tax	687,978	606,631

Effective tax rate	2016		2015	
Profit before tax	3,440,419		3,130,018	
Income tax using the effective income tax rate	653,680	19.00%	594,703	19.00%
Impact of items that are never tax-deductible	34,298	1.00%	11,928	0.38%
Total income tax / effective tax rate	687,978	20%	606,631	19.38%

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

	2016	Recorded in profit or loss	Recorded in equity	2015	Recorded in profit or loss	Recorded in equity	2014
Fixed assets	2,154,439	118,054	6,116	2,030,268	127,166	29,678	1,873,423
Provisions and allowances against receivables	(40,896)	1,191	--	(42,087)	(6,107)	--	(35,980)
Inventories	(367)	65	--	(432)	116	--	(548)
Obligation under the Collective Agreement	(65,557)	(4,051)	--	(61,506)	(6,330)	--	(55,176)
Cash flow hedge	20,139	--	23,890	(3,751)	--	(6,078)	(2,327)
Total deferred tax liability	2,067,758	115,259	30,006	1,922,492	114,845	23,602	1,784,045

(11) Dividends (CZK Thousand)

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

	2015	2014
Final dividend for 2015 of CZK 442 (2014: CZK 442) per share	1,710,294	1,710,294

The proposed final dividend for 2016 must be approved by shareholders at the Annual General Meeting. It has not been included in liabilities in these financial statements.

(12) Earnings per share (CZK Thousand)

Earnings per share are calculated from the net profit for distribution of CZK 2,752,441 thousand (2015: CZK 2,523,387 thousand) attributable to 3,869,443 shares, i.e., the earnings per share amount to CZK 711 (2015: CZK 652). The Group has issued no instruments that would dilute the basic earnings per share.

(13) Property, plant and equipment (CZK Million)

	Land	Power structures	Cables and overhead power lines	Telecom- munication technologies and IT	Admin- istrative buildings	Photo- voltaic power plants*	Electricity meters	Other	Invest- ments in progress	Total
Cost										
Balance on 31.12.2014	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
Additions	3.1	453.1	606.4	123.1	8.8	311.4	73.9	24.4	279.6	1,883.8
Disposals	(1.5)	(100.6)	(94.7)	(43.3)	(27.8)	--	(60.6)	(27.0)	(0.4)	(355.9)
Reclassification*	0.2	71.7	92.2	101.0	23.0	150.6	6.7	3.5	(295.9)	153.0
Reclassification and other	--	--	--	--	--	36.3	--	--	--	36.3
Balance on 31.12.2015	797.7	11,694.8	12,903.3	2,573.7	1,745.0	1,996.6	1,787.8	726.4	546.0	34,771.3
Accumulated depreciation										
Balance on 31.12.2014	(1.2)	(4,527.9)	(3,989.3)	(1,693.0)	(426.0)	(147.3)	(1,307.3)	(389.3)	--	(12,481.3)
Depreciation	--	(319.7)	(286.4)	(159.3)	(39.8)	(117.2)	(81.6)	(52.9)	--	(1,056.9)
Provisions	--	0.6	--	--	--	--	--	--	--	0.6
Accumulated depreciation on disposals	--	96.7	90.0	43.4	16.4	--	60.6	25.1	--	332.2
Reclassification	--	--	--	--	--	--	--	--	--	--
Balance on 31.12.2015	(1.2)	(4,750.3)	(4,185.7)	(1,808.9)	(449.4)	(264.5)	(1,328.3)	(417.1)	--	(13,205.4)
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
Net book value – 2015	796.5	6,944.5	8,717.6	764.8	1,295.6	1,732.1	459.5	309.3	546.0	21,565.9

* The amount of CZK 150.6 million relates to the allocation of the purchase price to goodwill (note 14) at the date of acquisition of PRE FVE Mikulov, s.r.o., PRE FVE Dačice, s.r.o., and PRE FVE Pozoříč s.r.o., which merged into PREměření, a.s. as of the 1st of January 2016.

	Land	Power structures	Cables and overhead power lines	Telecom- munication technologies and IT	Admin- istrative buildings	Photo- voltaic power plants	Electricity meters	Other	Invest- ments in progress	Total
Cost										
Balance on 31.12.2015	797.7	11,694.8	12,903.3	2,573.7	1,745.0	1,996.6	1,787.8	726.4	546.0	34,771.3
Additions	38.6	446.5	731.6	86.6	20.8	0.4	40.1	69.7	205.6	1,639.9
Disposals	(0.4)	(51.2)	(81.3)	(55.8)	--	--	(86.8)	(31.1)	--	(306.6)
Reclassification	--	79.8	80.2	89.9	15	--	15.5	19	(278)	21.4
Reclassification and other	--	--	--	--	--	--	--	(5)	--	(5.0)
Balance on 31.12.2016	835.9	12,169.9	13,633.8	2,694.4	1,780.8	1,997	1,756.6	779	473.6	36,121.0
Accumulated depreciation										
Balance on 31.12.2015	(1.2)	(4,750.3)	(4,185.7)	(1,808.9)	(449.4)	(264.5)	(1,328.3)	(417.1)	--	(13,205.4)
Depreciation	--	(288.9)	(309)	(162.7)	(39.3)	(120.8)	(88.1)	(55.3)	--	(1,064.1)
Provisions	--	--	--	--	--	--	--	--	--	--
Accumulated depreciation on disposals	--	51	81.3	55.8	--	--	86.8	23.1	--	298.0
Reclassification	--	--	--	--	--	--	--	--	--	--
Balance on 31.12.2016	(1.2)	(4,988.2)	(4,413.4)	(1,915.8)	(488.7)	(385.3)	(1,329.6)	(449.3)	--	(13,971.5)
Net book value – 2015	796.5	6,944.5	8,717.6	764.8	1,295.6	1,732.1	459.5	309.3	546	21,565.9
Net book value – 2016	834.7	7,181.7	9,220.4	778.6	1,292.1	1,611.7	427	329.7	473.6	22,149.5

Photovoltaic power plants	Installed capacity (kWp)	Licence	Acquisition
Mikulov photovoltaic power plant	941	2010	2014
Dačice photovoltaic power plant	4,848	2009/2010	2014
Požořice photovoltaic power plant	4,596	2010	2015
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	23,518		

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

(14) Intangible assets (CZK Million)

	Software	Goodwill	Other	Investments in progress	Total
Cost					
Balance on 31.12.2014	521.0	139.0	40.6	73.9	774.5
Additions	0.4	50.9	1.4	54.7	107.4
Disposals	(9.2)	--	(2.5)	--	(11.7)
Reclassification	54.7	(150.6)	0.3	(57.4)	(153.0)
Balance on 31.12.2015	566.9	39.3	39.8	71.2	717.2
Accumulated amortisation					
Balance on 31.12.2014	(445.2)	--	(31.9)	--	(477.1)
Amortisation	(56.1)	--	(4.6)	--	(60.7)
Accumulated amortisation on disposals	9.2	--	2.5	--	11.7
Balance on 31.12.2015	(492.1)	--	(34.0)	--	(526.0)
Net book value – 2014	75.9	139.0	8.8	73.9	297.6
Net book value – 2015	74.8	39.3	5.8	71.2	191.1

	Software	Goodwill*	Other	Investments in progress	Total
Cost					
Balance on 31.12.2015	566.9	39.3	39.8	71.2	717.3
Additions	6.3	78.5	9.5	72.6	166.9
Disposals	--	--	(2.4)	--	(2.4)
Reclassification	50.5	(21.4)	0.2	(50.7)	(21.4)
Balance on 31.12.2016	623.7	96.4	47.1	93.1	860.3
Accumulated amortisation					
Balance on 31.12.2015	(492.1)	--	(34.0)	--	(526.0)
Amortisation	(48.6)	--	(4.7)	--	(53.3)
Accumulated amortisation on disposals	--	--	--	--	0.0
Reclassification	--	--	2.4	--	2.4
Balance on 31.12.2016	(540.7)	--	(36.3)	--	(577.0)
Net book value – 2015	74.8	39.3	5.8	71.2	191.1
Net book value – 2016	83.0	96.4	10.8	93.1	283.3

* The Group's goodwill arose from the purchase of FVE Dačice, s.r.o., of CZK 33,839 thousand, FVE Pozořice, s.r.o., of CZK 5,306 thousand, and the purchase of KORMAK Praha a.s. and KORMAK nemovitosti s.r.o. of CZK 57,160 thousand.

The Group has no intangible assets developed internally.

The Group anticipates incurring total capital expenditure of approximately CZK 2 billion in 2017. Approximately CZK 1,013 thousand of all planned expenditure was 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	2016	2015
Low value tangible assets	317,311	317,506
Low value intangible assets	61,413	56,035
Total	378,724	373,541

(15) Subsidiaries (CZK Thousand)

Company	Principal activity	Ownership percentage
PREdistribuce, a.s.	Distribution of electricity in Prague and Roztoky	100%
eYello CZ, k.s.	Electricity and gas trading	100%
PREměření, a.s.	Electro-installation activities, meter readings and generation of solar energy	100%
KORMAK Praha a.s.	Construction and repairs of distribution facilities	100%
KORMAK nemovitosti s.r.o.	Lease of real estate, apartments and non-residential premises	100%

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

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

In March 2016, PRE acquired 100% equity investments in KORMAK Praha a.s. and KORMAK nemovitosti s.r.o. The acquisition will strengthen the Company's stability in respect of investments in the distribution network and decrease dependency on external suppliers. KORMAK nemovitosti s.r.o. is the owner of real estate which KORMAK Praha a.s. rents for its operations.

	2016	2015
Assets acquired and liabilities assumed from subsidiaries as of the acquisition date:		
Land, property and equipment	19	311
Loans, borrowings and other assets and liabilities	6	(233)
Cash	18	31
Fair value of the identifiable net assets acquired	43	109
Consideration transferred upon the acquisition of subsidiaries	122	160
less the fair value of the identifiable net assets acquired	(43)	(109)
Goodwill arisen upon the acquisition of subsidiaries	79	51

	2016	2015
Net cash flows upon the acquisition of subsidiaries		
Consideration transferred upon the acquisition of subsidiaries paid in cash	122	160
less the cash equivalents of the subsidiaries over whom control has been acquired	(18)	(31)
Net cash outflows upon the acquisition of subsidiaries	104	129

The goodwill which arose upon the allocation of the purchase price is not tax-relevant.

Goodwill	2016	2015
Balance on 1.1.	39	139
Additions from the business combinations performed during the year	79	51
Change in goodwill following purchase price allocation	(21)	(151)
Balance on 31.12.	96	39

In compliance with the accounting policies, an impairment test has been conducted in respect of goodwill, during which no impairment indicators were identified.

(16) Trade receivables and other receivables (CZK Thousand)

Trade receivables and other long-term receivables	2016	2015
Principal amounts paid, primarily for electricity trading	53,690	48,589
Other	288	296
Total	53,978	48,886

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

Trade receivables and other short-term receivables	2016	2015
Receivables from electricity and gas supplies	1,119,531	1,226,554
Receivables related to supplies and distribution services	196,694	318,192
Margin deposit with energy exchanges	64,848	32,430
Receivables from the revaluation of commodity contracts (trading portfolio)	625,561	251,497
Receivables from cash flow hedges	7,511	--
Other assets*	356,621	335,665
Total	2,370,767	2,164,338

* The item primarily includes prepayments made for distribution services, receivables to employees, etc.

Short-term trade receivables past their due date totalled CZK 422,619 thousand on a gross basis (2015: CZK 472,055 thousand). Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

Balance on 31.12.2014	277,834
Charge and drawing in the current year	39,882
Balance on 31.12.2015	317,716
Charge and drawing in the current year	(225)
Balance on 31.12.2016	317,491

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.

Aging of receivables	2015		
	Gross	Allowance	Net
Due receivables	1,395,319	--	1,395,319
Receivables less than 3 months past their due dates	70,153	39,560	130,593
Receivables between 4 and 12 months past their due dates	38,295	14,550	23,745
Receivables over 12 months past their due dates	263,607	263,607	--
Total short-term trade receivables	1,867,374	317,716	1,549,658

Aging of receivables	2016		
	Gross	Allowance	Net
Due receivables	1,226,440	14,628	1,211,811
Receivables less than 3 months past their due dates	120,182	17,726	102,457
Receivables between 4 and 12 months past their due dates	32,751	23,759	8,992
Receivables over 12 months past their due dates	269,686	261,378	8,308
Total short-term trade receivables	1,649,058	317,491	1,331,567

(17) Inventories (CZK Thousand)

Inventories	2016	2015
Material	31,331	26,234
Work in progress	865	--
Goods	22,092	18,249
Total	54,287	44,483

Costs of purchased and consumed material reported in the income statement amounted to CZK 269,908 thousand (2015: CZK 237,702 thousand).

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

Balance on 31.12.2014	3,234
Charge and drawing in the current year	(751)
Balance on 31.12.2015	2,483
Charge and drawing in the current year	(287)
Balance on 31.12.2016	2,196

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 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.

	2016	2015
Current bank accounts	292,072	209,550
Cash on hand	3,912	3,191
Stamps and vouchers	2,620	2,117
Total	298,605	214,858

(19) Loans (CZK Thousand)

	2016			2015		
	Amount	Interest rate	Maturity date	Amount	Interest rate	Maturity date
Loan 1	1,007,194	Fix 1.4%	1.7.2024	1,000,039	Fix 1.4%	1.7.2024
Loan 2	1,005,615	Fix 1.155%	8.7.2022	1,005,614	Fix 1.555%	8.7.2022
Loan 3	1,100,058	Fix 0.935%	25.6.2020	1,100,028	Fix 0.935%	25.6.2020
Loan 4	102,262	Fix 0.6%	3.8.2018	114,293	Fix 0.6%	3.8.2018
Loan 5	--			289,004	Fix 0.46%	4.1.2016
Authorised overdraft of current accounts	--			754,114	PRIBOR+0.35%	--
Total	3,215,129			4,263,092		
Long-term loans	3,190,000			3,202,000		
Short-term loans	25,129			1,061,092		
Total	3,215,129			4,263,092		

Loan 4 is the loan from the parent company, Pražská energetika Holding a.s.

Banks do not require loan collateral with regard to the Group's rating. Undrawn bank loans amounted to CZK 3,050 million as of the 31st of December 2016 (2015: CZK 2,007 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.

(20) Trade payables and other payables (CZK Thousand)

Long-term trade payables and other payables include payables from finance leases of CZK 68,697 thousand (2015: CZK 40,250 thousand) and principals received from suppliers of CZK 4,000 thousand (2015: CZK 6,000 thousand).

Trade payables and other short-term payables	2016	2015
Trade payables*	1,885,292	1,928,596
Payables from the revaluation of commodity contracts (trading portfolio)	611,508	254,391
Payables from revaluation of derivatives	779	4,831
Payables to employees**	43,422	41,390
Payables from social security and health insurance	26,390	25,369
Other payables***	194,975	144,770
Total	2,762,366	2,399,347

* Include received electricity and gas prepayments net of an estimated payable for the supplied but not yet billed electricity and gas of CZK 723,519 thousand (2015: CZK 751,512 thousand).

** Includes outstanding December salaries. Since 2016, a change has been made to the reporting of payables to employees, which are, as is customary, reported under provisions for employee benefits.

*** Primarily includes the received services yet to be billed.

The Group reports overdue trade payables in the amount of CZK 32 thousand (2015: CZK 106 thousand). All overdue payables were settled during January 2017.

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

(21) Finance lease payables (CZK Thousand)

Lease payables	Minimum lease payables		Present value of minimum lease payments	
	2016	2015	2016	2015
Lease payments due within 1 year	20,712	20,665	20,598	20,537
Lease payments due from 1 to 5 years	48,535	39,937	47,185	38,778
Lease payments due in over 5 years	974	1,573	914	1,472
Total lease payments	70,221	62,175	68,697	60,787
Future lease payments	(1,524)	(1,388)	--	--
Present value of minimum lease payments	68,697	60,787	68,697	60,787
Long-term trade payables and other payables			48,099	40,250
Short-term trade payables and other payables			20,598	20,537
Total			68,697	60,787
Tangible fixed assets				
Carrying amount of assets held under finance leases			68,697	60,787

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.

(22) Provisions (CZK Thousand)

	2016	2015
Employee benefits*	355,702	333,941
Other provisions	218,710	133,547
Total	574,412	467,488
Long-term provisions	450,117	349,358
Short-term provisions	124,295	118,130
Total	574,412	467,488

* The provision for employee benefits represents payables pursuant to the Collective Agreement arising from bonuses paid to employees upon retirement and work and life jubilees. Since 2016, a change has been made to the reporting of payables to employees, which are, as is customary, reported under provisions for employee benefits.

Other provisions	Business risks	Salaries	Other	Total
Balance on 31.12.2014	37,655	93,714	1,070	132,439
TCreation of provisions in the current year	--	95,772	81	95,853
Use of provisions in the current year	(603)	(79,354)	(50)	(80,007)
Release of provisions in the current year	(378)	(14,360)	--	(14,738)
Balance on 31.12.2015	36,674	95,772	1,101	133,547
TCreation of provisions in the current year	83,284	100,569	68	183,921
Use of provisions in the current year	--	(86,043)	(782)	(86,825)
Release of provisions in the current year	(2,204)	(9,729)	--	(11,933)
Balance on 31.12.2016	117,754	100,569	387	218,710
Long-term payables – provisions	117,754	--	387	118,141
Short-term payables – provisions	--	100,569	--	100,569
Total	117,754	100,569	387	218,710

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.

(23) Share capital (CZK Thousand)**Share capital**

There are 3,869,443 registered shares in the nominal value of CZK 1,000 per share (2015: 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)

	2016	2015
Reserve fund	773,889	773,889
Other funds from profit	382,711	382,711
Cash flow hedge	85,855	(15,992)
Fund from the revaluation of other current financial assets	(6,673)	(6,673)
Total	1,235,782	1,133,935

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 (1st of 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 (CZK Thousand)

At the request of the Group, banks issued payment bank guarantees of CZK 137 million (CZK 125 million as of the 31st of December 2015) in favour of OTE, a.s., APCS Power Clearing and Settlement AG, Prague Airport as well as for public contracts for the supply of gas in favour of the Capital City of Prague.

(26) Financial instruments (CZK Thousand)**Categories of financial instruments**

Financial assets	2016	2015
(a) Financial assets at fair value through profit or loss (revaluation of commodity contracts)	625,561	251,497
(b) Financial derivatives under hedge accounting	7,511	--
(c) Loans and receivables (including cash and cash equivalents)	1,682,578	1,682,568
(d) Financial assets available for sale	5,822	5,822

The loans and receivables predominantly include receivables from loans provided within the Group and receivables from electricity supplies.

Financial liabilities	2016	2015
(e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts)	611,508	255,388
(f) Financial liabilities at fair value through profit or loss (revaluation of interest rate swaps)	--	--
(g) Financial derivatives under hedge accounting	779	3,834
(h) Financial liabilities at amortised cost	4,123,638	5,564,346

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).

Gains or losses on financial instruments reported in the period		2016	2015
Gain/loss from revaluation of commodity derivatives in the trading portfolio (included in "Profit/loss from trading")	(a, e)	6,585	(10,924)
Gain from securities held	(c, d)	661	--
Borrowing costs (except for the interest on employee benefits)	(g)	(30,428)	(48,287)
Other	(c, g)	(130,385)	(181,131)
Hedge accounting		2016	2015
Creation of the equity fund from the cash flow hedge	(b, g)	6,732	(3,834)
Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased")	(b, g)	3,834	29,851

Capital risk

The Company manages its capital to ensure an optimal financial position from the long-term perspective while maximising the return to shareholders.

	2016	2015
Total assets	25,237,349	24,350,691
Shareholders' equity	16,221,303	15,113,658
Shareholders' equity / total assets	64%	62%

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:

1. commodity forwards and futures to hedge the changes in prices of these commodities; and
2. currency forwards to hedge the changes in exchange 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 Company purchases a significant part of the electricity and gas supply for its customers in foreign currency (EUR).

The Company hedges a substantial part of its future planned cash flows (in EUR) for the purchase of electricity and gas 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 or gas 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)	
	2016	2015	2016	2015
Contracts for the purchase of EUR	7,512	189	1,428	997
Other assets and liabilities*	1,155,410	572,643	1,193,532	807,687
Total EUR	1,162,922	572,832	1,194,960	808,684
Other currencies	161	170	--	--
Total	1,163,083	573,002	1,194,960	808,684

* 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:

EUR purchased	Average exchange rate CZK/EUR		Value in EUR (Thousand)		Value in CZK (Thousand)		Fair value in CZK (Thousand)	
	2016	2015	2016	2015	2016	2015	2016	2015
Up to 1 month	27.03	27.07	10,000	5,000	270,330	135,344	(67)	(196)
1-3 months	27.03	27.20	22,000	30,000	594,580	816,070	431	(4,731)
3-12 months	26.92	27.03	43,391	80,391	1,168,276	2,172,942	7,147	3,930
Total	26.97	27.08	75,391	115,391	2,033,186	3,124,356	7,511	(997)

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 these assets and liabilities resulting from an increase in the CZK/EUR exchange rate of 1 percent.

(CZK Thousand)	2016	2015
Profit (+) or loss (-)	(381)	(2,311)
Shareholders' equity	15,856	25,266

Interest rate risk

Medium- and long-term external funds of the Group include loans maturing in four, six and eight years. These loans have a fixed interest rate. Changes in market interest rates have no impact on the contracted amount of repayments of these loans which effectively reduces the risk of changes in interest rates. Changes in interest rates may only affect the costs of hedging short-term sources of funding. However, the impact of this risk on the Company, if any, is immaterial.

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

	Assets (CZK Thousand)*		Liabilities (CZK Thousand)*	
	2016	2015	2016	2015
Other assets and liabilities	7,511	189	1,427	997
Total	7,511	189	1,427	997

* 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)	2016	2015
Profit (+) or loss (-)	--	--
Shareholders' equity	(42)	(841)

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

Transactions which the Company does not primarily conclude in direct relation to providing electricity for final customers and own consumption are monitored as part of the so called "freely tradable portfolio" where all trading transactions are concentrated. Transactions in the freely tradable portfolio are subject to limits, namely binding limits on the basis of the so called "stop loss", which represents the maximum permissible loss to be accepted by the Company. The maximum stop loss is adjusted over the entire monitored annual period and partial monitoring limits are adjusted for individual quarters in the amount of 1/4 of the aggregate limit. Potential threats to these limits are monitored by way of timely indicators that are based on the market valuation of executed transactions, the market value of an open position and VaR (Value at Risk) whereby the possible price change in the respective time period is estimated at the defined level of likelihood.

As of the 31st of December 2016, the open position in the freely tradable portfolio amounted to approximately 0.18 TWh. These transactions are arranged as commodity forwards with the underlying asset being standardised instruments the prices of which are quoted on stock exchanges. The transactions are measured using settlement prices which are published by public markets and stock exchanges on a daily basis. These contracts, or the value thereof, fluctuate due to changing market prices; for this reason, the prices of electricity are exposed to the risk of change in electricity prices on the wholesale market.

Open commodity derivatives as of the balance sheet date:

	Contracted price in EUR (Thousand)		Contracted price in CZK (Thousand)		Fair value in CZK (Thousand)	
	2016	2015	2016	2015	2016	2015
Commodity forwards – open position	--	5,394	--	145,773	--	(14,099)

The carrying amount of assets and liabilities which depends on the commodity price:

	Assets (CZK Thousand)		Liabilities (CZK Thousand)	
	2016	2015	2016	2015
Commodity forwards – VOP	--	--	--	14,099
Other assets and liabilities	5,822	5,822	--	--
Total	5,822	5,822	--	14,099

Commodity risk – sensitivity analysis

The Group performed the sensitivity analysis to identify the potential impact of changing the value of these assets and liabilities due to increasing commodity prices on EEX by 1% on profit/equity:

(CZK Thousand)	2016	2015
Profit (+) / loss (-)	--	1,317
Equity	65	62

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 or gas, and in the exposure on the wholesale market with commodities in relation to concluded hedging derivatives for OTC. The standard practice of the Group is not to require collateral for trade receivables.

In electricity and gas 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 and gas meters and invoicing takes place on a monthly basis. Some customers pay monthly or ten-day advance payments, based on their expected consumption, to cover electricity and gas 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 and gas 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 and gas meters and invoicing takes place on an annual basis. For supplied but unbilled electricity or gas, 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.

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.

Receivables – 2016	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Trade balances		1,227,763	39,951	63,848	95	1,331,657
Margin deposits, principals paid		--	--	65,125	42,642	107,767
Other receivables		2,208	597	12,736	810	16,351
Total	(16)	1,229,971	40,549	141,709	43,546	1,455,775

Receivables – 2015	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Trade balances		1,204,669	179,106	165,929	--	1,549,704
Margin deposits, principals paid		32,430	--	4,023	41,632	78,085
Other receivables		18,697	463	21,228	838	41,226
Total	(16)	1,255,796	179,569	191,180	42,470	1,669,015

Payables – 2016	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Trade payables	(20)	1,117,684	12,849	28,318	--	1,158,851
Other financial payables	(20)	127,506	93,804	20,120	20,013	261,443
Bank loans	(19)	13,866	2,000	9,262	3,397,135	3,422,263
Provisions	(22)	--	--	--	118,141	118,141
Total		1,626,401	35,171	831,164	3,532,541	6,025,277

Payables – 2015	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Trade payables	(20)	1,229,749	30,119	29,443	274	1,289,585
Other financial payables	(20)	100,966	3,052	38,314	6,000	148,332
Bank loans	(19)	295,686	2,000	763,407	3,488,492	4,549,585
Provisions	(22)	--	--	--	37,775	37,775
Total		1,626,401	35,171	831,164	3,532,541	6,025,277

Payables from leases – refer to the note “Finance lease payables”.

(27) Operating leases (CZK Thousand)

The minimum operating lease payments expensed in the current period:

Rental charges	2016	2015
Non-residential premises	61,113	55,165
Cable conduits	101,122	100,812
Cars	329	330
Other rented assets of all types	8,767	12,113
Total	171,332	168,420

The Group holds cable conduits for HV and MV lines and non-residential premises for MV/LV 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.

Liabilities arising from irrevocable lease agreements	2016	2015
Less than 1 year	9,442	9,267
From 1 to 5 years	30,686	33,204
5 years and more	64,549	68,646
Total	104,677	111,117

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

(28) Related party transactions (CZK Thousand)

In line with IAS 24, the below-listed related parties have been identified. 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	
	2016	2015	2016	2015
Relations with controlling entities and associates	1,227,197	1,588,915	1,151,516	1,622,704
Pražská energetika Holding a.s.	266	309	--	--
Capital City of Prague	198,207	206,164	29,739	18,137
EnBW Energie Baden-Württemberg AG	1,028,724	1,382,442	1,121,777	1,604,567
Relations with other entities	784,343	816,284	126,318	125,262
Netze BW GmbH	--	697	13	--
Dopravní podnik hl. m. Prahy, a.s.	762,709	783,501	3,619	3,847
Kolektory Praha, a.s.	6,707	6,402	100,856	100,545
Obecní dům, a.s.	7,197	7,702	--	--
TRADE CENTRE PRAHA, a.s.	7,727	7,868	18,223	17,591
Pražská vodohospodářská společnost, a.s.	3	10,114	3,607	3,279
Total	2,011,540	2,405,199	1,277,834	1,747,966

Total receivables from and payables to related parties

	Receivables		Payables	
	2016	2015	2016	2015
Relations with controlling entities and associates	63,447	42,610	117,420	144,413
Pražská energetika Holding a.s.*	25	51	102,261	114,293
Capital City of Prague	42,310	42,259	5,540	5,646
EnBW Energie Baden-Württemberg AG	21,112	300	9,619	24,474
Relations with other entities	44,356	45,706	3,133	4,125
Netze BW GmbH	--	--	--	--
Dopravní podnik hl. m. Prahy, a.s.	42,953	41,677	19	1,282
Kolektory Praha, a.s.	272	1,121	1,200	1,200
Obecní dům, a.s.	748	810	--	--
TRADE CENTRE PRAHA, a.s.	155	161	1,914	1,643
Pražská vodohospodářská společnost, a.s.	228	1,937	--	--
Total	107,803	88,316	120,553	148,538

* The payable of CZK 102,261 thousand (CZK 114,293 thousand in 2015) is a short-term loan received from the parent company Pražská energetika Holding a.s. – refer to the note "Received loans".

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	2016	2015
Pražská energetika Holding a.s.	992,754	992,754
EnBW Energie Baden-Württemberg AG	707,989	707,989

In 2016, managers were paid bonuses in the amount of CZK 86,505 thousand (2015: CZK 81,635 thousand). The increase in bonuses was related to the purchase of KORMAK Praha a.s. and KORMAK nemovitosti s.r.o.

Managers include members of the Boards of Directors and Supervisory Boards of the companies within the PRE Group, their directors and members of the Works Council. Members of the Works Council elected from among the Company's staff also enter into a standard employment contract adequate to their job.

Selected managers can use passenger cars for private purposes.

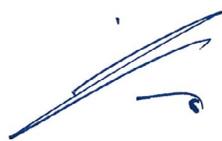
Receivables from executive management

As of the 31st of December 2016, the Group reported receivables from the members of executive management in the total amount of CZK 64 thousand (CZK 43 thousand as of the 31st of December 2015). These receivables are reported in "Trade receivables and other receivables" and were collected during January 2017.

(29) Post balance sheet events (CZK Thousand)

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

In Prague, 27th of April 2017

**Pavel Elis**

Chairperson of the Board of Directors

**Alexander Sloboda**

Vice-chairperson of the Board of Directors

SEPARATE FINANCIAL STATEMENTS 2016

Separate financial statements of Pražská energetika, a.s., for the year ended December 31, 2016
Prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted by the EU

Income statement (CZK Thousand)

	Note	2016	2015
Revenues from electricity and gas sold		15,006,920	15,314,897
Costs of electricity and gas sold		(13,304,831)	(13,813,329)
Gross profit from the sale of electricity and gas	(4)	1,702,089	1,501,568
Other operating income	(4)	918,184	905,211
Personnel expenses	(5)	(580,437)	(567,752)
Depreciation	(12,13)	(168,395)	(166,845)
Costs of services, material and energy	(6)	(540,837)	(562,793)
Borrowing costs	(7)	(39,690)	(40,262)
Dividends received		1,072,300	1,080,000
Other gains and losses	(8)	113,065	40,902
Profit from ordinary activity before tax		2,476,279	2,190,029
Income tax	(9)	(272,868)	(219,501)
Profit from ordinary activity after tax		2,203,411	1,970,528
Earnings per share attributable to ordinary shares (CZK)	(11)	569	509

Statement of comprehensive income (CZK Thousand)

	2016	2015
Profit from ordinary activities after tax	2,203,411	1,970,528
Revaluation of other financial assets	--	--
Cash flow hedging (item that may be subsequently reclassified to profit or loss)	101,847	(25,912)
Total other comprehensive income after tax	101,847	(25,912)
Comprehensive income attributable to the Company's shareholders	2,305,258	1,944,616

Statement of financial position (balance sheet) (CZK Thousand)

	Note	2016	2015
Assets			
Property, plant and equipment	(12)	1,892,846	1,909,724
Intangible assets	(13)	176,994	147,964
Equity investments	(14)	9,957,301	9,835,801
Trade receivables and other receivables	(15)	33,218	35,004
Loans	(16)	3,601,667	3,739,128
Non-current assets		15,662,026	15,667,621
Inventories	(17)	43,837	40,327
Tax receivables		--	92,998
Trade receivables and other receivables	(15)	2,184,044	1,816,999
Loans	(16)	182,064	470,382
Cash and cash equivalents	(18)	294,562	141,421
Current assets		2,704,507	2,562,127
Total assets		18,366,533	18,229,748
Liabilities			
Share capital	(23)	3,869,443	3,869,443
Funds from profit	(24)	1,235,782	1,133,935
Retained earnings		5,493,133	5,023,094
Equity attributable to the Company's shareholders		10,598,358	10,026,472
Loans	(19)	3,190,000	3,202,000
Trade payables and other payables	(20)	48,099	174,480
Provisions	(22)	146,860	2,251
Deferred tax liability	(9)	99,953	66,065
Long-term payables		3,484,912	3,444,796
Loans	(19)	259,172	1,125,921
Tax payables		168,502	24,695
Trade payables and other payables	(20)	3,797,849	3,560,637
Provisions	(22)	57,740	47,227
Short-term payables		4,283,263	4,758,480
Total liabilities		18,366,533	18,229,748

Statement of changes in equity (CZK Thousand)

	Share capital	Reserve funds	Retained earnings	Equity attributable to the Company's shareholders
Balance on 31.12.2014	3,869,443	1,159,848	4,785,886	9,815,177
Dividends and director's fees paid			(1,733,320)	(1,733,320)
Other comprehensive income		(25,913)		(25,913)
Net profit for 2015			1,970,528	1,970,528
Balance on 31.12.2015	3,869,443	1,133,935	5,023,094	10,026,472
Dividends and director's fees paid			(1,733,372)	(1,733,372)
Other comprehensive income		101,847		101,847
Net profit for 2016			2,203,411	2,203,411
Balance on 31.12.2016	3,869,443	1,235,782	5,493,133	10,598,358

Cash flow statement (CZK Thousand)

	Note	2016	2015
Opening balance of cash and cash equivalents		141,421	180,149
Operating activity			
Income from the sale of electricity and gas		13,964,308	14,388,254
Expenses related to purchases of electricity and gas		(12,505,454)	(13,397,836)
Net profit from the sale of electricity and gas	(4)	1,458,854	990,418
Income in the Group	(28)	1,051,036	1,070,258
Other operating income	(4, 8)	56,569	61,948
Operating expenses	(6, 8)	(685,153)	(737,280)
Cash flows from operating activities		355,052	37,737
Personnel expenses	(5)	(559,505)	(552,926)
Direct taxes paid	(9)	(212,789)	(168,789)
Financial expenses	(7)	(28,630)	(39,106)
Net cash flow from operating activity		1,435,434	662,260
Investment activity			
Income from the sale of fixed assets	(8)	6,275	24,167
Expenses related to the acquisition of fixed assets	(12, 13)	(300,115)	(146,398)
Intercompany loans		135,385	(632,385)
Interest received in the Group		131,284	93,260
Dividend received and shares in profit		1,072,300	1,080,000
Net cash flow from investment activity		1,045,129	418,644
Financial activity			
External loans repaid	(19)	(1,055,114)	(2,753,722)
Dividends and director's fees paid	(10)	(1,732,206)	(1,731,678)
Financial operations in the Group	(28)	458,708	(142,232)
External loans received	(19)	1,190	3,508,000
Net cash flow from financial activity		(2,327,422)	(1,119,632)
Change in cash and cash equivalents		153,141	(38,728)
Closing balance of cash and cash equivalents	(18)	294,562	141,421

Content of the notes to the financial statements

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(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 maintained by the Municipal Court of Prague 1 on the 1st of January 1994.

The Company’s registered office is located at Na Hroudě 1492/4, Prague 10, 100 05, ID No.: 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	2016	2015
Pražská energetika Holding a.s.	58.05%	58.05%
EnBW Energie Baden-Württemberg AG	41.40%	41.40%
Other	0.55%	0.55%
Total	100.00%	100.00%

Pražská energetika Holding a.s. is under joint control of the Capital City of Prague (with an equity investment of 51%) and EnBW (with an equity investment of 49%).

EnBW owns 41.40% of the Company’s share capital and exercises control over the Company in line with Section 74 (1) and (3) of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the “Business Corporations Act”). Under Section 79 of the Business Corporations Act, the Company operates on the Czech energy market as part of the EnBW group. The Company is controlled and managed by EnBW through its representatives on the Board of Directors and the Supervisory Board. Other information is disclosed in the Report on Relations.

(2) Adoption of new and revised International Financial Reporting Standards

Standards and interpretations effective in the current period

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

- **Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IAS 1 “Disclosure Initiative”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IAS 16 and IAS 38 “Acceptable Methods of Depreciation and Amortisation”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);

- **Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”** (effective in the EU for annual periods beginning on or after the 1st of February 2015);
- **Amendments to IAS 27 “Equity Method in Separate Financial Statements”** (effective in the EU for annual periods beginning on or after the 1st of January 2016);
- **Amendments to various standards “Improvements to IFRSs (cycle 2010–2012)”** (effective in the EU for annual periods beginning on or after the 1st of February 2015); and
- **Amendments to various standards “Improvements to IFRSs (cycle 2012–2014)”** (effective in the EU for annual periods beginning on or after the 1st of January 2016).

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

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 adopted by the EU were in issue but not yet effective:

- **IFRS 9 “Financial Instruments” (issued in July 2014)** (effective in the EU for annual periods beginning on or after the 1st of January 2018); and
- **IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014)** (effective for annual periods beginning on or after the 1st of January 2018).

The Company decided not to apply these standards 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.

New standards, interpretations and amendments to the current standards issued by the IASB but not yet adopted by the EU

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for the first annual IFRS financial statements for annual periods beginning on or after the 1st of January 2016);
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after the 1st of January 2019);
- **Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”** (effective for annual periods beginning on or after the 1st of January 2018);
- **Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”** (effective for annual periods beginning on or after the 1st of January 2018 or when IFRS 9 is applied for the first time);

- **Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”** (the effective date is yet to be stipulated);
- **Amendments to IFRS 15 “Clarifications to IFRS 15”** (effective for annual periods beginning on or after the 1st of January 2018);
- **Amendments to IAS 7 “Disclosure Initiative”** (effective for annual periods beginning on or after the 1st of January 2017);
- **Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”** (effective for annual periods beginning on or after the 1st of January 2017);
- **Amendments to IAS 40 “Transfers of Investment Property”** (effective for annual periods beginning on or after the 1st of January 2018);
- **Amendments to various standards “Improvements to IFRSs (cycle 2014–2016)”** (effective for annual periods beginning on or after the 1st of January 2017 or 2018); and
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after the 1st of January 2018).

The Company anticipates that the adoption of these new 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. The only exception is the new standard IFRS 16. The Company has not yet evaluated the full impact of its adoption.

(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.

Information on consolidated financial statements

Apart from the separate financial statements, the Company prepares and publishes consolidated financial statements of the parent company PRE and its subsidiaries (hereinafter the “PRE Group” or the “Group”) in compliance with IFRS always as of the 31st of December. The consolidated and separate financial statements are published as of the same date.

Business combinations

Business combinations are accounted for using the acquisition method. The acquisition cost of the business combination corresponds to the sum of the consideration transferred, measured at acquisition-date fair value. The identifiable assets acquired and the liabilities assumed are recognised at their fair value. Acquisition-related costs are recognised in profit or loss as incurred.

Upon the acquisition of an entity, the Company assesses whether the financial assets acquired and the liabilities assumed are classified and defined as appropriate in accordance with their contractual, economic and other relevant conditions as of the acquisition date. Among others, the Company assesses the separation of embedded derivatives from host contracts.

Goodwill is initially measured as the excess of the sum of the consideration transferred and the amount of any non-controlling interests over the net amounts of the identifiable assets acquired and the liabilities assumed. If the fair value of the acquiree's net assets exceeds the consideration ("negative goodwill"), the Company first assesses whether the acquiree's identifiable assets, liabilities and contingent liabilities have been correctly defined and measured and the purchase price correctly determined. If, after the assessment, any potential differences remain, they are recognised directly in profit or loss.

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 flows over the expected life of the financial asset to that asset's net carrying amount as of the date of its first-time recognition.

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 related to the construction of qualifying assets in line with IAS 23. A qualifying asset is an asset that takes a substantial period of time during the investment construction to get ready for its intended use. The amount of capitalised borrowing costs is determined as the product of the capitalisation rate and the balances on the investments in progress account (including pre-payments) as of the end of the relevant month. The capitalisation rate is the average interest rate from external loans.

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. The calculated tax is recognised in profit or loss except when associated with items charged directly to equity in which case it is 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 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.

The estimated useful lives and depreciation methods are reviewed at the end of each reporting period and impacts of any changes in estimates are accounted for prospectively.

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 construction	6, 7, 10, 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	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.

Purchase price allocation

In 2016, the Company acquired 100% equity investments in KORMAK Praha a.s. and KORMAK nemovitosti s.r.o. Based on this business combination, the Company was obliged to account for the transaction using the acquisition method. Among others, the acquisition method includes the obligation to perform purchase price allocation.

As part of the purchase price allocation process, all assets, liabilities and contingent liabilities related to the acquired entities were identified. Furthermore, the useful life of the assets was determined, which was followed by the fair value remeasurement of assets and liabilities (including contingent liabilities). Lastly, the purchase price was allocated to individual assets and liabilities and deferred tax was calculated. The difference between the purchase price and the fair value of the assets and liabilities is referred to as goodwill.

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 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 (or cash-generating unit) 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 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 are classified as at FVTPL or as other financial liabilities.

Financial liabilities at FVTPL include derivatives that do not function as effective hedging instruments. Financial liabilities at FVTPL are stated at fair value, with any resulting gain or loss recognised in profit or loss.

Other financial liabilities (including borrowings, trade payables and other payables) are initially recognised 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 Energy 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 in the statement of financial position 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.

Significant accounting events and judgements in applying the accounting policies

Purchase price allocation

In 2016, the Company acquired 100% equity investments in KORMAK Praha a.s. and KORMAK nemovitosti s.r.o. Based on this business combination, the Company was obliged to account for the transaction using the acquisition method. Among others, the acquisition method includes the obligation to perform purchase price allocation.

As part of the purchase price allocation process, all assets, liabilities and contingent liabilities related to the acquired entities were identified. Furthermore, the useful life of the assets was determined, which was followed by the fair value remeasurement of assets and liabilities (including contingent liabilities). Lastly, the purchase price was allocated to individual assets and liabilities and deferred tax was calculated. The difference between the purchase price and the fair value of the assets and liabilities is referred to as goodwill and reported separately.

(4) Revenues (CZK Thousand)

Income and expenses relating to the sale of electricity and gas	2016	2015
Sales of electricity B2B	3,880,786	4,259,529
Sales of distribution and system services B2B	2,596,940	2,767,181
Sales of electricity B2C	2,723,997	2,800,033
Sales of distribution and system services B2C	4,855,909	4,713,580
Sales of gas	138,986	105,625
Other income*	803,717	679,873
Gross gain/loss from trading	6,585	(10,924)
Total income	15,006,920	15,314,897
Costs of purchases of sold electricity	(5,672,268)	(6,179,829)
Costs of purchases of distribution and system services	(7,452,849)	(7,480,760)
Costs of purchases of gas	(179,714)	(152,740)
Total costs	(13,304,831)	(13,813,329)
Gross profit from the sale of electricity and gas	1,702,089	1,501,568

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

Other operating income	2016	2015
Income from provided services*	915,127	900,647
Other	3,057	4,564
Total	918,184	905,211

* 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)

	2016	2015
	Staff including management	Staff including management
Average headcount	634	641
Payroll costs	338,001	332,821
Salaries paid depending on the fulfilment of the plan	30,921	28,481
Insurance	135,342	134,087
Remuneration to the members of the Company's bodies	22,510	22,307
Other social costs*	53,663	50,056
Total	580,437	567,752

* 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.

(6) Costs of services, material and energy (CZK Thousand)

	2016	2015
Material and own consumed energy	60,680	61,397
Repairs of tangible fixed assets	29,977	43,075
Consulting services	23,200	22,109
Rental charges	49,799	47,609
Postage and telecommunication fees	34,817	36,533
IT support	121,394	121,653
Marketing	67,250	80,757
Other*	153,720	149,660
Total	540,837	562,793

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

(7) Borrowing costs (CZK Thousand)

	2016	2015
Interest on cash pooling	10	10
Interest on loan	38,692	38,770
Interest expense on employee benefits	465	741
Interest on leases	523	741
Total	39,690	40,262

(8) Other gains and losses (CZK Thousand)

	2016	2015
Write-offs of doubtful debt and creation of allowances	(27,926)	(60,581)
Gain/(loss) from the sale and disposal of fixed assets and inventories	9,113	18,654
Foreign exchange rate gains/(losses)	1,531	(7,473)
Interest received in the Group	132,571	108,979
Share in the profit or loss of eYello CZ, k.s.	11,539	(5,664)
Other	(13,763)	(13,013)
Total	113,065	40,902

(9) Income tax (CZK Thousand)

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

	2016	2015
Current tax payable	262,871	219,379
Deferred tax	9,997	122
Total income tax	272,868	219,501

	2016		2015	
Profit before tax	2,476,279		2,190,028	
Income tax using the effective income tax rate	470,493	19.00%	416,105	19.00%
Impact of tax non-deductible dividends received	(203,737)	(8.23%)	(220,590)	(10.07%)
Impact of other items that are never tax-deductible	6,112	0.25%	23,986	1.10%
Total income tax / effective tax rate	272,868	11.02%	219,501	10.02%

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

	On December 31, 2016	Recorded in profit or loss	Recorded in equity	On December 31, 2015	Recorded in profit or loss	Recorded in equity	On December 31, 2014
Fixed assets	129,029	7,887	--	121,142	7,823	--	113,319
Provisions	(9,686)	(285)	--	(9,401)	(263)	--	(9,138)
Receivables	(10,942)	4,211	--	(15,153)	(6,102)	--	(9,051)
Inventories	(269)	79	--	(348)	117	--	(465)
Obligation under the Collective Agreement	(28,319)	(1,896)	--	(26,423)	(1,453)	--	(24,970)
Cash flow hedge	20,139	--	23,891	(3,752)	--	(6,078)	2,327
Total deferred tax liability	99,952	9,996	23,891	66,065	122	(6,078)	72,022

(10) Dividends (CZK Thousand)

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

	2016	2015
Final dividend for 2015 of CZK 442 (2014: CZK 442) per share	1,710,294	1,710,294

The final amount of the proposed dividend for 2016 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 2,203,411 thousand (2015: CZK 1,970,528 thousand) attributable to 3,869,443 shares, i.e., the earnings per share amount to CZK 569 (2015: CZK 509).

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	Investments in progress	Total
Cost						
Balance on 31.12.2014	138.2	817.1	1,740.8	434.3	84.2	3,214.6
Additions	--	7.9	8.8	17.6	69.2	103.5
Disposals	(1.0)	(22.5)	(27.8)	(17.4)	--	(68.7)
Reclassification	--	47.2	23.0	2.7	(72.9)	--
Balance on 31.12.2015	137.2	849.7	1,744.8	437.2	80.5	3,249.4
Accumulated depreciation						
Balance on 31.12.2014	(1.2)	(659.2)	(426.0)	(198.3)	--	(1,284.7)
Depreciation	--	(38.3)	(39.8)	(31.4)	--	(109.5)
Accumulated depreciation on disposals	--	22.4	16.4	15.7	--	54.5
Reclassification	--	--	--	--	--	--
Balance on 31.12.2015	(1.2)	(675.1)	(449.4)	(214.0)	--	(1,339.7)
Net book value – 2014	137.0	157.9	1,314.8	236.0	84.2	1,929.9
Net book value – 2015	136.0	174.6	1,295.4	223.2	80.5	1,909.7

	Land	Telecommunication technologies and IT	Administrative buildings	Other	Investments in progress	Total
Cost						
Balance on 31.12.2015	137.2	849.7	1,744.8	437.2	80.5	3,249.4
Additions	--	11.5	12.2	36.0	49.9	109.6
Disposals	(0.1)	(17.1)	--	(24.9)	--	(42.1)
Reclassification	--	59.9	7.0	5.1	(72.0)	--
Balance on 31.12.2016	137.1	904.0	1,764.0	453.4	58.4	3,316.9
Accumulated depreciation						
Balance on 31.12.2015	(1.2)	(675.1)	(449.4)	(214.0)	--	(1,339.7)
Depreciation	--	(48.5)	(38.8)	(31.5)	--	(118.8)
Accumulated depreciation on disposals	--	17.1	--	17.3	--	34.4
Reclassification	--	--	--	--	--	--
Balance on 31.12.2016	(1.2)	(706.5)	(488.2)	(228.2)	--	(1,424.1)
Net book value – 2015	136.0	174.6	1,295.4	223.2	80.5	1,909.7
Net book value – 2016	135.9	197.5	1,275.8	225.2	58.4	1,892.8

(13) Intangible assets (CZK Million)

	Software	Other	Investments in progress	Total
Cost				
Balance on 31.12.2014	517.6	15.3	71.1	604.0
Additions	0.4	0.2	54.6	55.2
Disposals	(9.2)	(2.5)	--	(11.7)
Reclassification	54.8	0.1	(54.9)	--
Balance on 31.12.2015	563.6	13.1	70.8	647.5
Accumulated amortisation				
Balance on 31.12.2014	(441.5)	(12.3)	--	(453.8)
Amortisation	(56.1)	(1.3)	--	(57.4)
Accumulated amortisation on disposals	9.2	2.5	--	11.7
Reclassification	--	--	--	--
Balance on 31.12.2015	(488.4)	(11.1)	--	(499.5)
Net book value – 2014	76.1	3.0	71.1	150.2
Net book value – 2015	75.2	2.0	70.8	148.0

	Software	Other	Investments in progress	Total
Cost				
Balance on 31.12.2015	563.6	13.1	70.8	647.5
Additions	6.1	--	72.5	78.6
Disposals	--	--	--	--
Reclassification	50.4	--	(50.4)	--
Balance on 31.12.2016	620.1	13.1	92.9	726.1
Accumulated amortisation				
Balance on 31.12.2015	(488.4)	(11.1)	--	(499.5)
Amortisation	(48.5)	(1.1)	--	(49.6)
Accumulated amortisation on disposals	--	--	--	--
Reclassification	--	--	--	--
Balance on 31.12.2016	(536.9)	(12.2)	--	(549.1)
Net book value – 2015	75.2	2.0	70.8	148.0
Net book value – 2016	83.2	0.9	92.9	177.0

The Company has no intangible assets developed internally.

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

The Company anticipates incurring total capital expenditure of CZK 212 million in 2017. Approximately 28% of all planned expenditure was contracted as of the balance sheet date.

Low value fixed assets are charged to expenses in compliance with the accounting policies (see "Significant accounting policies"). The below table shows the purchase price of those assets that have been put into use as of the balance sheet date:

Low value fixed assets	2016	2015
Low value tangible assets	231.3	228.6
Low value intangible assets	61.1	55.7
Total	292.4	284.2

(14) Equity investments (CZK Thousand)

	Note	2016		2015	
		Investment	Equity investment	Investment	Equity investment
PREdistribuce, a.s.	Non-marketable	100%	9,513,537	100%	9,513,537
PREměření, a.s.	Non-marketable	100%	313,264	100%	313,264
eYello CZ, k.s.	Non-marketable	90%	9,000	90%	9,000
KORMAK Praha a.s.	Non-marketable	100%	107,550	--	--
KORMAK nemovitosti s.r.o.	Non-marketable	100%	13,950	--	--
Total			9,957,301		9,835,801

In March 2016, the Company acquired a 100% equity investment in KORMAK Praha a.s., a regional provider of electro-installation services. As part of the transaction, the Company also acquired a 100% equity investment in KORMAK nemovitosti s.r.o., which holds several non-residential buildings leased to KORMAK Praha a.s.

PREměření, a.s., holds a 10% equity investment in eYello CZ, k.s.

As of the 1st of January 2016, PREměření, a.s., as the successor company was involved in the merger by acquisition with PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o., and PRE FVE Pozořice, s.r.o., as the dissolving companies. As a result of the merger by acquisition, the net assets of the dissolving companies PRE FVE Dačice, s.r.o., PRE FVE Mikulov, s.r.o., and PRE FVE Pozořice, s.r.o., were transferred to the successor company 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.

	2016	2015
Registered office: Prague 5, Svornosti 3199/19a		
ID No.: 27376516		
Average headcount	513	513
Economic data (CZK Thousand)		
Share capital	17,707,934	17,707,934
Shareholders' equity	19,379,473	19,290,879
Profit after tax	1,140,694	1,052,026
Sales of goods and services	9,345,709	9,384,238

Business entity: PREměření, a.s.

The company provides the readings, 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.

	2016	2015
Registered office: Prague 10, Na Hroudě 2149/19		
ID No.: 25677063		
Average headcount	238	244
Economic data (CZK Thousand)		
Share capital	35,000	35,000
Shareholders' equity	509,148	512,223
Profit after tax	143,645	88,424
Sales of goods, services and solar energy generation	440,072	594,965

Business entity: eYello CZ, k.s.

eYello CZ, k.s., was established in 1996 with the original name PREleas, a.s. The company provides electricity and gas supplies under the Yello Energy brand.

	2016	2015
Registered office: Prague 10, Kubánské náměstí 1391/11		
ID No.: 25054040		
Average headcount	6	5
Economic data (CZK Thousand)		
Shareholders' equity	6,860	6,849
Profit after tax	12	(6)
Sales of electricity, gas and services	272,738	167,926

Business entity: KORMAK Praha a.s.

KORMAK Praha a.s. is engaged in the construction and repair of distribution equipment.

	2016	2015
Registered office: Prague 10, K Sokolovně 667		
ID No.: 48592307		
Average headcount	62	
Economic data (CZK Thousand)		
Share capital	2,100	
Shareholders' equity	28,816	
Profit after tax	26,629	
Sales of electricity, gas and services	160,475	

Business entity: KORMAK nemovitosti s.r.o.

KORMAK nemovitosti s.r.o. is engaged in the lease and administration of real estate, apartments and non-residential premises.

	2016	2015
Registered office: Prague 10, K Sokolovně 667		
ID No.: 02065801		
Average headcount	--	
Economic data (CZK Thousand)		
Share capital	210	
Shareholders' equity	10,385	
Profit after tax	891	
Sales of electricity, gas and services	1,587	

(15) Trade receivables and other receivables (CZK Thousand)

	2016	2015
Trade receivables and other long-term receivables		
Principal amounts paid	33,035	34,821
Other	183	183
Total	33,218	35,004

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

	2016	2015
Trade receivables and other short-term receivables		
Receivables from electricity and gas supplies	1,109,297	1,210,995
Margin deposit with the energy exchanges	64,848	32,430
Receivables from the revaluation of commodity contracts (trading portfolio)	625,561	251,497
Receivables from cash flow hedges	7,511	--
Other assets	376,827	322,077
Total	2,184,044	1,816,999

Of the above stated short-term trade receivables, gross receivables past their due date totalled CZK 349,851 thousand (2015: CZK 391,044 thousand). Outstanding portions usually bear no interest. The following allowances were created for doubtful receivables:

Balance on 31.12.2014	247 801
Charge and drawing in the current year	37,944
Balance on 31.12.2015	285,745
Charge and drawing in the current year	(16,369)
Balance on 31.12.2016	269,376

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.

Aging of receivables	2015		
	Gross	Allowance	Net
Due receivables	1,076,608	--	1,076,608
Receivables less than 3 months past their due dates	155,780	39,471	116,309
Receivables between 4 and 12 months past their due dates	29,088	11,010	18,078
Receivables over 12 months past their due dates	235,264	235,264	--
Total short-term trade receivables	1,496,740	285,745	1,210,995

Aging of receivables	2016		
	Gross	Allowance	Net
Due receivables	1,028,823	13,228	1,015,594
Receivables less than 3 months past their due dates	86,813	6,132	80,681
Receivables between 4 and 12 months past their due dates	22,799	16,997	5,802
Receivables over 12 months past their due dates	240,238	233,019	7,220
Total short-term trade receivables	1,378,673	269,376	1,109,297

(16) Loans granted (CZK Thousand)

	On December 31, 2016			On December 31, 2015		
	Amount	Interest rate p.a.	Maturity date	Amount	Interest rate p.a.	Maturity date
Loan granted in Group 1	37,459	Fix 4.38%	29.2.2022	43,672	Fix 4.38%	29.2.2022
Loan granted in Group 2	158,249	Fix 4.625%	29.2.2023	179,609	Fix 4.625%	29.2.2023
Loan granted in Group 3	32,720	Fix 4.93%	29.2.2024	36,388	Fix 4.93%	29.2.2024
Loan granted in Group 4	56,368	Fix 4.93%	29.2.2024	62,687	Fix 4.93%	29.2.2024
Loan granted in Group 5	611,984	CZK IRS 3Y+3.1%	18.6.2026	611,984	CZK IRS 3Y+3.1%	18.6.2026
Loan granted in Group 6	702,271	CZK IRS 3Y+3.0%	28.11.2026	702,271	CZK IRS 3Y+3.0%	28.11.2026
Loan granted in Group 7	34,551	Fix 3.02%	31.12.2021	41,459	Fix 3.02%	31.12.2021
Loan granted in Group 8	32,043	Fix 3.48%	18.12.2024	36,049	Fix 3.48%	18.12.2024
Loan granted in Group 9	1,421,953	CZK IRS 3Y+2.5%	29.6.2027	1,421,953	CZK IRS 3Y+2.5%	29.6.2027
Loan granted in Group 10	217,256	Fix 3.27%	29.10.2024	244,413	Fix 3.27%	29.10.2024
Loan granted in Group 11	48,279	Fix 3.27%	29.10.2024	54,314	Fix 3.27%	29.10.2024
Loan granted in Group 12	123,190	Fix 3.17%	29.10.2023	140,789	Fix 3.17%	29.10.2023
Loan granted in Group 13	95,033	Fix 3.17%	29.10.2023	108,609	Fix 3.17%	29.10.2023
Loan granted in Group 14	209,209	Fix 3.48%	29.10.2024	235,360	Fix 3.48%	29.10.2024
Loan granted in Group 15	2,936	Fix 2.21%	29.7.2026	--		
Receivables arising from cash pooling from PREdistribuce, a.s	127	O/N PRIBOR+0.75%		130,489	O/N PRIBOR+0.75%	
Receivables arising from cash pooling from PREměření, a.s.	--			159,464	O/N PRIBOR+0.75%	
Receivables arising from cash pooling from KORMAK Praha a.s. KORMAK nemovitosti s.r.o.	103	O/N PRIBOR+0.75%		--		
Total	3,783,731			4,209,510		
of which:						
long-term	3,601,667			3,739,128		
short-term	182,064			470,382		

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

(17) Inventories (CZK Thousand)

	2016	2015
Material	26,470	25,660
Goods	17,367	14,667
Total	43,837	40,327

“Purchased material, services and energy” and “Other gains and losses” in the income statement include costs of sold and consumed inventories of CZK 201,031 thousand (2015: CZK 231,828 thousand).

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

Balance on 31.12.2014	2,795
Charge and drawing in the current year	(755)
Balance on 31.12.2015	2,040
Charge and drawing in the current year	(363)
Balance on 31.12.2016	1,677

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.

	2016	2015
Current bank accounts	292,068	139,949
Cash on hand	1,359	832
Stamps and vouchers	1,135	640
Total	294,562	141,421

(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".

	On December 31, 2016			On December 31, 2015		
	Principal	Interest rate	Maturity date	Principal	Interest rate	Maturity date
Loan 1	1,007,194	Fix 1.4%	1.7.2024	1,000,039	Fix 1.4%	1.7.2024
Loan 2	1,005,615	Fix 1.155%	8.7.2022	1,005,614	Fix 1.155%	8.7.2022
Loan 3	1,100,058	Fix 0.935%	25.6.2020	1,100,028	Fix 0.935%	25.6.2020
Loan 4	102,262	Fix 0.6%	3.8.2018	114,293	Fix 0.6%	3.8.2018
Loan 5	--			289,004	Fix 0.46%	4.1.2016
Authorised overdraft of current accounts – ING	--			202,332	PRIBOR+0.35%	
Authorised overdraft of current accounts – ČSOB	--			455,344	PRIBOR+0.35%	
Authorised overdraft of current accounts – ČS	--			96,438	PRIBOR+0.35%	
Payables from the cash pooling of PREdistribuce, a.s.	105,552	O/N PRIBOR-0.35%, at least 0.00%		--		
Payables from the cash pooling of of eYello CZ, k.s.	41,727	O/N PRIBOR-0.35%, at least 0.00%		1,643	PRIBOR-0.75%, at least 0.01%	
Payables from the cash pooling of PRE měření, a.s.	74,527	O/N PRIBOR-0.35%, at least 0.00%		--		
Payables from the cash pooling of KORMAK Praha a.s., KORMAK nemovitosti s.r.o.	12,237	O/N PRIBOR-0.35%, at least 0.00%		--		
Payables from the cash pooling of PRE FVE Dačice, s.r.o., and PRE FVE Mikulov, s.r.o., and PRE FVE Pozořice, s.r.o.	--			63,186	PRIBOR-0.75%, at least 0.01%	
Total	3,449,172			4,327,921		
of which:						
long-term loans	3,190,000			3,202,000		
short-term loans	259,172			1,125,921		

Loan 4 is a loan from the parent company Pražská energetika Holding a.s.

The banks do not require loan collateral with regard to the Company's rating. Undrawn loan facilities amounted to CZK 3,050 million as of the 31st of December 2016 (2015: CZK 2,007 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	2016	2015
Other financial liabilities	48,099	40,250
Total	48,099	40,250
Trade payables and other short-term payables	2016	2015
Trade payables*	1,348,560	1,505,941
Payables from revaluation of commodity contracts (trading portfolio)	611,508	254,391
Payables from revaluation of interest rate derivatives	779	4,831
Payables to employees**	19,361	20,024
Payables from social security and health insurance	11,513	11,946
Intercompany payables***	1,686,361	1,637,186
Other payables	119,767	117,028
Total	3,797,849	3,551,347

* Includes a prepayment for electricity and gas reduced by an estimated payable for the supplied but not yet billed electricity and gas in the total amount of CZK 610,585 thousand (2015: CZK 679,704 thousand).

** Includes outstanding December salaries. Since 2016, a change has been made to the reporting of payables to employees, which are newly reported under provisions for employee benefits.

*** Includes an estimated payable for the provision of distribution services from PREdistribuce, a.s., in the amount of CZK 1,685,093 thousand (2015: CZK 1,627,923 thousand), payables to PREměření, a.s., in the amount of CZK 1,251 thousand (2015: CZK 1,149 thousand) and payables to eYello CZ, k.s., amounting to CZK 18 thousand (2015: CZK 5,664 thousand).

The Company reports overdue trade payables in the amount of CZK 32 thousand (2015: CZK 21 thousand). All overdue payables were settled during January 2017.

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	
	2016	2015	2016	2015
Lease payments due within 1 year	20,712	20,665	20,598	20,537
Lease payments due from 1 to 5 years	48,535	39,937	47,185	38,778
Lease payments due in over 5 years	974	1,573	914	1,472
Total lease payments	70,221	62,175	68,697	60,787
Future lease payments	(1,524)	(1,388)		
Present value of minimum lease payments	68,697	60,787	68,697	60,787
Trade payables and other payables				
Long-term			48,099	40,250
Short-term			20,598	20,537
Total			68,697	60,787
Tangible fixed assets				
Carrying amount of assets held under finance leases			68,697	60,787

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)

	2016	2015
Employee benefits	153,621	143,520
Other provisions	50,979	49,478
Total	204,600	192,998
Long-term provisions	146,860	136,481
Short-term provisions	57,740	56,517
Total	204,600	192,998

The provision for employee benefits represents payables pursuant to the Collective Agreement arising from bonuses paid to employees upon retirement and work and life jubilees. Since 2016, a change has been made to the reporting of payables to employees, which are, as is customary, reported under provisions for employee benefits.

Other provisions:

	Business risks	Salaries	Other	Total
Balance on 31.12.2014	1,200	45,828	1,070	48,098
Creation of provisions in the current year	--	47,227	31	47,258
Use of provisions in the current year	--	(38,165)	--	(38,165)
Release of provisions in the current year	(50)	(7,663)	--	(7,713)
Balance on 31.12.2015	1,150	47,227	1,101	49,478
Creation of provisions in the current year	--	49,541	69	49,610
Use of provisions in the current year	--	(47,227)	(782)	(48,009)
Release of provisions in the current year	(100)	--	--	(100)
Balance on 31.12.2016	1,050	49,541	388	50,979
Long-term	1,050	--	388	1,438
Short-term	--	49,541	--	49,541
Total	1,050	49,541	388	50,979

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 (2015: 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)

	2016	2015
Reserve fund	773,889	773,889
Other funds from profit	382,711	382,711
Cash flow hedge	85,855	(15,992)
Fund from the revaluation of other current financial assets	(6,673)	(6,673)
Total	1,235,782	1,133,935

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 (1st of 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 137 million (CZK 125 million as of the 31st of December 2015) in favour of OTE, a.s., APCS Power Clearing and Settlement AG, Prague Airport as well as for public contracts for the supply of gas in favour of the Capital City of Prague.

(26) Financial instruments (CZK Thousand)**Categories of financial instruments**

Financial assets	2016	2015
(a) Financial assets at fair value through profit or loss (revaluation of commodity contracts)	625,561	251,497
(b) Financial derivatives under hedge accounting	7,511	--
(c) Loans and receivables (including cash and cash equivalents)	5,423,483	5,744,696
(d) Financial assets available for sale	5,822	5,822

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

Financial liabilities	2016	2015
(e) Financial liabilities at fair value through profit or loss (revaluation of commodity contracts)	611,508	255,388
(g) Financial derivatives under hedge accounting	779	3,834
(h) Financial liabilities at amortised cost	6,042,582	6,950,636

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	2016	2015
Gain/loss from revaluation of commodity derivatives in the trading portfolio (included in "Profit/loss from trading")	(a, e) 6,585	(10,924)
Gain from securities held and received interest in the Group	(c, d) 133,232	108,979
Borrowing costs (except for the interest on employee benefits)	(f, h) (39,225)	(39,521)
Other	(c, h) (27,018)	(60,502)

Hedge accounting	2016	2015
Creation of the equity fund from the cash flow hedge	(b, g) 6,732	(3,834)
Reversal of the fund from the cash flow hedge (in "Costs of electricity purchased")	(b, g) 3,834	(12,247)

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.

	2016	2015
Total assets	18,366,533	18,229,748
Equity	10,598,358	10,026,472
Equity / total assets	58%	55%

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; and
- currency forwards to hedge the changes in exchange 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 EUR.

The Company hedges a substantial part of its future planned cash flows (in EUR) for the purchase of electricity and gas 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 or gas 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 PRE 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)*	
	2016	2015	2016	2015
Derivative contracts for purchase of EUR	7,512	189	1,428	997
Other assets and liabilities in EUR	1,155,220	572,192	1,192,783	807,613
Total in EUR	1,162,732	572,381	1,194,211	808,610
Other currencies	77	61	--	--
Total	1,162,809	572,442	1,194,211	808,610

* 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)	
	2016	2015	2016	2015	2016	2015	2016	2015
EUR purchased								
Up to 1 month	27.03	27.07	10,000	5,000	270,330	135,344	(67)	(196)
1-3 months	27.03	27.20	22,000	30,000	594,580	816,070	431	(4,731)
3-12 months	26.92	27.03	43,391	80,391	1,168,276	2,172,942	7,147	3,930
Total	26.97	27.08	75,391	115,391	2,033,186	3,124,356	7,511	(997)

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.

(CZK Thousand)	2016	2015
Profit (+) or loss (-)	(375)	(2,315)
Shareholders' equity	15,856	25,266

Interest rate risk

Medium- and long-term external funds of the PRE Group include loans maturing in four, six and eight years. These loans have a fixed interest rate. Changes in market interest rates have no impact on the contracted amount of repayments of these loans which effectively reduces the risk of changes in interest rates. Changes in interest rates may only affect the costs of hedging short-term sources of funding. However, the impact of this risk on the Company, if any, is immaterial.

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

	Assets (CZK Thousand)*		Liabilities (CZK Thousand)*	
	2016	2015	2016	2015
Other assets and liabilities	7,511	189	1,427	997
Total	7,511	189	1,427	997

* 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.

(CZK Thousand)	2016	2015
Profit (+) or loss (-)	--	--
Shareholders' equity	(42)	(841)

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 and gas 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

Transactions which the Company does not primarily conclude in direct relation to providing electricity for final customers and own consumption are monitored as part of the so called "freely tradable portfolio" where all trading transactions are concentrated. Transactions in the freely tradable portfolio are subject to limits, namely binding limits on the basis of the so called "stop loss", which represents the maximum permissible loss to be accepted by the Company. The maximum stop loss is adjusted over the entire monitored annual period and partial monitoring limits are adjusted for individual quarters in the amount of 1/4 of the aggregate limit. Potential threats to these limits are monitored by way of timely indicators that are based on the market valuation of executed transactions, the market value of an open position and VaR (Value at Risk) whereby the possible price change in the respective time period is estimated at the defined level of likelihood.

As of the 31st of December 2016, there was no open position in the trading portfolio. As of the 31st of December 2015, the open position in the freely tradable portfolio amounted to approximately 0.18 TWh. These transactions are arranged as commodity forwards with the underlying assets being standardised instruments the prices of which are quoted on stock exchanges. The transactions are measured using settlement prices which are published by public markets and stock exchanges on a daily basis. These contracts, or the value thereof, fluctuate due to changing market prices; for this reason, the prices of electricity are exposed to the risk of change in electricity prices on the wholesale market.

Open commodity derivatives as of the balance sheet date:

	Arranged price in EUR (Thousand)		Arranged price in CZK (Thousand)		Fair value in CZK (Thousand)	
	2016	2015	2016	2015	2016	2015
Commodity forwards – open position	--	5,394	--	145,773	--	(14,099)

The carrying amount of assets and liabilities which depends on the commodity price:

	Assets (CZK Thousand)		Liabilities (CZK Thousand)	
	2016	2015*	2016	2015
Commodity forwards – VOP	--	--	--	14,099
Other assets and liabilities	5,822	5,822	--	--
Total	5,822	5,822	--	14,099

* The comparative period was adjusted to reflect the re-assessed currency risk in respect of the participation certificates held.

Commodity risk – sensitivity analysis

The Group performed the sensitivity analysis to identify the potential impact of changing the value of these assets and liabilities due to increasing commodity prices on EEX by 1% on profit/equity:

(CZK Thousand)	2016	2015
Profit (+) / loss (-)	--	1,317
Equity	65	62

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 or gas and in the exposure on the wholesale market with commodities in relation to concluded hedging derivatives for OTC. The standard practice of the Company is not to require collateral for trade receivables.

In electricity and gas 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 and gas meters and invoicing takes place on a monthly basis. Some of the customers pay monthly or ten-day advance payments, based on their expected consumption, to cover electricity or gas 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 or gas 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 and gas meters and invoicing takes place on an annual basis. For supplied but unbilled electricity or gas, 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.

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. Entities from the PRE Group use cash pooling in order to optimise financing costs.

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 analysis excludes intercompany receivables and payables which carry no liquidity risk

	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Receivables – 2016						
Trade balances		1,091,390	10,688	7,220	--	1,109,298
Margin deposits, principals paid		--	--	65,125	33,035	98,160
Other receivables including receivables for sold apartments		118	548	11,815	810	13,291
Total	(15)	1,091,508	11,236	84,160	33,845	1,220,749

	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Receivables – 2015						
Trade balances		1,053,977	129,695	27,322	--	1,210,994
Margin deposit, principals paid		32,430	--	4,023	34,821	71,274
Other receivables including receivables for sold apartments		84	440	494	838	1,856
Total	(15)	1,086,491	130,135	31,839	35,659	1,284,124

	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Payables – 2016						
Trade payables	(19)	701,250	9,442	27,228	--	737,920
Other financial payables	(19)	76,998	93,427	351	16,013	186,789
Bank loans	(18)	13,866	2,000	9,262	3,397,135	3,422,263
Provisions	(21)	--	--	--	1,437	1,437
Total		792,114	104,869	36,841	3,414,585	4,348,409

	Note	Up to 1 month	1–3 months	3–12 months	More than 12 months	Total
Payables – 2015						
Trade payables	(19)	778,977	17,817	29,443	--	826,237
Other financial payables	(19)	93,427	2,828	--	--	96,255
Bank loans	(18)	295,686	2,000	763,407	3,488,492	4,549,585
Provisions	(21)	--	--	--	2,251	2,251
Total		1,168,090	22,645	792,850	3,490,743	5,474,328

Payables from leases – refer to the note “Finance lease payables”.

(27) Operating leases (CZK Thousand)**Operating lease payments expensed in the current period**

	2016	2015
Non-residential premises	21,438	20,384
Cars	329	331
Other rented assets of all types	6,768	7,701
Total	28,535	28,416

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 the 31st of December 2016.

(28) Related party transactions (CZK Thousand)

In line with IAS 24, the below-listed related parties have been identified. Related parties also include subsidiaries.

Expenses incurred with and income generated from related parties

	Sales to related parties		Purchases from related parties	
	2016	2015	2016	2015
Relations with controlling entities and associates	1,210,521	1,571,109	1,121,978	1,604,769
Pražská energetika Holding a.s.	266	309	--	--
Capital City of Prague	181,530	188,358	201	201
EnBW Energie Baden-Württemberg AG	1,028,725	1,382,442	1,121,777	1,604,568
Relations with other entities	384,937	416,755	19,653	19,164
Netze, BW GmbH	--	697	--	--
Dopravní podnik hl. m. Prahy, a.s.	365,033	395,945	1,435	1,581
Kolektory Praha, a.s.	6,706	6,402	--	--
Obecní dům, a.s.	7,197	7,702	--	--
TRADE CENTRE PRAHA, a.s.	6,001	6,009	18,218	17,583
Total	1,595,458	1,987,864	1,141,631	1,623,933

Receivables from and payables to related parties:

	Receivables		Payables	
	2016	2015	2016	2015
Relations with controlling entities and associates	62,419	42,426	116,500	144,089
Pražská energetika Holding a.s.*	25	51	102,261	114,293
Capital City of Prague	41,282	42,074	5,345	5,322
EnBW Energie Baden-Württemberg AG	21,112	301	8,894	24,474
Relations with other entities	23,460	25,376	3,113	4,106
Dopravní podnik hl. m. Prahy, a.s.	22,440	23,445	--	1,264
Kolektory Praha, a.s.	272	1,121	1,200	1,200
Obecní dům, a.s.	748	810	--	--
TRADE CENTRE PRAHA, a.s.	--	--	1,913	1,642
Total	85,879	67,802	119,613	148,195

* The payable of CZK 102,261 thousand (CZK 114,293 thousand in 2015) is a short-term loan received from the parent company Pražská energetika Holding a.s. – refer to the note “Received loans”.

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

	2016	2015
Pražská energetika Holding a.s.	992,754	992,754
EnBW Energie Baden-Württemberg AG	707,989	707,989

Remuneration to the statutory bodies, Supervisory Board, Works Council, and top management

	2016	2015
Number of persons	17	17
Remuneration (CZK Thousand)	47,305	47,175

Managers include members of the Board of Directors, the Company’s directors, members of the Supervisory Board and the Works Council. Members of the Works Council elected from among the Company’s staff also enter into a standard employment contract adequate to their job.

Selected managers can use company cars for private purposes.

Receivables from executive management

As of the 31st of December 2016, the Company reported receivables from the members of executive management in the total amount of CZK 15 thousand (CZK 22 thousand as of the 31st of December 2015). The receivables are disclosed in "Trade receivables and other receivables" and were collected during January 2017.

Receivables from and payables to subsidiaries

	PRE's trade and other receivables as of 31.12		PRE's trade and other payables PRE as of 31.12	
	2016	2015	2016	2015
PREdistribuce, a.s.	89,033	82,665	1,685,093	1,630,349
PREměření, a.s.	12,038	11,525	1,250	1,149
eYello CZ, k.s.	34,591	15,450	18	5,688
KORMAK Praha a.s.	318	--	--	--
Total	135,980	109,640	1,686,361	1,637,186

	PRE's receivables from cash pooling as of 31.12.		PRE's payables from cash pooling as of 31.12.	
	2016	2015	2016	2015
PREdistribuce, a.s.	2,736,335	2,866,697	105,553	--
PREměření, a.s.	1,044,357	1,342,814	74,527	63,186
eYello CZ, k.s.	--	--	41,727	1,643
KORMAK nemovitosti s.r.o.	3,039	--	--	--
KORMAK Praha a.s.	--	--	12,237	--
Total	3,783,731	4,209,511	234,044	64,829

Expenses incurred with and income generated from the subsidiaries

	Income of PRE		Expenses of PRE	
	2016	2015	2016	2015
PREdistribuce, a.s.	2,255,523	2,316,974	5,977,687	5,935,643
of which: electricity and distribution services	381,488	421,159	5,958,577	5,916,547
services	733,485	723,158	19,102	19,088
inventories*	8,356	8,140	--	--
dividends	1,041,000	1,080,000	--	--
interest on loans	91,194	84,517	8	8
PREměření, a.s.	153,509	137,570	13,273	13,276
of which: services	112,262	113,165	5,872	5,570
sale of electricity	--	--	7,400	7,704
inventories*	20	--	--	--
interest on loans	41,227	24,405	1	2
eYello CZ, k.s.	119,125	76,139	1	5,664
of which: electricity and gas and distribution services	94,363	66,960	--	--
services	13,210	9,123	--	--
interest on loans	13	56	1	--
transfer of the share in profit or loss	11,539	--	--	5,664
KORMAK Praha a.s.	30,858	--	--	--
of which: dividends	30,300	--	--	--
services	450	--	--	--
interest on loans	108	--	--	--
KORMAK nemovitosti s.r.o.	1,030	--	--	--
of which: dividends	1,000	--	--	--
interest on loans	30	--	--	--
Total	2,560,045	2,530,683	5,990,961	5,954,583

* Profit from material sold

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, 27th of April 2017

**Pavel Elis**

Chairperson of the Board of
Directors

**Alexander Sloboda**

Vice-chairperson of the Board of
Directors

AFFIDAVIT

To the best of our knowledge, the Annual Report, in exercising all reasonable due diligence, presents a true and honest picture of the financial situation, business activities and economic results of Pražská energetika, a.s., and the PRE Group in 2016, and of the prospects for their future development. No facts have been deliberately omitted from or distorted in the Annual Report which could have altered its meaning.

In Prague, 27th of April 2017



Pavel Elis

Chairperson of the Board of Directors



Alexander Sloboda

Vice-chairperson of the Board of Directors

LIST OF ABBREVIATIONS

AMM : Advanced metering management

B2B : Big customer segment

B2C : Small customer segment

CES : PRE Service Centre (Centrum služeb PRE)

ERÚ : Energy Regulatory Office (Energetický regulační úřad)

eYello : eYello CZ, k.s., subsidiary of PRE

FVE : Photovoltaic power plant

GWh : Gigawatt-hour

HV : High voltage

Kormak : KORMAK Praha a.s., 100% subsidiary of PRE

Kormak nemovitosti : KORMAK nemovitosti s.r.o., 100% subsidiary of PRE

kV : Kilovolt

LV : Low voltage

MO : Retail

MV : Medium voltage

MW : Megawatt

MWh : Megawatt-hour

OTC : Over-the-counter market with financial instruments

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

TWh : Terawatt hour

ADDRESSES AND CONTACT INFORMATION

	Address	Postal code	Telephone number
Pražská energetika, a.s.	Prague 10, Na Hroudě 1492/4	100 05	+420 267 055 555
The Company is registered in the Commercial Register maintained at the Municipal Court in Prague, File ref. B 2405.	www.pre.cz e-mail: pre@pre.cz ID No.: 60193913 Tax ID No.: CZ60193913 Bank information: Československá obchodní banka, a.s. Account number: 4001-0900109423/0300		
PRE Customer Centre	Prague 1, Jungmannova 36/31	110 00	+420 267 055 555
	Prague 4, Vladimírova 64/18	140 00	+420 267 055 555
PRE Call Centre	Prague 10, Kubánské náměstí 1391/11	100 00	+420 267 055 555
PRE Press Relations	Prague 10, Na Hroudě 1492/4	100 05	+420 267 051 102
PREdistribuce, a.s.	Prague 5, Svornosti 3199/19a	150 00	+420 267 055 555
	www.predistribuce.cz e-mail: distribuce@pre.cz		
Emergency Service	Prague 2, Kateřinská 1528/9 e-mail: poruchy@pre.cz	120 00	Emergency Line: 1236
PREměření, a.s.	Prague 10, Na Hroudě 2149/19	100 05	+420 733 143 143
	www.premereni.cz e-mail: mereni@pre.cz		
Emergency line	for PRE customers in case of main circuit-breaker failures www.premereni.cz/opravy		+420 733 143 143
PRE Service Centre (CES)	Prague 1, Jungmannova 747/28 e-mail: centrum.sluzeb@pre.cz PREmobilita: premobilita@pre.cz energy services orders: servis.prem@pre.cz	110 00	+420 733 143 143 +420 734 234 832
eYello CZ, k.s.	Prague 10, Kubánské náměstí 1391/11	100 00	+420 267 056 704
	www.yello.cz e-mail: yello@yello.cz		
KORMAK Praha a.s.	Prague 10, K Sokolovně 667	104 00	+420 271 071 311
	e-mail: kormak@kormak.cz		
KORMAK nemovitosti s.r.o.	Prague 10, K Sokolovně 667	104 00	
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